# STEPPE CEMENT LTD

*Incorporated in the Malaysian Federal Territory of Labuan*
*with registration number LL04433*

*ISIN: MYA 004433001*

# AIM Admission Document

**September 2005**

**Nominated Adviser**

RFC
CORPORATE FINANCE LTD

**Broker**

Westhouse

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**This document is important and requires your attention if you are considering an investment in Steppe Cement Ltd.** If you are in any doubt about the contents of this document, you should consult an independent professional adviser authorised under the Financial Services and Markets Act 2000 (the "FSMA") who specialises in advising on the acquisition of shares and other securities.

# STEPPE CEMENT LTD

*Incorporated in the Malaysian Federal Territory of Labuan with registration number LL04433*
*ISIN: MYA 004433001*

## Admission of Ordinary Shares to trading on AIM

Nominated Adviser
**RFC Corporate Finance Ltd**

Broker
**Westhouse Securities LLP**

**Share capital immediately following Admission:**

100,000,000 issued and fully paid Ordinary Shares each of US$0.01 par value

**IMPORTANT NOTICES**

**Application has been made for the Shares to be admitted to trading on the AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority.**

**A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.**

**London Stock Exchange PLC has not itself examined or approved the contents of this Admission Document.**

This document is an admission document drawn up in accordance with the AIM Rules and has been issued in connection with the application for Admission. This document does not constitute a prospectus and a copy of it has not been and will not be delivered to the Registrar of Companies in England and Wales. This document contains no public offer within the meaning of Schedule 11 of the FSMA, the UK Companies Act, or otherwise.

It is expected that Admission will become effective and dealings in the Shares will commence on AIM on or about 15 September 2005.

**Directors' Declaration**
The Directors of Steppe Cement, whose names appear in the Corporate Directory of this Admission Document, accept responsibility for the information contained in this Admission Document, including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Admission Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Notices from the Nominated Adviser and the Broker**
**RFC is the Company's nominated adviser for the purpose of the AIM Rules.** RFC's responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange PLC and are not owed to the Company or to any Director or any other person. RFC will not be responsible to such persons for providing protections afforded to customers of RFC nor for advising them in relation to the arrangements described in this Admission Document.

**Westhouse is the Company's broker and is regulated by the Financial Services Authority.** Westhouse is acting for the Company and no one else in connection with the proposed arrangements described in this Admission Document. It will not regard any other person as its customer nor be responsible to any other person for providing protections afforded to the clients of Westhouse nor for providing advice to any other person in connection with the arrangements described in this Admission Document. Westhouse will not be responsible to such persons for providing protections afforded to customers of Westhouse nor for advising them in relation to the arrangements described in this Admission Document.

Without limiting the statutory rights of any person to whom this Admission Document is issued, no representation or warranty, express or implied, is made by RFC or Westhouse as to the contents of this Admission Document and no liability is accepted by RFC or Westhouse for the accuracy of opinions contained in this Admission Document or the omission of any material information from this Admission Document, for which the Company and the Directors, and, in respect of their reports contained in Part 2 of this Admission Document, Deloitte & Touche is solely responsible.

**Distribution Restrictions**
This Admission Document does not constitute an offer or invitation to any person to subscribe for or to purchase any securities in the Company. No securities have been or are proposed to be issued in connection with the application to AIM. The distribution of this Admission Document in jurisdictions other than the United Kingdom may be restricted by law, and therefore persons into whose possession this Admission Document comes should inform themselves about and observe any such restrictions.

**The whole of this document should be read and your attention is drawn to the "Risk Factors" Section in Part 3.**

# Contents

# Key Information

**The following information is derived from and should be read in conjunction with the full text of this document. You should read the whole of this document and not rely solely on the key information set out below.**

- Steppe Cement is the ultimate holding company of Kazakh cement manufacturer Central Asia Cement, which operates the Cement Business.

- The Cement Business was established in the early 1950s and operates from a plant located near to the city of Karaganda in the central northern region of Kazakhstan.

- The Cement Business obtains its core raw materials of limestone and loam from two nearby quarries. Both quarries have long lives and the Group has leases and extraction rights which extend to June 2018. Other supplies for cement manufacturing (electrical power, coal, iron ore, gypsum and slag) are readily accessible by the Cement Business.

- The Cement Business operates four wet kiln cement lines with a current operational annual clinker production capacity of around 600,000 tonnes per annum. The clinker can be milled with other products to produce up to 780,000 tonnes of cement per annum. The Directors expect the capacity of the four wet kilns to rise by up to 20 per cent as a consequence of capital improvements which are scheduled to be completed during 2006.

- The Cement Business also has two dry kiln cement lines, which have been non operational since the mid 1990s. If returned to operational condition, the two dry lines could produce 2 million tonnes of clinker per annum, equivalent to around 2.6 million tonnes of cement. The potential for refurbishing one or both of the dry cement lines is under review by the Directors, management and external consultants. The estimated cost of refurbishing one of the dry lines is around US$65 million with any refurbishment taking between18 to 24 months to complete.

- The Cement Business is one of only four major cement manufacturing operations in Kazakhstan and is the only operation in the country with existing dry line capacity (albeit currently non-operational).

- The combined rated annual production capacity of the existing four major Kazakh cement manufacturers (excluding the potential dry line capacity of the Cement Business) is currently thought to be around 5.2 million tonnes of cement, however, major capital investment is required before cement facilities at two of the competitor plants can produce at their rated cement capacities. Consequently, the cement industry in Kazakhstan is currently unable to produce at a rate of 5.2 million tonnes of cement per annum.

- Domestic cement consumption in Kazakhstan was 8.25 million tonnes in 1990, before falling to a low of around 1.0 million tonnes per annum between 1996 and 1999.

- From 1999, the Kazakh economy began to demonstrate consistent improvement and between 2000 and 2004 Kazakhstan's GDP growth was consistently above 9 per cent per annum. The International Monetary Fund has forecast that Kazakhstan's GDP will grow at 8 per cent in 2005 and 7.7 per cent in 2006.

- Domestic annual cement consumption rose to approximately 3.7 million tonnes in 2004. Around 2.9 million tonnes of this demand was satisfied by domestic production and the balance of 0.8 million tonnes was met by imports from neighbouring countries. However, imports from other counties are problematic because of Kazakhstan's land locked position.

- During 2005, cement demand has continued to outstrip domestic supply. This has led to significant rises in the average ex-factory price of the Group's cement, which by July 2005 was approximately US$73 per tonne compared with an average of US$46 per tonne for the year ended 31 December 2004.

- Steppe Cement's full cost of cement production averaged approximately US$19 per tonne for the year ended 31 December 2004 and has risen to an average of approximately US$24 per tonne for the seven months ended 31 July 2005. The increased costs of cement production are predominantly attributable to rises in the costs of raw materials, coal and electricity.

- The Directors believe that the outlook for the Cement Business is positive.

There are significant risks associated with the Group's cement manufacturing business in Kazakhstan and with investment in securities in general. Your attention is drawn to the Risk Factors set out in Part 3 of this Admission Document.

# Admission Statistics and Expected Timetable

### Admission Statistics

| | |
|---|---|
| Number of Shares in issue on Admission | 100,000,000 Shares of US$0.01 par value each |

### Expected Timetable

| | |
|---|---|
| Date of publication of Admission Document | 12 September 2005 |
| Dealing of the Shares to commence on AIM | 15 September 2005 |

### Exchange Rate

The following exchange rate (being the approximate market rate as at 2 September 2005 has been used throughout this document with the exception of Parts 2 and 4 (unless otherwise stated):

US$1.00 = 135 Kazakh Tenge

# Corporate Directory

**Directors**

Azmi Wan Hamzah, Tan Sri *(Non-Executive Chairman)*
*of Darusaada, 323 Jalan Kolam Air, Klang Gates, 53100, Kuala Lumpur, Malaysia.*

Javier del Ser Perez *(Executive Director)*
*of 23 Baisheshek St. 490090, Almaty, Republic of Kazakhstan*

John Alan Richardson *(Non-Executive Director)*
*of 12 Wellington Square, London, SW3 4NJ, England*

**Secretaries**

Equity Trust Secretaries Ltd
*of 1st Floor, Jalan Bahasa, P.O. Box 80148, 87011 Federal Territory of Labuan Malaysia*

**Company Offices**

*Registered Office*
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87011 Federal Territory of Labuan
Malaysia

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10th Floor, Rohas Perkasa, West Wing, No 8, Jalan Perak, 50450
Kuala Lumpur
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Phone: +603 21 618722
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**Cement Plant**

472380, Aktau Village
Karaganda Region
Republic of Kazakhstan

**Website**

www.cac.kz

**Nominated Adviser**

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

and
Level 8, QV1 Building
250 St Georges Tce
Perth, Western Australia 6000

**Broker**

Westhouse Securities LLP
Clements House
14-18 Gresham Street
London EC2V 7NN
England

**Auditor and Reporting Accountant**

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Level 19, Uptown 1,
Damansara Uptown
1 Jalan SS 21/58
47400 Petaling Jaya, Malaysia

**Legal Advisers to the Group**

*As to Malaysian Law:*
Skrine
Advocates and Solicitors
Unit No 50-8-1, 8th Floor,
Wisma UOA Damansara
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50490 Kuala Lumpur, Malaysia

*As to English Law:*
Lane & Partners LLP
15 Bloomsbury Square
London WC1A 2LS

*As to Kazakh Law:*
McGuireWoods Kazakhstan LLP
41 B Kazibek Bi Street, 5th Floor
Almaty, 480100
Republic of Kazakhstan

*As to Dutch Law:*
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Admiraliteitskade 50
PO Box 4302
3006 AH Rotterdam

**Registrars**

*In Labuan*
Equity Trust Secretaries Ltd
1st Floor
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P.O. Box 80148
87011 Federal Territory of Labuan
Malaysia

*In the United Kingdom:*
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

# Definitions

The following definitions apply throughout this Admission Document, unless the context requires otherwise.

| | |
|---|---|
| **Admission** | the admission of the Shares to trading on AIM becoming effective in accordance with the AIM Rules |
| **Admission Document** | this document |
| **Articles** | The Articles of Association of Steppe Cement Ltd |
| **Asian Engineering Consultancy** | Asian Engineering Consultancy Ltd, a company incorporated in Hong Kong |
| **AIM** | the AIM market owned and operated by the London Stock Exchange |
| **AIM Rules** | the rules governing the operation of AIM as published by the London Stock Exchange from time to time |
| **Board** or **Directors** | the directors of the Company whose names are set out in the Corporate Directory of this Admission Document |
| **Broker** | the Company's broker as defined in the AIM Rules, being Westhouse |
| **CA** | Companies Act 1965 of Malaysia (as amended) |
| **cement** | means grey Portland Cement. Portland Cement is the most common type of cement and is the basic ingredient of concrete and mortar. Portland Cement is made by heating limestone (as source of calcium) with clay or sand (as a source of silicon) and grinding the product. The resulting powder, when mixed with water, becomes a hydrated solid over time |
| **Cement Business** | the cement manufacturing and sales business in the Republic of Kazakhstan operated by Central Asia Cement, a subsidiary of Steppe Cement, under the business name of Central Asia Cement and also known as Karaganda Cement |
| **Cement Plant** | The cement plant at Aktau Village from which the Cement Business operates |
| **Central Asia Cement** | Central Asia Cement Joint Stock Company (JSC), a company incorporated in the Republic of Kazakhstan |
| **City Code** | the UK City Code on Takeovers and Mergers |
| **Company** or **Steppe Cement** | Steppe Cement Ltd, a company incorporated in the Malaysian Federal Territory of Labuan |
| **CREST** | the computerised system for trading shares in uncertificated form in the UK operated by CRESTCo Limited |
| **Depository Interests** | the interests representing Shares to be electronically listed for trading on AIM and issued through the Company's UK registrar |
| **Directors** | the directors of the Company |
| **GDP** | Gross Domestic Product |
| **Group** | the Company and its subsidiaries |
| **Government** | means the Government of Kazakhstan, unless specifically noted otherwise as a different government |
| **Kazakhstan** | Republic of Kazakhstan |
| **LOBATA** | Labuan Offshore Business Activity Tax Act 1990 of Malaysia |
| **LOFSA** | The Labuan Offshore Financial Services Authority, the main regulator of offshore companies incorporated or registered in the Malaysian Federal Territory of Labuan |
| **London Stock Exchange** or **LSE** | London Stock Exchange PLC |
| **Nomad** or **Nominated Adviser** | Nominated adviser as defined in the AIM Rules, being RFC |

| | |
|---|---|
| **OCA** | Offshore Companies Act 1990 of Malaysia (as amended) |
| **OBA** | Offshore Banking Act 1990 of Malaysia (as amended) |
| **OIA** | Offshore Insurance Act 1990 of Malaysia (as amended) |
| **Official List** | the Official List maintained by the UK Listing Authority pursuant to the Financial Services and Markets Act 2000 |
| **RFC** | RFC Corporate Finance Limited, a company incorporated in Australia |
| **Shareholder(s)** | holder(s) of Shares |
| **Shares** or **Ordinary Shares** | fully paid ordinary shares each with a par value of US$0.01 in the capital of the Company |
| **Soviet States** | the countries that made up the former Soviet Union, of which Kazakhstan |
| **Tenge** | Kazakh Tenge, the Kazakh currency |
| **UK** | the United Kingdom of Great Britain and Northern Ireland |
| **UK Companies Act** or the **Act** | the Companies Act 1985 of the UK (as amended) |
| **UK Listing Authority** | the Financial Services Authority acting in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Market Act 2000, including where the context so permits any committee, employee or servant of such authority to whom any function of the UK Listing Authority may from time to time be delegated |
| **US$** | United States dollar |
| **Westhouse** | Westhouse Securities LLP |

# Part 1 - Information on the Group

## 1 Introduction

The Group's primary asset is a cement manufacturing and sales business (the Cement Business) which operates from a plant located near the city of Karaganda in the central northern region of the Republic of Kazakhstan. The Cement Business is one of only four major grey Portland Cement manufacturing operations in Kazakhstan.

Steppe Cement is the ultimate holding company of Central Asia Cement which operates the Cement Business.

The Cement Plant was established in 1953 by the former Soviet State owned Production (Industrial) Society Karagandacement with four wet cement kilns. The Cement Plant was expanded in 1975 and in 1984 with the construction of two dry cement kilns and at its peak could produce around 3.5 million tonnes of cement per annum.

Domestic cement consumption in Kazakhstan was 8.25 million tonnes per annum in 1990 before falling to around 1 million tonnes per annum between 1996 and 1999. As a consequence of the downturn, both the dry cement lines were closed down and wet line production was considerably scaled back.

From 1999, the Kazakh economy began to demonstrate consistent growth and between 2000 and 2004 Kazakhstan's GDP consistently grew by over 9 per cent per annum.

By 2004, annual domestic cement consumption had reached approximately 3.7 million tonnes and the Cement Business was again operating its four wet kilns at full capacity. For 2004 around 2.9 million tonnes of the total domestic demand was satisfied by domestic production from the four major Kazakhstan cement manufacturers operating at full capacity (including 674,000 tonnes from the Cement Business). The balance of approximately 0.8 million tonnes was imported from Russia and other neighbouring countries. Imports from non-neighbouring countries with surplus production capacity are problematic because of Kazakhstan's land locked position.

The combined rated annual production capacity of the existing four major Kazakh cement manufacturers is currently thought to be around 5.2 million tonnes of cement (excluding the potential dry line capacity of the Cement Business), however, major capital investment is required before cement facilities at two of the competitor plants can produce at their rated cement capacities: hence the total production of only 2.9 million tonnes in 2004.

During 2005 cement demand has continued to outstrip domestic supply. This has led to significant rises in the average ex-factory price of the Group's cement, which by July 2005 was approximately US$73 per tonne, compared with an average of US$46 per tonne for the year ended 31 December 2004.

The International Monetary Fund has forecast that Kazakhstan's GDP will grow by 8 per cent in 2005 and 7.7 per cent in 2006.

The directors believe that, in these circumstances, the outlook for the Cement Business is positive and consideration is being given to the potential scope to refurbish one or both of the disused dry cement lines.

# 2 Description of the Group's Activities

## 2.1 Introduction

The Group's Cement Business (as operated by the Company's subsidiary Central Asia Cement) is located at Aktau Village, which is approximately 40 kilometres north of the city of Karaganda and 180 kilometres to the south of Kazakhstan's capital city, Astana. The region has a strong industrial base with a well developed public infrastructure that facilitates the operations of major mining and industrial activities including coal and ferrous metal production.

Kazakhstan is experiencing strong economic growth. The country is abundant with natural resources, agricultural and industrial capacities compared with other countries in its region, Kazakhstan has both internal political stability and interethnic accord.

To sustain economic expansion, the Government has undertaken steps to attract foreign capital and to create an appropriate legal framework to enable the country to integrate into the world open market economy. These steps have included significant changes to the country's company laws, which allow foreign ownership and the free repatriation of profits.

## 2.2 The Cement Plant

The Cement Business at Aktau Village occupies a total area of about 128.1 hectares of freehold land. The plant employs over 1,300 skilled and semi-skilled employees who are mainly residents of Aktau Village.

The core of the plant consists of four operational wet cement kilns, which have an annual clinker production capacity of 150,000 tonnes each, and two non operational dry cement kilns which have an annual clinker production capacity of 1,000,000 tonnes each. With extra milling capacity from one of the dry lines, the four wet cement lines can produce up to 780,000 tonnes of cement per annum.

The wet cement kilns are currently in full operation and in 2004 produced around 540,000 tonnes of clinker for 674,000 tonnes of cement products. In the late 1980s and early 1990s when the two dry cement lines were operational, the plant produced around 3 million tonnes of cement per annum.

All clinker produced is processed through the plant's 11 grinding mills of varying capacities ranging from 25 tonnes/hour to 80 tonnes/hour each. With the exception of three of the mills that need refurbishing, the other mills are in good operating condition and have more capacity than is required to grind all clinker produced by the four wet cement kilns.

The plant is well served by public infrastructure, including paved roads and a rail link connecting the plant to nearby cities of Karaganda and Astana. The rail link is directly connected to the on-site cement bagging and bulk loading facilities and provides a key supply line to the Group's major customers. Facilities at the plant are connected to the local power grid through the Group's own power lines and transformer station, which draw upon locally produced electricity.

The key basic raw materials for cement production, namely limestone and loam, are extracted from two quarries located close to the Cement Plant. The Group has current leases and extraction rights over these quarries that extend to June 2018 and the Directors consider that these will be extendable.

The Astakhovsky limestone deposit is located in the Telman region, 250m to the south of the plant. The most recent geological review of the deposit conducted by the State Committee on Reserves of the USSR in September 1991 (pursuant to Protocol No. 11108) concluded there was 214.7 million tonnes of raw material then available for cement production.

The Astakhovsky loam deposit is located 3.5 kilometres north of the plant. No geological review of the deposit has been conducted since November 1958, however, that review, which was conducted by the State Committee on Reserves of the USSR (pursuant to Protocol No. 2459) concluded there was 41.6 million tonnes of raw material then available for cement production.

Management consider the available quantities of both limestone and loam are of such a size that it does not warrant any update to the two reviews conducted by the State Committee on Reserves of the USSR. Management's estimates are that, having regard to the material extracted for both quarries since the respective reviews were completed, there remains in excess of 200 million tonnes of limestone and 30 million tonnes of loam available for extraction as at the date of this Admission Document.

Based on the current operation of the four wet lines this is anticipated to provide sufficient material to operate the plant for over 100 years, or at least 50 years in the event one of the dry lines is recommissioned.

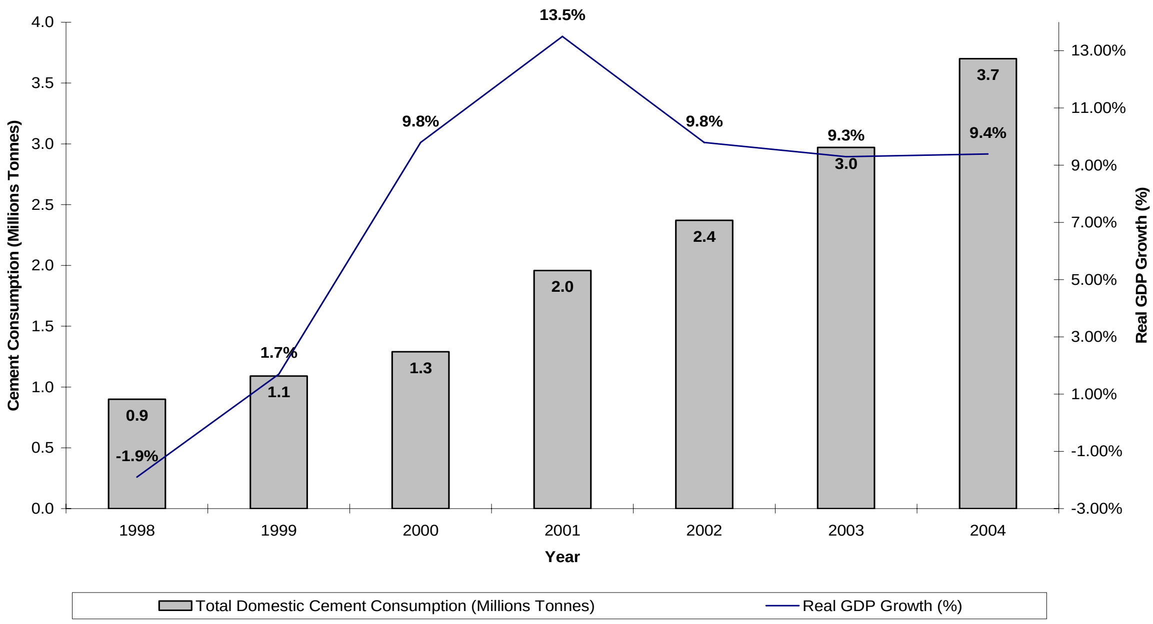
Apart from loam and limestone, the clinker mix is constituted with iron ore, gypsum and granulated slag, which are available to the Cement Business from regional suppliers.

All quality control procedures at the plant are managed by the Group's own on-site laboratory, which was recently upgraded to include sophisticated x-ray analytical equipment for consistent product specification.

### 2.3 The Cement Industry in Kazakhstan

Historically, the demand for cement in Kazakhstan has been closely related to general levels of domestic economic activity. The following table shows the relationship between the Kazakh GDP and the total domestic demand for cement between 2000 and 2004. From 1999, the Kazakh economy started to consistently recover from the 1990s downturn and the construction activities escalated. From 2000 onwards, as GDP expanded, the total domestic demand for cement improved, rising to approximately 3.7 million tonnes in 2004. These figures can be compared to the total domestic demand of 8.25 million tonnes in 1990 before the economic downturn of the 1990s.

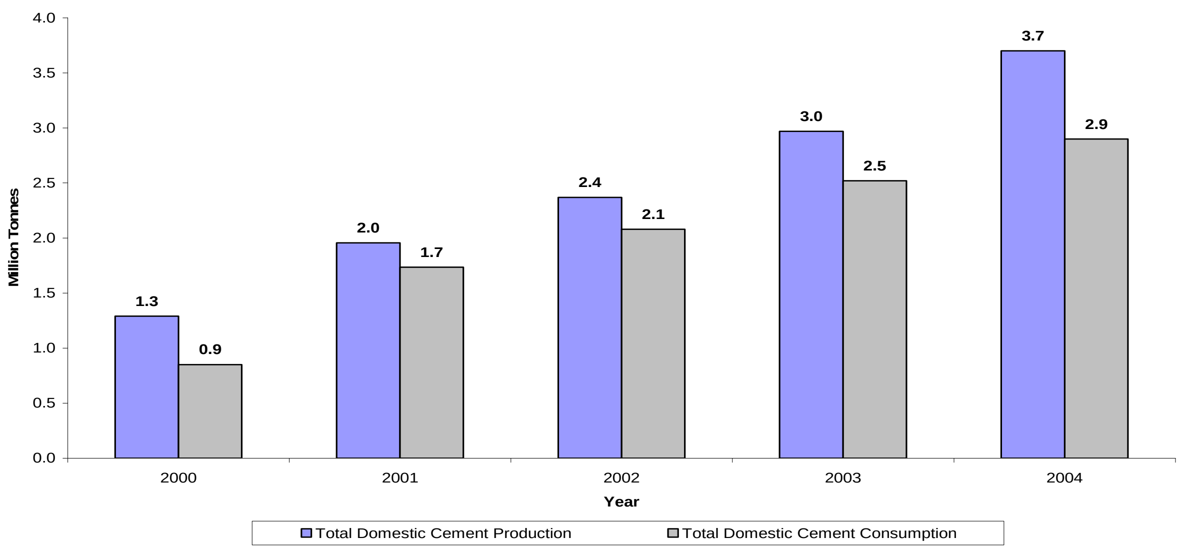
**Real GDP Growth and Total Domestic Cement Consumption**




*Source: International Cement Review 'Global Cement Report' (6th Edition) and the International Monetary Fund*

In response to increased domestic demand, Kazakhstan's major cement producers have increased supply. However, producers have been unable to keep pace with the increasing domestic demand for cement in Kazakhstan, resulting in upward pressure on cement prices. As a consequence Kazakhstan imported approximately 0.8 million tonnes of cement from neighbouring countries during 2004. The following table shows the growing gap between total domestic cement demand and total domestic cement supply in Kazakhstan. In 2005, the demand for cement is expected to increase with an increase of GDP, further widening the gap between cement demand and supply.

**Total Domestic Cement Conumption v Total Domestic Cement Production**

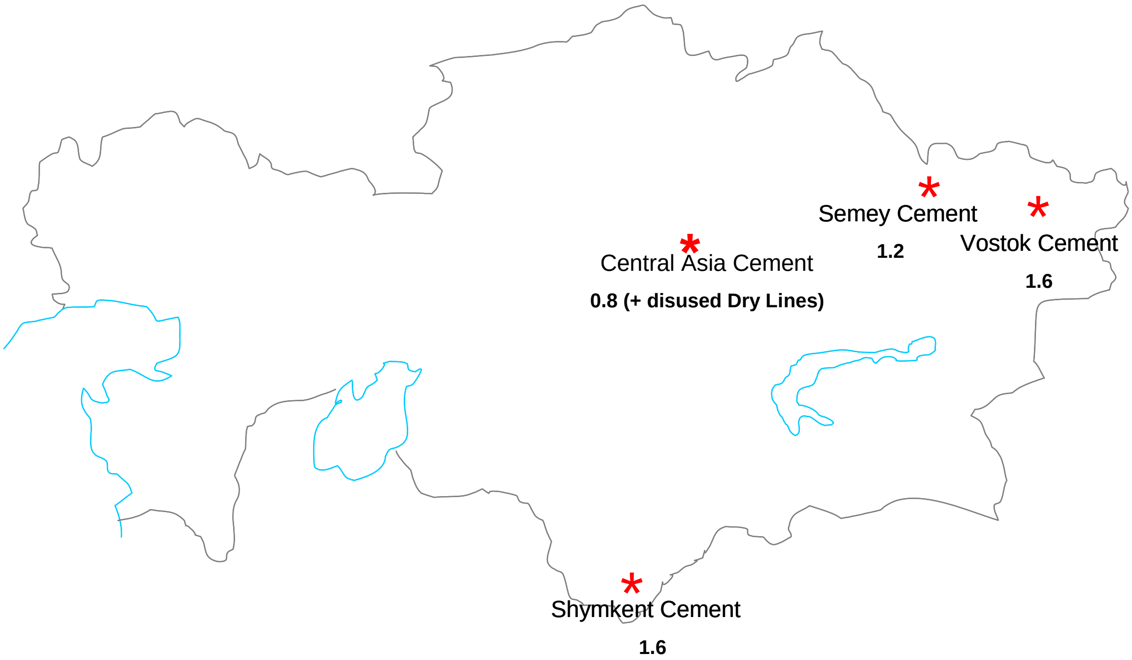



*Source: International Cement Review 'Global Cement Report' (6th Edition)*

The following map shows the geographical location of the major Kazakh cement producers and their rated annual cement production capacities. Without the potential capacity of Group's non operational dry cement lines, the combined annual production potential of the existing major manufacturers (Semey Cement, Vostok Cement, Shymkent Cement and the Group's Central Asia Cement) is around 5.2 million tonnes. However, cement production levels at all major cement plants were scaled back during the 1990s and major capital investment would be required to enable the four major plants to actually produce at the rated 5.2 million tonnes per annum level. As a result, the cement industry in Kazakhstan is currently unable to produce at a rate of around 5.2 million tonnes of cement per annum. This situation has created a supply shortfall in the domestic cement market.

**Portland Cement Plants in Kazakhstan**

( Cement Production Capacity in Millions of Tonnes)




*Source: International Cement Review 'Global Cement Report' (6th Edition)*

Domestic cement demand in Kazakhstan is concentrated around key major building and construction areas in Astana and Karaganda (Central Kazakhstan), Almaty (South Kazakhstan) and the oil fields in the Caspian Sea (West Kazakhstan). The Group's Cement Business is geographically well located to supply the growing number of construction and building projects in the nearby regional cities of Astana and Karaganda and the growing western markets of Kazakhstan, including the Caspian Sea where major oil and gas projects are being developed.

### 2.4 Steppe Cement Group – Supplying Central and Western Kazakhstan

The existing major cement producers in Kazakhstan are currently unable to meet the demands of the construction and building industry. The Group has, however, been able to increase the supply from its four wet cement lines.

The following table shows the increase in the Cement Business' annual production levels over the last 5 years.

| Annual Cement Production | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| 000's Tonnes | 388 | 530 | 616 | 652 | 674 |

The domestic cement supply shortfall in Kazakhstan has put upward pressure on cement prices. The following table shows a consistent increase in the average annual ex-factory price per tonne that the Group receives for its cement products.

| Annual Average Ex-Factory Cement Price | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Tenge | 2,719 | 3,392 | 3,236 | 4,231 | 6,300 |
| Average US$/Tenge Exchange Rate | 142 | 147 | 153 | 150 | 136 |
| US$ | 19.13 | 23.12 | 21.11 | 28.29 | 46.31 |

By July 2005 the average ex-factory price per tonne of the Group's cement products had risen to around 9,950Tenge, or approximately US$73.

The Cement Business is centrally located and enjoys distinct transport cost advantages over Semey Cement, Vostok Cement and Shymkent Cement in:

- the acquisition of natural resources needed for the production of cement; and
- supplying major regional cement markets in central and western Kazakhstan (which includes the Caspian Sea oil and gas related developments).

Because of its geographical location, the Cement Business is able to gain inexpensive and timely access to major deposits of local gypsum. Further, the Cement Business can acquire cheap abundant quantities of slag from nearby Temirtau. The cost savings associated with transporting raw materials from local suppliers give the Cement Business a cost advantage over its competitors located in eastern and southern Kazakhstan.

The Cement Business also enjoys relatively shorter despatch times and cheaper transport costs when supplying major cement markets in Astana, Karaganda and the Caspian Sea. The Cement Business's position has been further strengthened with the opening of the rail link between Kostanay and Aktubinsk in western Kazakhstan, which has resulted in the transport distance between the Cement Business to the western region of Kazakhstan being drastically reduced. This development should consolidate the Cement Business's competitive advantage in serving western Kazakhstan.

Other operators and investment groups are known to be considering options for improving cement supply in Kazakhstan. For example, the Investment Fund of Kazakhstan (IFK), a wholly state owned joint-stock company, is believed to be investigating the possibility of building a new dry line cement plant near the Caspian Sea with a proposed cement production capacity of around 1.1 million tons per year. The IFK has envisaged that the total cost of the project would be in the order of US$97 million to US$122 million, however, no firm announcements have been made regarding the feasibility of the project, nor the timing of building and construction of the new plant. It is reasonable to believe, however, that any new large scale cement plant would take some time to fully commission.

The Directors anticipate that the market for cement in Kazakhstan will continue to remain strong for the foreseeable future and, to that end, the Group is working to improve the capacity of the four wet cement lines and considering a number of options associated with the refurbishment of one or both of the two dry cement lines. These matters are addressed in greater detail in Section 7 of this Part 1 of this Admission Document.

## 3 Corporate History

The Cement Business commenced operation in the early 1950s, and was formerly known as Production (Industrial) Society Karagandacement during the time of the Soviet Union. The plant operated successfully for many years until the collapse of the Soviet Union in 1991. Subsequent to Kazakh independence the Production (Industrial) Society Karagandacement became Karagandacement Open Joint Stock Company (OJSC) under the ownership of its employees.

Central Asia Cement was incorporated in Kazakhstan in 1998 and acquired the Cement Business soon thereafter. At that time, Central Asian Cement was 51 per cent owned by Cement Engineering Consultancy Limited, a subsidiary of a Malaysian company, and the remaining 49 per cent was owned by the Kazakhstan Investment Fund, a closed ended investment fund listed on the Irish Stock Exchange.

Cement Engineering Consultancy Limited failed to meet loan repayment obligations to its lender Kazakhstan Asset Management Ltd. As a consequence of the default under the loan terms, Kazakhstan Asset Management Ltd assumed ownership of Cement Engineering Consultancy Limited's 51 per cent interest in Cental Asia Cement during 2003.

Not long after the Russian financial crisis, investors from the United States took control of the Kazakhstan Investment Fund. In early 2004, the Kazakhstan Investment Fund sold its 49 per cent equity interest in Central Asia Cement and debts owed to it by Cental Asia Cement to various investors. However, Kazakhstan Asset Management Ltd claimed that it had a pre-emptive right to purchase this 49 per cent interest in Central Asia Cement and initiated legal actions against the Kazakhstan Investment Fund and the new investors to enforce its rights.

In July 2004, Kazakhstan Asset Management Ltd agreed to purchase the debt and the remaining 49 per cent interest in Central Asia Cement from the new investors, giving it 100 per cent ownership and control of Central Asia Cement. The legal action against the Kazakhstan Investment Fund was also settled at the end of 2004.

After taking 100% control of Central Asia Cement, the shares in Kazakhstan Asset Management Ltd, were transferred to Central Asia Cement Holding BV, a company incorporated in the Netherlands which has no business other than acting as an intermediate holding company.

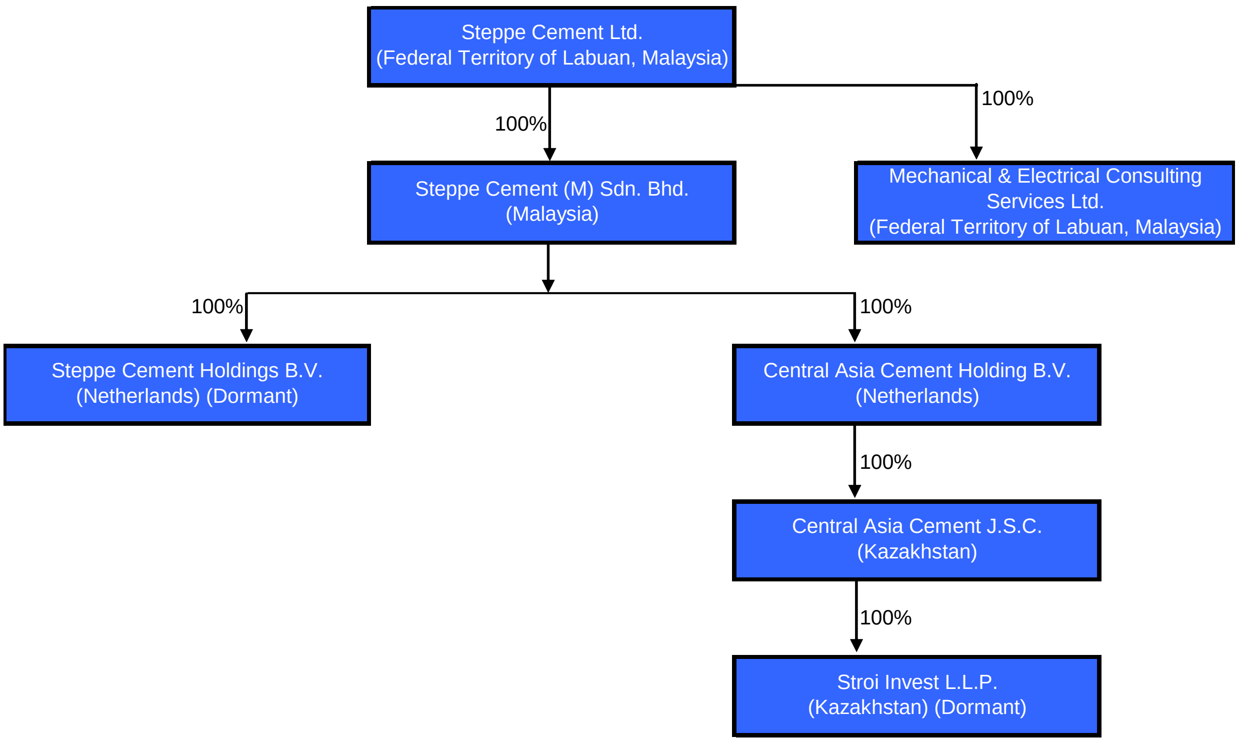
Steppe Cement Ltd was incorporated as a special purpose holding company in the Malaysian Federal Territory of Labuan on 17 September 2004 and its wholly owned subsidiary, Steppe Cement (M) Sdn. Bhd. was incorporated in Malaysia as an intermediate holding company. The shareholders of Central Asia Cement Holding BV then transferred their shares in Central Asia Cement Holding BV to Steppe Cement (M) Sdn. Bhd. on 28 July 2005.

On 8 June 2005, Steppe Cement Holdings BV was incorporated in the Netherlands, as a special purpose holding company to manage and operate the dry cement lines at the Cement Plant if and when they become operational. To date, this company remains inactive. The shares in Steppe Cement Holdings BV are 100% owned by Steppe Cement (M) Sdn. Bhd.

On 13 July 2005, Mechanical and Electrical Consulting Services Ltd was incorporated in the Malaysian Federal Territory of Labuan primarily to facilitate the refurbishment projects and sourcing of expatriate staff engaged in the Cement Business.

On 5 October 1999, Stroi Invest LLP was founded in Kazakhstan by Central Asia Cement primarily to purchase the debts of Karagandacement Open Joint Stock Company (OJSC). The investments of Stroi Invest LLP have since been written-off and at the date of this Admission Document the Partnership remains inactive. Central Asia Cement remains the sole participant in Stroi Invest LLP.

The following table illustrates the current Group structure:



## 4 Taxation Status of the Group

Central Asia Cement is an operational, Kazakhstan share company which is subject to a profit tax in Kazakhstan at a corporate income tax rate of 30%.

Any dividend distributions to be made by Central Asia Cement to Central Asia Cement Holding BV are in principle subject to a Kazakh dividend withholding tax rate of 15%. However, under the tax treaty concluded between the Netherlands and Kazakhstan, this percentage can be reduced to 5% of the gross amounts of the dividends.

Central Asia Cement Holding BV is subject to a profit tax in the Netherlands at a corporate income tax rate of 31.5% (reducing to 30% in 2007). However, with respect to the 100% shareholdings in Central Asia Cement, Central Asia Cement Holding BV should be entitled to the Dutch taxation participation exemption because it has obtained a participation exemption ruling with the Dutch tax authorities. As a result Central Asia Cement should be entitled to distribute dividends to its Dutch intermediate holding company without Central Asia Cement Holding BV becoming subject to Dutch taxation on the dividends.

Any dividend distributions to be made by Central Asia Cement Holding BV to Steppe Cement (M) Sdn. Bhd. in Malaysia would normally be subject to 25% Dutch dividend withholding tax. However, under the tax treaty concluded between the Netherlands and Malaysia this percentage can be reduced to nil, assuming that Steppe Cement (M) Sdn. Bhd. is entitled to treaty protection under the Netherlands/Malaysian tax treaty.

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

Under the Labuan tax legislation, dividends received by Steppe Cement from Steppe Cement (M) Sdn. Bhd. will be exempt from tax. There is no withholding tax on dividends distributed by Steppe Cement to its shareholders.

Any gains from the disposal of shares in Steppe Cement by its shareholders would generally not be subject to any tax in Malaysia or Labuan.

Details of the taxation implications of an investment in Steppe Cement by UK residents are provided at Section 8 of Part 4 of this Admission Document.

## 5 Summary Capital Structure

On admission, Steppe Cement's capital structure will be as follows:

| | |
|---|---|
| Authorised capital: | US$5,000,000 divided into 500,000,000 shares of par value US$0.01 each |
| Issued and paid-up capital: | US$1,000,000 divided into 100,000,000 shares of par value US$0.01 each |

Shareholders who will have an interest, directly or indirectly, jointly or severally, in the share capital of Steppe Cement of 3 per cent or more or who may exercise control over the Company immediately prior to Admission are as follows:

| Beneficial Shareholder | Number of Shares | % of Shares |
|---|---:|---:|
| Rinat Mukhamedshin | 4,349,200 | 4.4% |
| Javier del Ser Perez | 15,510,800 | 15.5% |
| Michael Wilson & Partners | 4,900,000 | 4.9% |
| Azmi Wan Hamzah, Nik Anida Manshor and Afzal Aris Azmi | 32,434,310 | 32.4% |
| Kazakhstan Asset Management Ltd* | 5,730,000 | 5.7% |
| Family of David Crichton-Watt | 34,434,310 | 34.4% |

* 5,030,000 of these shares are due to be transferred to Michael Wilson & Partners upon resolution of fee dispute with Central Asia Cement (refer to note 20 of Section 5 of Part 2 of this Admission Document for details of this dispute).

## 6 Summary Financial Information

Key financial information on the Group is provided at Part 2 of this Admission Document.

Part 2 includes the following sections:

| **Section** | | **Description** |
|---|---|---|
| 1. | Pro-forma Consolidated Balance Sheet | Sets out an illustration of the consolidated balance sheet of the Group on the basis the reorganisational events which have established the current Group structure (see Section 3 of Part 1) had occurred as at 31 December 2004, being the last date to which full accounts were prepared for Steppe Cement and its subsidiaries. |
| 2. | Independent Accountant's Report on Steppe Cement | Report on the financial information on Steppe Cement from incorporation on 17 September 2004 to 31 December 2004. |
| 3. | Financial Information of Steppe Cement | Sets out the full accounts of Steppe Cement from incorporation on 17 September 2004 to 31 December 2004. |
| 4. | Independent Accountant's Report on Central Asia Cement | Report on the financial information on the Group's subsidiary, Central Asia Cement (which holds the Cement Business) for each of the three years ended 31 December 2002, 2003 and 2004. |
| 5. | Financial Information on Central Asia Cement | Sets out the full accounts of Central Asia Cement (which holds the Cement Business) for each of the three years ended 31 December 2002, 2003 and 2004. |

## 7 Prospects, Future Strategy and Objectives

The Directors intend that the Group will continue to operate only its Cement Business, but in doing so seek to maximise the opportunities which are presented by the current and future anticipated strength of the Kazakh economy.

The GDP growth of Kazakhstan has exceeded 9 per cent per annum in each of the five years from 2000 to 2004 and the Directors consider that economic growth of the country is likely to be sustainable over the near term given the policies and initiatives of the Government. In particular, the Government is currently promoting the development of its natural resources, included oil and gas in the Caspian Sea, and this has resulted in major international oil and gas companies establishing operations in the region and announcement of plans to vastly increase production facilities.

The Directors and management are currently considering opportunities to improve operational efficiencies for the four wet cement lines and have committed to a capital expenditure program on these lines totalling US$5 million over the next 6 months which will include the installation of electrostatic precipitators on each of the four lines at a total cost of US$2.5 million. The Directors anticipate that the proposed capital expenditure on the four wet lines will reduce cement dust pollution and increase the production output of the wet kilns by upto 20 per cent, thus improving the total clinker production capacity from 600,000 tonnes per annum to upto 720,000 per annum, equivalent to an extra 150,000 tonnes of cement production per annum. This capital expenditure is to be funded from the operating cash flow of the Cement Business.

The Directors and management are also currently considering opportunities to bring one or both of the dry cement lines back into operation. Work to date has included engaging PEG Engineering SA, a recognised cement plant engineering and consultancy firm headquartered in Geneva to undertake a feasibility study and technical analysis on the refurbishment of one of the dry lines. In June 2005, PEG Engineering SA provided its feasibility report which indicated that it believed the cost of refurbishing one of the dry lines such that it would be able to produce 1,000,000 tonnes of clinker per annum (for 1.3 million tonnes of cement) would be in the region of US$65 million. The PEG Engineering SA feasibility study indicates the refurbishment will take between 18 and 24 months to complete from when a decision to proceed is made.

At the date of this Admission Document the potential refurbishment of one or both of the dry cement lines remains under review and no commitments have been made.

## 8 Dividend Policy

The Company's dividend policy is determined by the Board of Directors.

Subject to the availability of distributable profits, the Board's present intention is to return to shareholders, as dividends, all free cash flow from operations after allowing for ongoing capital expenditure demands, any debt servicing obligations and any recurring increase to working capital requirements.

## 9 Reasons for the AIM Listing

The Directors consider that Admission to AIM forms part of the Group's long term strategy to broaden the Company's investor base and enhance the profile and status of the Company in international capital markets and in the cement industry generally. The Directors believe Admission to AIM will improve the Group's ability to attract funding to expand its operations as opportunities arise.

## 10 Directors and Senior Management

Brief biographies for the Directors and members of the senior management group of the Cement Business are set out below:

### 10.1 Directors

The Company has three directors, all of whom were appointed on 30 August 2005 (as part of the establishment of the current Group Structure, see Section 3 of Part 1 of this Admission Document for details). The three directors are:

**Azmi Wan Hamzah, Tan Sri** - Non-Executive Chairman (Malaysian national, aged 55 years)

Azmi is a qualified accountant with a broad financial and general management exposure in the plantations, media, real estate, manufacturing and banking sectors. At the age of 28 he was chief financial officer of Malaysia's leading newspaper group and at 35, he became chief executive officer of Malayan Banking Berhad, Malaysia's largest banking group, before venturing out as an entrepreneur.

He served as President of the Malaysian National and Malay Chambers of Commerce in 1992-1995. Recognition and awards include a knighthood by the Malaysian Ruler and Honorary Doctorate in Business by the Robert Gordon University and Honorary Fellowship by Aberdeen University. He served six years as the first Chairman of the Financial Reporting Foundation, a statutory body set up to oversee the development of financial reporting and accounting standards in Malaysia and is a Trustee of the Ibrahim Hussein Museum and Arts Foundation.

**Javier del Ser Perez** - Executive Director (Spanish national, aged 39 years)

Javier is both a Chartered Engineer (Spain) and a Master in Structural Engineering.

Javier has lived in Kazakhstan since 1997 when he was appointed as the investment adviser to a large investment fund focused on the country. It was through this role that Javier first became involved with the Group's Cement Business and he is the Chairman of the Company's operating subsidiary, Central Asia Cement.

Javier has other business interests in Kazakhstan, including being a director and large shareholder in the Chagala Hotel Group.

**John Alan Richardson** – Non-Executive Director (British national, aged 62 years)

John has degrees in law and economics.

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

Prior to the appointment of the current Board on 30 August 2004, the directors of the Company were Mr David Crichton-Watt (whose family interests retain a 34.4% beneficial interest in the Shares in the Company at the date of this Admission Document) and Mr Roslan Nasir (who had no interest in the Company's Shares). These directors both resigned on 31 August 2005.

### 10.2 Senior Management

**Tham Hock Soon –** General Director of Central Asia Cement (Malaysian national, aged 56 years)

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

**Gan Chee Leong –** General Manager of Central Asia Cement (Malaysian national, aged 48 years)

A British trained Chartered Accountant with approximately 13 years experience in cement industry in various capacities. Before joining Central Asia Cement in August 2004, he was the marketing general manager of a leading cement company in Malaysia. He held a number of positions in the Cement and Concrete Association Malaysia and was once the Deputy Secretary General of Asean Federation of Cement Manufacturers.

**Versilis Shalimov –** Production Director of Central Asia Cement (Kazakh national, aged 55 years)

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

**Ramlan Safri –** Technical Director of Central Asia Cement (Malaysian national, aged 44 years)

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

**Bolochovzev Nikolai –** Plant Technical Chief (Kazakh national, aged 57 years)

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

**Peter Durnev –** Marketing Manager (Kazakh national, aged 27 years)

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

## 11 Corporate Governance

The Directors acknowledge the importance of the guidelines set out in the Principles of Good Corporate Governance and Code of best Practice ("Combined Code"). They therefore intend to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature.

For further information on the corporate governance practices of the Group, refer to Section 10 of Part 4 of this Admission Document.

## 12 Admission, Settlement (CREST) and Dealings

CREST is a UK computerised paperless share transfer and settlement system, which allows shares and other securities, including depository interests, to be held in electronic form rather than in paper form.

The Company, through its UK Registrar, Computershare, has established a depository whereby Depository Interests, representing Shares, will be issued to Shareholders who wish to hold their Shares in electronic form in CREST. The Company will apply for the Depository Interests which represent Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Shares following Admission may take place within the CREST system if the relevant Shareholders so wish. CREST is a voluntary system and holders of Shares who wish to deal on AIM and receive and retain share certificates will be able to do so.

For more information concerning CREST, Shareholders should contact their stockbroker or CRESTCo Limited at 33 Cannon Street, London EC4M 5SB.

Shares held on the Labuan registry cannot be traded on AIM and similarly, Shares and Depository Interests held on the UK registry cannot be traded in Labuan. However, Shares held on the Labuan registry may be transferred into Depository Interests held through CREST on the UK registry and vice versa. Shareholders wishing to undertake such a transfer should contact their broker and allow a reasonable time for the transfer to be effected.

It is emphasised that, although the Shares will trade on AIM, the Company will not be subject to takeover regulation in the UK. Being a Labuan incorporated company, Steppe Cement is subject to the takeover provisions of the OCA (see Section 2 of Part 4 of this Admission Document for details).

Further details in relation to trading in the Steppe Cement Shares are outlined in the Risk Factors in Part 3 of this Admission Document.

## 2.1 PRO FORMA CONSOLIDATED BALANCE SHEET IN THOUSAND U.S. DOLLARS

The Pro forma Consolidated Balance Sheet as set out below is prepared for illustrative purposes only to show the effects of the corporate reorganisational events which established the current Group structure (see Section 3 of Part 1 of this Admission Document) on the financial statements of Steppe Cement Ltd as of 31 December 2004 on the assumption that the corporate reorganisational events were completed on 31 December 2004.

Because of its nature, the Pro forma Consolidated Balance Sheet addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position.

| | **Steppe Cement Ltd and its subsidiary 31.12.2004** | **Central Asia Cement JSC and its subsidiary 31.12.2004** | **Adjustments** | **Pro forma After corporate reorganisation 31.12.2004** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment, net | - | 3,472 | - | 3,472 |
| Intangible assets, net | - | 2 | - | 2 |
| Goodwill on consolidation | - | - | 11,300 | 11,300 |
| Total non-current assets | - | 3,474 | 11,300 | 14,774 |
| **CURRENT ASSETS** | | | | |
| Inventories, net | - | 5,583 | - | 5,583 |
| Prepaid expenses | 2 | 118 | - | 120 |
| Trade receivables, net | - | 206 | - | 206 |
| Advances paid, net | - | 488 | - | 488 |
| Value added tax and other taxes recoverable | - | 53 | - | 53 |
| Other receivables, net | - | 130 | 28 | 158 |
| Cash and cash equivalents | - | 3,104 | (2,853) | 251 |
| Total current assets | 2 | 9,682 | (2,825) | 6,859 |
| | 2 | 13,156 | 8,475 | 21,633 |
| **LIABILITIES AND EQUITY** | | | | |
| **SHAREHOLDER'S EQUITY** | | | | |
| Share capital | 1 | 593 | 406 | 1,000 |
| Share premium | - | - | 6,300 | 6,300 |
| Accumulated deficit | (4) | (1,725) | 1,725 | (4) |
| Total equity | (3) | (1,132) | 8,431 | 7,296 |
| **NON-CURRENT LIABILITIES** | | | | |
| Loans | - | 6,741 | - | 6,741 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | - | 648 | - | 648 |
| Other payables and accrued liabilities | - | 1,132 | 44 | 1,176 |
| Amount owing to holding company | 5 | - | - | 5 |
| Taxes payable | - | 524 | - | 524 |
| Loans | - | 5,075 | - | 5,075 |
| Advance received | - | 168 | - | 168 |
| Total current liabilities | 5 | 7,547 | 44 | 7,596 |
| | 2 | 13,156 | 8,475 | 21,633 |

## NOTES TO THE PRO FORMA CONSOLIDATED BALANCE SHEET

### 1. BASIS OF PREPARATION

The Pro forma Consolidated Balance Sheet has been prepared for illustrative purposes only based on:

(i) the audited consolidated balance sheet of Steppe Cement Ltd as of 31 December 2004 as set out in Section 2.3 of Part 2; and

(ii) the audited consolidated balance sheet of Central Asia Cement JSC as of 31 December 2004 as set out in Section 2.5 of Part 2.

### 2. BASIS OF CONSOLIDATION

The financial statements of the subsidiary companies have been consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. All significant intercompany balances are eliminated on consolidation.

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the net assets of subsidiary companies and is recognised as an asset.

### 3. PRO FORMA CONSOLIDATED BALANCE SHEET

The Pro forma Consolidated Balance Sheet incorporates on a proforma basis adjustments for the following transactions as though they were effected as of 31 December 2004.

(i) The declaration and payment of dividends of USD3,040,000 in cash by Central Asia Cement JSC to Central Asia Cement Holding B.V.

(ii) The payment of USD3,040,000 in cash by Central Asia Cement Holding B.V. to its shareholders in partial satisfaction of shareholders loans established on the acquisition of Central Asia Cement JSC by Central Asia Cement Holding B.V.

(iii) The acquisition by Steppe Cement (M) Sdn Bhd, the wholly owned subsidiary of Steppe Cement Ltd, of 100% equity interest in Central Asia Cement Holding B.V.

(iv) The issue and allotment by Steppe Cement Ltd of 70,000,000 ordinary shares of USD0.01 each at an issue price of USD0.10 per share and the issue and allotment of 29,900,000 ordinary shares of USD0.01 each at an issue price of USD0.01 per share as part of the corporate reorganisation.

The resulting share premium of USD6,300,000 has been credited to the share premium account.

Deloitte.

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9 September 2005

The Board of Directors
Steppe Cement Ltd
Suite 10.3, 10th Floor
West Wing, Rohas Perkasa
8 Jalan Perak
505450 Kuala Lumpur
Malaysia

Dear Sirs

**Steppe Cement Ltd ("the Company"), and its subsidiary ("the Group")**

We report on the financial information set out in Section 2.3 of Part 2 of the AIM Admission Document dated 9 September 2005 of Steppe Cement Ltd and, together with its subsidiary, (the "Group"), (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document. This report is required by paragraph (a) of Schedule Two to the AIM Rules as if Annex I item 20.1 of the Prospectus Rules applied and is given for the purpose of complying with that requirement and for no other purpose.

**Basis of preparation**

The financial information set out in Section 2.3 is based on the audited statutory consolidated financial statements of the Company for the period 17 September 2004 (date of incorporation) to 31 December 2004 to which no adjustments were considered necessary.

**Responsibility**

Such financial statements are the responsibility of the directors of the Company who approved their issue. The Directors of the Company are responsible for the contents of the Admission Document in which this report is included. It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

**INDEPENDENT ACCOUNTANT'S REPORT ON STEPPE CEMENT LTD**

## Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the statutory financial statements underlying the financial information. It also included an assessment of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

## Opinion

In our opinion, the financial information set out Section 2.3 below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at 31 December 2004 and of its results for the period 17 September 2004 (date of incorporation) to 31 December 2004.

Yours very truly,

**DELOITTE & TOUCHE**

## 2.3 FINANCIAL INFORMATION OF STEPPE CEMENT LTD AND ITS SUBSIDIARY

**Balance Sheet of the Group at 31 December 2004**

| | Note | USD |
|---|---|---|
| **Current Asset** | | |
| Prepaid expenses | | 2,310 |
| | | 2,310 |
| **Current liabilities** | | |
| Amount owing to holding company | | 5,350 |
| Other payables and accrued expenses | | 422 |
| | | 5,772 |
| **Net Current Liabilities** | | (3,462) |
| | | (3,462) |
| **Capital and reserves** | | |
| Issued share capital | 3 | 1,000 |
| Accumulated loss | | (4,462) |
| **Capital deficiency** | 4 | (3,462) |

**Income Statement of the Group for the period 17 September 2004 (date of incorporation) to 31 December 2004**

| | Note | USD |
|---|---|---|
| Revenue | | - |
| Operating expenses | | 4,462 |
| Loss before tax | | (4,462) |
| **Income tax expense** | | - |
| **Net loss for the period** | | (4,462) |

## Notes

### 1. BACKGROUND TO COMPANY

The Company was incorporated on 17 September 2004 and is an investment holding company. No dividends have been declared or paid since the date of incorporation.

### 2. ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards.

**Taxation**

No charge for taxation has been made since the Group recorded a loss for the period. There is no unprovided deferred taxation.

**Investment in subsidiary company**

Investment in subsidiary company, which is eliminated on consolidation, is stated at cost in the Company's financial statements. Where there is an indication of impairment in the value of the assets, the carrying amount of the investment is assessed and written down to its recoverable amount.

### 3. SHARE CAPITAL

| | 31 December 2004 USD |
|---|---|
| **Authorised:** | |
| 1,000,000 ordinary shares of USD0.01 each | 10,000 |
| **Issued and fully paid up:** | |
| 100,000 ordinary shares of USD0.01 each | 1,000 |

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

### 4. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | USD |
|---|---|
| At 17 September 2004 | 1,000 |
| Loss for the period | (4,462) |
| At 31 December 2004 | (3,462) |

## 5. POST BALANCE SHEET EVENTS

On 13 July 2005, the Company incorporated a new wholly owned subsidiary company, Mechanical & Electrical Consulting Services Ltd.

On 27 July 2005, the authorised share capital of the Company was increased from USD10,000 to USD5,000,000 by the creation of 499,000,000 ordinary shares of USD0.01 each.

On 29 July 2005, its subsidiary company, Steppe Cement Sdn Bhd, a company incorporated in Malaysia, issued 26,650 ordinary shares of USD0.2631 each at an issue price of USD263.1 per share to acquire the entire equity interest in Central Asia Cement Holding B.V., a company incorporated in Netherlands.

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

On 24 August 2005, the issued and paid up share capital of the Company was increased from USD701,000 to USD1,000,000 by the issue and allotment of 29,990,000 ordinary shares of USD0.01 each at an issue price of USD0.01 per share.

## 2.4 INDEPENDENT ACCOUNTANT'S REPORT ON CENTRAL ASIA CEMENT JSC

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9 September 2005

The Board of Directors
Steppe Cement Limited Ltd
Suite 10.3, 10th Floor
West Wing, Rohas Perkasa
8 Jalan Perak
505450 Kuala Lumpur
Malaysia

Dear Sirs

**CENTRAL ASIA CEMENT JSC AND SUBSIDIARY**

We report on the financial information of Steppe Cement Ltd's core operating subsidiary, Central Asia Cement JSC ("Central Asia Cement") together with its subsidiary, as set out in Section 2.5 of Part 2 of the AIM Admission Document dated 9 September 2005 of Steppe Cement Limited (the "Company") and, together with its subsidiaries, (the "Group"), (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 2 of Section 5 of Part 2.

This report is required by paragraph (a) of Schedule Two to the AIM Rules as if Annex I item 20.1 of the Prospectus Rules applied and is given for the purpose of complying with that requirement and for no other purpose.

### Responsibilities

The Directors of Central Asia Cement are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

### Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

**INDEPENDENT ACCOUNTANT'S REPORT ON CENTRAL ASIA CEMENT JSC**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

We did not observe the counting of the physical inventories as of 31 December 2001 and 2002 and have been unable to satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations, changes in equity and cash flows might be necessary for the years ended 31 December 2002 and 2003.

Central Asia Cement did not maintained adequate accounting records regarding the cost of property, plant and equipment prior to 1999. As a result, we were unable to satisfy ourselves concerning the net book value of property plant and equipment, the depreciation expense and related tax expenses as of and for the years ended 31 December 2002 and 2003.

Because of the significance of the matters discussed in the preceding paragraphs, we do not express an opinion on the financial information of Central Asia Cement and its subsidiary for the year ended 31 December 2002 and on the results of operations and cash flows for Central Asia Cement and its subsidiary for the year ended 31 December 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the cost of property, plant and equipment, the financial information gives, for purposes of the Admission Document, a true and fair view of the state of affairs of Central Asia Cement and its subsidiary as at 31 December 2003 in accordance with the basis of preparation set out in Note 2 and in accordance with International Financial Reporting Standards.

In our opinion, except for the effect on the corresponding figures for 2003 of the adjustments, if any, which we might have determined to be necessary had the scope limitations described in the preceding paragraphs not existed, the accompanying 2004 financial information gives, for purposes of the Admission Document, a true and fair view of the state of affairs of Central Asia Cement and its subsidiary as at 31 December 2004 and of its profits, cash flows and changes in equity for the year then ended in accordance with the basis of preparation set out in Note 2 and in accordance with International Financial Reporting Standards.

Yours very truly,

**DELOITTE & TOUCHE**

## 2.5 FINANCIAL INFORMATION OF CENTRAL ASIA CEMENT JSC

### CONSOLIDATED BALANCE SHEETS IN THOUSAND U.S. DOLLARS

| | *Notes* | 2002 | 31 December 2003 | 2004 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment, net | 3 | 1,676 | 2,217 | 3,472 |
| Intangible assets, net | | - | - | 2 |
| Total non-current assets | | 1,676 | 2,217 | 3,474 |
| **CURRENT ASSETS** | | | | |
| Inventories, net | 4 | 2,106 | 2,774 | 5,583 |
| Prepaid expenses | | 125 | 147 | 118 |
| Trade receivables, net | 5 | 754 | 468 | 206 |
| Advances paid, net | 6 | 221 | 343 | 488 |
| Value added tax and other taxes recoverable | 7 | 64 | 1,151 | 53 |
| Other receivables, net | 8 | 70 | 264 | 130 |
| Short-term investments | 9 | 1,483 | 1 | - |
| Cash and cash equivalents | 10 | 1,022 | 2,060 | 3,104 |
| Total current assets | | 5,845 | 7,208 | 9,682 |
| | | 7,521 | 9,425 | 13,156 |
| **LIABILITIES AND EQUITY** | | | | |
| **SHAREHOLDER'S EQUITY** | | | | |
| Share capital | 11 | 593 | 593 | 593 |
| Accumulated deficit | | (15,358) | (9,662) | (1,725) |
| Total equity | | (14,765) | (9,069) | (1,132) |
| **NON-CURRENT LIABILITIES** | | | | |
| Loans | 12 | 14,228 | 288 | 6,741 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | 13 | 278 | 334 | 648 |
| Other payables and accrued liabilities | 14 | 6,904 | 4,349 | 1,132 |
| Taxes payable | 15 | 753 | 413 | 524 |
| Loans | 12 | - | 12,916 | 5,075 |
| Advance received | | 123 | 194 | 168 |
| Total current liabilities | | 8,058 | 18,206 | 7,547 |
| | | 7,521 | 9,425 | 13,156 |

## FINANCIAL INFORMATION OF
## CENTRAL ASIA CEMENT JSC

## CONSOLIDATED INCOME STATEMENTS IN THOUSAND U.S. DOLLARS

| | ***Notes*** | | **31 December** | |
|---|---|---|---|---|
| | | **2002** | **2003** | **2004** |
| Revenue | 16a | 16,534 | 22,003 | 32,416 |
| Cost of sales | 16b | (9,020) | (9,850) | (13,121) |
| Gross profit | | 7,514 | 12,153 | 19,295 |
| Selling expenses | 16c | (2,627) | (2,247) | (2,107) |
| General and administrative expenses | 16d | (7,562) | (3,203) | (6,153) |
| Total operating expenses | | (10,189) | (5,450) | (8,260) |
| Profit/(Loss) from operations | | (2,675) | 6,703 | 11,035 |
| Finance costs, net | 16e | (382) | (307) | (886) |
| Other income/(loss), net | 16f | (1,271) | 1,231 | 1,636 |
| Profit/(Loss) before income tax | | (4,328) | 7,627 | 11,785 |
| Income tax expense | 17 | (848) | (1,931) | (3,848) |
| Profit/(Loss) after income tax | | (5,176) | 5,696 | 7,937 |

## STATEMENT OF CHANGES IN EQUITY
## IN THOUSAND U.S. DOLLARS

| | **Share capital** | **Accumulated deficit** | **Total** |
|---|---|---|---|
| Balance as of 1 January 2002 | 593 | (10,182) | (9,589) |
| Net loss for the year | - | (5,176) | (5,176) |
| Balance as of 31 December 2002 | 593 | (15,358) | (14,765) |
| Net profit for the year | - | 5,696 | 5,696 |
| Balance as of 31 December 2003 | 593 | (9,662) | (9,069) |
| Net profit for the year | - | 7,937 | 7,937 |
| Balance as of 31 December 2004 | 593 | (1,725) | (1,132) |

**FINANCIAL INFORMATION OF**
**CENTRAL ASIA CEMENT JSC**

## CONSOLIDATED STATEMENTS OF CASH FLOWS IN THOUSAND U.S. DOLLARS

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| **Cash flows from operating activities:** | | | |
| Profit before income tax | (4,328) | 7,627 | 11,785 |
| Adjustments for: | | | |
| Depreciation and amortisation | 175 | 171 | 258 |
| Loss on disposal of property, plant and equipment | 1 | 1 | 1 |
| Provision for doubtful receivables and advances paid | 1,046 | 51 | 57 |
| Provision for investments | 4,406 | - | - |
| Provision for obsolete inventory | 216 | 131 | - |
| Unrealised foreign exchange (gain)/loss | 482 | (1,425) | (1,685) |
| Finance costs, net | 382 | 307 | 886 |
| Decrease/(Increase) in trade receivables | (927) | 272 | 206 |
| Decrease/(Increase) in advances paid | (9) | (159) | (145) |
| Decrease/(Increase) in prepaid expenses | 85 | (22) | 29 |
| Decrease/(Increase) in value added tax and other taxes receivables | (64) | (86) | 1,098 |
| Decrease/(Increase) in other accounts receivables | 315 | (194) | 134 |
| Increase in inventories | (10) | (799) | (2,809) |
| Increase in trade payables | 243 | 66 | 441 |
| Decrease in other payables and accrued liabilities | 438 | (155) | (544) |
| Decrease in tax liability (other than income tax) | 611 | (294) | (124) |
| Cash provided by operations | 3,062 | 5,492 | 9,588 |
| Income tax paid | (846) | (2,932) | (3,614) |
| Interest paid | - | (2,289) | (3,495) |
| Net cash provided by operating activities | 2,216 | 271 | 2,479 |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant equipment | (587) | (714) | (1,514) |
| Proceeds from the sale of intangible assets | 8 | - | - |
| Purchase of intangible assets | - | (1) | (2) |
| Disposal of short-term investments | (906) | 1,482 | 1 |
| Net cash used in investing activities | (1,485) | 767 | (1,515) |
| **Cash flows from financing activities:** | | | |
| Proceeds from bank loans | - | - | 13,873 |
| Repayment of loans | - | - | (13,793) |
| Net cash provided by financing activities | - | - | 80 |
| Net increase/(decrease) in cash and cash equivalents | 731 | 1,038 | 1,044 |
| Cash and cash equivalents at beginning of year | 291 | 1,022 | 2,060 |
| Cash and cash equivalents at end of year | 1,022 | 2,060 | 3,104 |

**FINANCIAL INFORMATION OF**
**CENTRAL ASIA CEMENT JSC**

**Note 1 – General**

a. Central Asia Cement JSC (“Central Asia Cement”) was incorporated in the Republic of Kazakhstan. Its registered office is Aktau village, Karaganda region, Republic of Kazakhstan.

b. Central Asia Cement’s primary business is the production of cement.

c. Central Asia Cement’s subsidiary is as follows

| Operating entity | Equity interest | Principal Activity | Country of incorporation |
|---|---|---|---|
| Stroi Invest LLP | 100% | Dormant | Kazakhstan |

d. All references in the notes are in thousands US dollars.

**Note 2 – Significant Accounting Policies**

*Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The significant accounting policies applied in the financial statements, on a consistent basis, are as follows:

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention.

(b) Use of estimates and assumptions

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

(c) Functional and presentation currency

Central Asia Cement’s sales are made in tenge and its expenses, are incurred in tenge. Therefore, Central Asia Cement has determined that tenge is the primary currency of economic environment of Central Asia Cement, and thus its functional currency. The presentation currency of the financial statements is U.S. dollar.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of entities where Central Asia Cement, directly or indirectly exercises control. Control is achieved where Central Asia Cement has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

Central Asia Cement. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The results of subsidiaries

acquired or disposed of during the year are included in the consolidate income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains/(losses) on transactions are eliminated on consolidation.

(e) Foreign currencies transactions

Transactions in currencies other than tenge are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the consolidated balance sheet date. All translation differences are recognised in the consolidated income statement.

(f) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment.

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 capitalization are charged to the consolidated income statement as incurred.

Depreciation is computed under the straight-line method utilising the useful economic lives of the assets, which are:

| | |
|---|---|
| Buildings | 25 years |
| Machinery and equipment | 14 years |
| Other assets | 5 – 10 years |

Land and land improvements are not depreciated.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for the other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

(g) Intangible assets

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

(h) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials, customs duties, transportation and handling costs. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price less all estimated costs to complete and costs to be incurred in marketing, selling and distribution.

(i) Accounts receivable

Accounts receivable are stated at their net realisable value after deducting provisions for uncollectible amounts.

(j) Cash and cash equivalents

Cash includes petty cash and cash held in current bank accounts. Cash and cash equivalents include short-term investments with maturity up to three month and are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(k) Trade and other payables

Liabilities for trade and other amounts payable are stated at their nominal value.

(l) Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at the proceeds received, net of direct issue costs. After initial recognition all loans and borrowings are subsequently measured at amortised cost, which is calculated by taking into account any discount or premium on settlement.

(m) Revenue recognition

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

(n) Impairment of tangible and intangible assets

At each balance sheet date, Central Asia Cement reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, Central Asia Cement estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land, building, other than investment property, or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in the related revaluation reserve.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(p) Income taxes

Income taxes have been computed in accordance with the laws of the Republic of Kazakhstan. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. 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 utilized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and Central Asia Cement intends to settle its tax assets and liabilities on a net basis.

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

(q) Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan, Central Asia Cement pays into an employee pension fund the amount equivalent to 10% of each employee’s wage, but not to exceed 49,500 tenge per employee per month. These amounts are expensed when they are incurred. Pension fund payments are withheld from employees’ salaries and included with other salary costs in the income statement. Central Asia Cement does not have other liabilities related to pension payments.

(r) Provisions

Provisions are recognised when Central Asia Cement has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and the obligation can be estimated reliably.

(s) Exchange rate

Assets and liabilities in tenge are translated using the exchange rate of 1 U.S. dollar to 135 tenge (KZT).

## Note 3 – Property, plant and equipment

| | Land and improvement | Buildings | Machinery and equipment | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2002 | 135 | 425 | 547 | 203 | 187 | 1,497 |
| Additions | 45 | 334 | 19 | 18 | 171 | 587 |
| Transfers | - | - | 171 | 150 | (321) | - |
| Disposals | - | - | (2) | - | - | (2) |
| At 1 January 2003 | 180 | 759 | 735 | 371 | 37 | 2,082 |
| Additions | - | 227 | 6 | 2 | 479 | 714 |
| Transfers | - | - | 155 | 267 | (422) | - |
| Disposals | - | - | (2) | (1) | - | (3) |
| At 1 January 2004 | 180 | 986 | 894 | 639 | 94 | 2,793 |
| Additions | - | 514 | 50 | 50 | 900 | 1,514 |
| Transfers | - | - | 389 | 447 | (836) | - |
| Disposals | - | - | (1) | (1) | - | (2) |
| At 31 December 2004 | 180 | 1,500 | 1,332 | 1,135 | 158 | 4,305 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| At 1 January 2002 | - | 57 | 149 | 26 | - | 232 |
| Charge for the year | - | 42 | 101 | 32 | - | 175 |
| Disposals | - | - | (1) | - | - | (1) |
| At 1 January 2003 | - | 99 | 249 | 58 | - | 406 |
| Charge for the year | - | 35 | 59 | 77 | - | 171 |
| Disposals | - | - | (1) | - | - | (1) |
| At 1 January 2004 | - | 134 | 307 | 135 | - | 576 |
| Charge for the year | - | 46 | 83 | 129 | - | 258 |
| Disposals | - | - | (1) | - | - | (1) |
| At 31 December 2004 | - | 180 | 389 | 264 | - | 833 |
| **CARRYING AMOUNT** | | | | | | |
| At 31 December 2004 | 180 | 1,320 | 943 | 871 | 158 | 3,472 |
| At 31 December 2003 | 180 | 852 | 587 | 504 | 94 | 2,217 |
| At 31 December 2002 | 180 | 660 | 486 | 313 | 37 | 1,676 |

As at 31 December 2004, a property with a book value of USD 2,928, was pledged under the Loan Agreement #3220/04 dated 2 November 2004 (Note 12.1).

On 21 October 2004 Central Asia Cement's above collateralised property, plant and equipment was revalued by an independent appraiser, the Rice Group Central Asia LLP. The appraised market value of the property is USD 51,540. The effect of this appraisal was is not reflected in the consolidated financial statements.

### Note 4 – Inventories, net

| | 31 December 2002 | 2003 | 2004 |
|---|---|---|---|
| Work in progress | 470 | 827 | 1,413 |
| Finished goods | 334 | 475 | 1,144 |
| Fuel | 155 | 288 | 598 |
| Raw materials | 749 | 1,141 | 2,181 |
| Spare parts | 113 | 125 | 198 |
| Goods for resale | 102 | 100 | 100 |
| Packing materials | 178 | 83 | 79 |
| Other materials | 221 | 82 | 217 |
| | 2,322 | 3,121 | 5,930 |
| Less: Provision for obsolete inventory | (216) | (347) | (347) |
| Net | 2,106 | 2,774 | 5,583 |

### Note 5 – Trade receivables, net

| | 31 December 2002 | 2003 | 2004 |
|---|---|---|---|
| Trade receivables from related parties | 817 | - | - |
| Trade receivables from third parties | 778 | 501 | 296 |
| Less : Provision for doubtful receivables | (841) | (33) | (90) |
| Net | 754 | 468 | 206 |

### Note 6 – Advance paid, net

| | 31 December 2002 | 2003 | 2004 |
|---|---|---|---|
| Advances paid to third parties | 248 | 407 | 552 |
| Less : Provision for advances paid | (27) | (64) | (64) |
| Net | 221 | 343 | 488 |

## Note 7 – Value added tax and other taxes receivables

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Value added taxes reimbursable | 64 | 13 | 53 |
| Corporate income tax | - | 1,001 | - |
| Personal income tax | - | 74 | - |
| Social tax | - | 63 | - |
| Total | 64 | 1,151 | 53 |

## Note 8 – Other receivables, net

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Receivable from employee | - | 33 | 104 |
| Other | 248 | 231 | 26 |
| Less: Provision for doubtful receivables | (178) | - | - |
| Net | 70 | 264 | 130 |

## Note 9 – Short-term investments

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Bank deposits | 1,483 | 1 | - |

Deposits were placed with maturities of 6 months to 1 year.

## Note 10 – Cash and cash equivalents

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Petty cash | 6 | 8 | 5 |
| Cash in banks, in KZT | 1,008 | 1,827 | 2,926 |
| Cash in banks, in USD | 8 | 7 | 7 |
| Restricted cash | - | 218 | 166 |
| | 1,022 | 2,060 | 3,104 |

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

## Note 11 – Share capital

| | 2002 | 31 December 2003 | 2004 |
|---|---|---|---|
| | | Number of shares | |
| Ordinary shares of KZT 80,000 par value: | | | |
| Authorised | 1,000 | 1,000 | 1,000 |
| Issued and fully paid | 1,000 | 1,000 | 1,000 |

## Note 12 – Loans

| | *Interest rate* | 2002 | 31 December 2003 | 2004 |
|---|---|---|---|---|
| JSC Kazkommertsbank (12.1) | *12.5%* | - | - | 11,556 |
| Cement Engineering Consultancy (12.2) | *2 X 1 year LIBOR* | 403 | 374 | 260 |
| Kazakhstan Investment Fund, related party (12.3) | *2 X 1 year LIBOR* | 13,825 | 12,830 | - |
| Total | | 14,228 | 13,204 | 11,816 |
| These loans are repayable as follows: | | | | |
| Within one year | | - | 12,916 | 5,075 |
| Within two to five years | | 14,228 | 288 | 6,741 |
| Total | | 14,228 | 13,204 | 11,816 |

12.1. The loan with an initial principal of USD12,000 (KZT 1,560,000 thousand) was provided by JSC Kazkommertsbank, according to the Loan Agreement #3220/04 dated 2 November 2004 for the purpose of repayment of the loan provided by the Kazakhstan Investment Fund (former shareholder). The principal amount of USD 4,815 (KZT 650,000 thousand) is repayable within one year and has been shown under current liabilities. The remainder of the loan should be repaid starting from 2 March 2005 until 2 February 2007. The loan is secured by a charge over Central Asia Cement's property with a book value of USD 2,928 (KZT 395,316 thousand) (Note 3).

12.2 The loan of USD 350 (KZT 50,477 thousand) was provided by Cement Engineering Consulting, a former shareholder of Central Asia Cement, for three years according to agreement dated 21 March 2000. The principal amount of USD 80,000 (KZT 15,377 thousand) was repaid in year 2004. The outstanding amount of the loan as at 31 December 2004 amounted to USD 260 (KZT 35,100 thousand) and is due for settlement within 12 months.

The interest rate on the loan was 2 X LIBOR per annum and is unsecured.

On 5 March 2005, this loan was restructured pursuant to an agreement between the Kazakhstan Asset Management Ltd and Central Asia Cement (Note 23).

12.3 The loan of USD 12,010 (KZT 1,732,082 thousand) was provided by the Kazakhstan Investment Fund, a former shareholder of Central Asia Cement, for five years according to agreement dated 21 May 1998 to subscribe for shares of OJSC Karagandacement, CJSC Karagandacement and CJSC Karagandacontract. The loan was repaid in 2004.

The interest rate on the loan was 2 X LIBOR per annum and was unsecured.

Background to the arrangements between Central Asia Cement and both Cement Engineering Consulting and the Kazakhstan Investment Fund are provided at Section 3 of part 1 of the Admission Document. Further details on the arrangements are also provided at Note 23 to this Section of the Admission Document.

**Note 13 – Trade payables**

| | | 31 December | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Trade payables to third parties | 275 | 334 | 600 |
| Trade payables to related parties | 3 | - | 48 |
| | 278 | 334 | 648 |

**Note 14 – Other payables and accrued liabilities**

| | | 31 December | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Payables to employees | 145 | 103 | 153 |
| Other payables to related parties | 5,988 | 3,806 | 686 |
| Other payables and accrued liabilities | 771 | 440 | 293 |
| | 6,904 | 4,349 | 1,132 |

Other payables to related parties for 2004 include accrued management fee to Cement Engineering Consultancy Ltd (former shareholder of Central Asia Cement) of USD 562 (KZT 75,833 thousand), accrued interest and penalty on the loan from Cement Engineering Consultancy Ltd of USD 17 (KZT 2,266 thousand) and USD 107 (KZT 14,528 thousand) respectively.

Pursuant to the assignment agreement between Kazakhstan Asset Management Ltd and Central Asia Cement dated 5 March 2005, Kazakhstan Asset Management Ltd has assigned and transferred all claims and interest in Cement Engineering Consultancy Ltd to Central Asia Cement, which will result in offset of the above outstanding management fee to Cement Engineering Consultancy Ltd (Note 23).

Other payables to related parties for 2003 include interest payable to Kazakhstan Investment Fund and Cement Engineering Consultancy Ltd of USD 3,000 (KZT 404,968 thousand) and USD 76 (KZT 10,195 thousand) respectively, accrued penalty on the loan from Cement Engineering Consultancy Ltd of USD 107 (KZT 14,528 thousand) and accrued management fee to Cement Engineering Consultancy Ltd of USD 623 (KZT 84,128 thousand), former shareholders of Central Asia Cement.

Other payables to related parties for 2002 include interest payable to Kazakhstan Investment Fund and Cement Engineering Consultancy Ltd of USD 5,247 (KZT 708,323 thousand) and USD 70 (KZT 9,401 thousand) respectively, and accrued management fee to Cement Engineering Consultancy Ltd of USD 671 (KZT 90,650 thousand).

## Note 15 – Taxes payable

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Corporate income tax | - | - | 235 |
| Withholding tax | 637 | 403 | 112 |
| Personal income tax | 90 | 10 | - |
| Other taxes | 26 | - | 177 |
| | 753 | 413 | 524 |

## Note 16 – Supplementary information to the consolidated income statement

| | | 31 December | | |
|---|---|---|---|---|
| | | **2002** | **2003** | **2004** |
| a. | ***Revenue*** | | | |
| | Sales of manufactured goods | 16,483 | 21,564 | 31,982 |
| | Other sales | 51 | 439 | 434 |
| | | 16,534 | 22,003 | 32,416 |
| b. | ***Cost of sales*** | | | |
| | Cost of production | | | |
| | Materials | 5,336 | 6,231 | 8,918 |
| | Payroll and related taxes | 1,441 | 1,923 | 2,572 |
| | Electricity | 1,014 | 1,221 | 1,624 |
| | Depreciation | 147 | 154 | 231 |
| | Others | 877 | 478 | 726 |
| | | 8,815 | 10,007 | 14,071 |
| | Work in progress at beginning of year | 713 | 470 | 827 |
| | Work in progress at end of year | 470 | 827 | 1,413 |
| | Change in work in progress | 243 | (357) | (586) |
| | Finished goods at beginning of year | 136 | 334 | 475 |
| | Finished goods at end of year | 334 | 475 | 1,144 |
| | Change in finish goods | (198) | (141) | (669) |
| | Cost of sales, manufactured goods | 8,860 | 9,509 | 12,816 |
| | Cost of sales, purchased goods | 160 | 341 | 305 |
| | Total | 9,020 | 9,850 | 13,121 |

| | | 31 December | | |
|---|---|---|---|---|
| | | **2002** | **2003** | **2004** |
| c. | ***Selling expenses*** | | | |
| | Railway transportation | 2,101 | 1,739 | 1,641 |
| | Payroll and related taxes | 125 | 122 | 133 |
| | Shipping and transportation | 124 | 77 | 35 |
| | Rent | 89 | 35 | 19 |
| | Advertising | 10 | 11 | 10 |
| | Others | 178 | 263 | 269 |
| | | 2,627 | 2,247 | 2,107 |
| d. | ***General and administrative expenses*** | | | |
| | Penalties (i) | - | - | 1,901 |
| | Legal services (ii) | 332 | 119 | 1,067 |
| | Payroll and related taxes | 587 | 1,004 | 951 |
| | Provision for investment | 4,406 | - | - |
| | Management fee | 476 | 437 | 651 |
| | Tax and custom duties | 53 | 718 | 450 |
| | Utilities | 95 | 131 | 203 |
| | Bank service payments | 29 | 41 | 99 |
| | Bad debt provision | 1,046 | 51 | 57 |
| | Provision for obsolete inventory | 46 | 131 | - |
| | Business trip expenses | 50 | 37 | 43 |
| | Communication costs | 30 | 26 | 38 |
| | Stationery | 9 | 3 | 30 |
| | Depreciation and amortization | 28 | 17 | 27 |
| | Office costs | 13 | 15 | 25 |
| | Laboratory costs | 26 | 10 | 9 |
| | Others | 336 | 463 | 602 |
| | | 7,562 | 3,203 | 6,153 |

(i) Penalties are related to the late payment of principal and interest on loans
(ii) Legal fee in 2004 incurred mainly for refinancing of shareholder’s loan and purchase of former shareholder’s interests in Central Asia Cement.

| | | | | |
|---|---|---|---|---|
| e. | ***Finance costs, net*** | | | |
| | Interest income | (31) | (78) | (39) |
| | Interest expense | 413 | 385 | 656 |
| | Other finance costs | - | - | 269 |
| | | 382 | 307 | 886 |

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| f. ***Other income/(loss), net*** | | | |
| Foreign exchange gain/(loss) | (482) | 1,425 | 1,685 |
| Loss on disposal of property, plant and equipment | (1) | (1) | (1) |
| Payables write off | 142 | 9 | - |
| Impairment of inventory | (170) | - | - |
| Others | (760) | (202) | (48) |
| | (1,271) | 1,231 | 1,636 |

**Note 17 – Income tax**

a. Income taxes have been computed in accordance with the laws of the Republic of Kazakhstan. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

b. Income tax rates:
The statutory tax rate effective in the Republic of Kazakhstan was 30% in 2002 to 2004.

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| c. Composed as follows: | | | |
| Current tax | 848 | 1,931 | 3,848 |
| Deferred tax | - | - | - |
| | 848 | 1,931 | 3,848 |

d. Reconciliation between theoretical income tax at 30% to actual expense recorded in the consolidated income statement, is as follows:

| | 31 December | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Profit/(Loss) before income tax | (4,328) | 7,627 | 11,785 |
| Theoretical income tax at statutory rate of 30% | (1,298) | 2,288 | 3,536 |
| Adjustments due to: | | | |
| Tax effect of non deductible expenses | 1,565 | 118 | 224 |
| Change in valuation allowance | 581 | (475) | 88 |
| | 848 | 1,931 | 3,848 |

**Note 18 – Deferred income taxes**

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

b. The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2002 to 2004, is as follows:

| | | **31 December** | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Deferred tax assets | | | |
| Difference in depreciable value of property, plant and equipment | 218 | 67 | 119 |
| Provision for doubtful receivables | 314 | 39 | 46 |
| Other adjustments | 50 | - | 30 |
| Less: Valuation allowance | (582) | (106) | (195) |
| Total | - | - | - |

**Note 19 – Transactions with related party**

Related parties include Company shareholder directors, affiliates and entities under common ownership, over which Central Asia Cement and its subsidiary has have ability to exercise significant influence.

The following transactions with related parties are included in the consolidated income statement:

| | | **31 December** | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Management service fee | 476 | 437 | 651 |
| Legal service fee | - | - | 466 |

Transactions with related parties are carried out on an arm-length basis.

Further information on these transactions is included at Section 6.3 of Part 4 of the Admission Document.

**Note 20 – Commitments and contingencies**

***Operating environment***

Central Asia Cement and its subsidiary's business activities are within the Republic of Kazakhstan. Law and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and Central Asia Cement's assets and operations (together with those of its subsidiary) could be at risk due to negative changes in the political and business environment.

***Social commitments***

Central Asia Cement has entered into collective agreements with its employees. Under the terms of such agreements Central Asia Cement 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 income statement as Central Asia Cement's management is unable to reasonably estimate the amount of future social expense.

***Legal issues***

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

***Tax and regulatory environment***

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

In particular taxes are subject to review and investigation by a number of authorities enabled by law imposes fines and penalties. While Central Asia Cement 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 Central Asia Cement.

***Contingent liabilities***

On 18 March 2005 a legal firm had claimed an amount of USD 409 in addition to the USD 1,186 that the firm and other legal advisers had received for legal services to Central Asia Cement during 2004. No provision for these fees has been made in the financial statements since Central Asia Cement disputes this claim. Furthermore, the management believes that in the event any of these fees are payable, they will be paid by the shareholder of Central Asia Cement.

## Note 21 – Fair value of financial instruments

Financial assets, trade and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade and other payables are recorded at their carrying values which approximate the fair values of theses instruments as a result of their short-term duration.

Interest rates on long and short-term borrowings are market related, the carrying values of these financial instruments approximate their fair values.

## Note 22 – Segment information

As Central Asia Cement and its subsidiary are is principally involved in the production of cement within the Republic of Kazakhstan, segment information has not been presented.

### Note 23 – Subsequent events

On 5 March 2005 Kazakhstan Asset Management Ltd ("KAM") and the Central Asia Cement Group entered into an Assignment Agreement whereby KAM has assigned and transferred to Central Asia Cement the loans and other amounts due and payable by Cement Engineering Consultancy Ltd ("CEC"), a former shareholder of Central Asia Cement, to KAM amounting to USD1,015 in consideration of the payment of an amount of USD700 by Central Asia Cement to KAM as the purchase price of the assignment. As a result of the assignment, the debts formerly due and payable by CEC to KAM became debts due and payable by CEC to Central Asia Cement. Accordingly, Central Asia Cement would seek to offset the amount of USD 946 (KZT 127,727 thousand) as currently recorded in Central Asia Cement's books (USD 562 (KZT 75,833 thousand) for management services under the former management agreement between CEC and Central Asia Cement, USD 260 (KZT 35,100 thousand) in respect of the loan made by CEC to Central Asia Cement and accrued interest and penalty on the loan of USD 17 (KZT 2,266 thousand) and USD 107 (KZT 14,528 thousand), respectively) (Note 12 and 14).

On 28 February 2005 Central Asia Cement has booked the valuation surplus for certain of its land and buildings amounting to USD 11,846 (KZT 1,599,188 thousand).

On 19 August 2005 Central Asia Cement paid dividends amounting to USD 3,040 to its immediate holding company, Central Asia Cement Holding BV.

# Part 3 – Risk Factors

The risk factors set out below are not an exhaustive list of the risks faced by investors in Steppe Cement, but are intended to provide a summary of the material risks. Neither the Group nor the Directors provide any assurances or guarantees of future profitability, distributions, payment of dividends, return of capital or performance of the Group or the Shares in Steppe Cement.

Prospective investors should carefully consider the risks described below, together with all other information contained in this Admission Document and all other information subsequently released to the market, before deciding whether to invest in Steppe Cement. These risks have the potential to materially adversely affect the Group's business, financial condition and/or results of operations. In such case, an investor may lose all or part of his or her investment. Investors are accordingly advised to consult an independent financial adviser who specialises in advising on the acquisition of shares and other securities before making a decision to invest.

The risk factors associated with an investment in Steppe Cement include, but are not limited to, the following:

## 1 General Securities Risks

### 1.1 Share investments

There are risks associated with any investment in shares. The prices at which the Shares trade may fluctuate in response to a number of factors.

In addition, stock markets and, in particular, the market for smaller companies operating in cyclical industries such as construction material supply, have historically experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These factors may materially affect the market price of the Shares regardless of the Group's operational performance.

### 1.2 Share market conditions

The market price of the Shares may fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and construction material stocks in particular. Historic price performance of the Shares should not be deemed to provide any indication as to future performance and there can be no guarantee that prevailing trading prices will be sustained. Neither the Group nor the Directors warrant the future performance of the Group or any return on an investment in the Company.

Furthermore, admission of the Shares to trading on AIM should not be taken as implying that there will be an ongoing liquid market for the Shares. It may be more difficult for an investor to realise an investment on AIM than to realise an investment in a company whose shares are quoted on the Official List.

## 2 General Industry Risk

### 2.1 Economic and price risk

Since the Group's sole business activity is cement manufacturing in Kazakhstan, changes in the Kazakh general economic climate should be expected to affect the financial position of the Group. Demand for the Group's cement is a function of the economic activity in the Kazakhstan. As such, a decline in general economic activity in the regions of Kazakhstan where the Group's cement is currently used should be expected to lead to a reduced demand for cement from the Group's Cement Plant, resulting in lower prices and reduced revenues.

Cement is a relatively low value commodity and, as such, transportation over long distances and export is generally not economically viable, particularly where there is no nearby sea port facility such as applies to all Kazakh cement manufacturers. Therefore, the Group's opportunities to export its product to other markets should be expected to be very limited in the event domestic demand shrinks.

### 2.2 Competition

The Group competes with other Kazakh cement suppliers and, to a lesser extent, imports from neighbouring countries such as Russia, China, Uzbekistan and The Kyrgyz Republic (depending upon their own domestic demand). The capital cost to competitors seeking to expand their existing cement plants or construct new ones would be significant. However, the current high demand for cement in Kazakhstan is such that it may be seen as an attractive proposition for competitors to expand their production capacity. Expansion of competitor capacity should be expected to reduce demand for cement manufactured by the Group, resulting in lower prices and reduced revenues.

### 2.3 Environmental Risks

The Group's cement operations are subject to existing Kazakh laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with other cement operations, the Group's activities are expected to have a continued impact on the environment. It is the Group's intention to conduct its activities to the highest standards of obligation, including compliance with all environmental laws. However, there are certain risks inherent in the Group's activities and unforseen changes in environmental law and regulatory control which could impact upon the Group's capacity to operate and/or cause it to be subject to as yet unforseen liabilities.

### 2.4 General operating risks

The Group is subject to a range of other more general operating risks to which all cement manufacturers are exposed, including: industrial accidents, technical failures, labour disputes, supply issues, fire, explosions and other industrial plant issues, all of which include aspects that may be beyond the Group's control.

## 3 Risks specific to the Group

### 3.1 Sovereign risks

The economy in Kazakhstan, where the Group's Cement Business is located, differs from the economies of many developed countries in many respects, including Government intervention, level of development, growth rate, control of foreign exchange and allocation of resources.

The Kazakh economy is undergoing a transition from a planned economy to a more market orientated economy. Although in recent years the Government has implemented economic reforms, including reducing state ownership and establishing improvements in corporate governance in business enterprises, a significant proportion of Kazakh business interests remain in state ownership. In addition, the Government continues to play a significant role in regulating industry by imposing industrial policies, through the allocation of resources, setting monetary policy and providing preferential treatment to particular industries or companies. The future earnings of the Group could be affected if the Government was to reverse trends and impose restrictions on business.

### 3.2 Foreign exchange risk

The Group's business operations are in Kazakhstan and as such the majority of its revenues and costs are denominated in the local currency (Tenge). Profitability in terms of the Group's reporting currency (US$) and its capacity to pay dividends will be dependent upon exchange rates between the Tenge and US$.

### 3.3 Rights to loam and limestone deposits

The Group's business is dependent upon its rights to extract both loam and limestone from two nearby state owned quarries. The Group's present rights to extract loam and limestone from these quarries extend through to November 2019 and, whilst the Directors believe there should be an opportunity to extend the period of access beyond November 2019, there can be no guarantee of the extension of these rights or that they will be able to be agreed on terms which are financially viable to the Group.

### 3.4 Reliance on key personnel

The Group's success is, to a certain extent, dependent on the activities of its key management and their experience and knowledge of the cement industry. The loss of key managers may have a material adverse effect on the Group's operations and financial position if they are not able to be readily replaced.

Furthermore, the employment of key, non-Kazakh nationals within the Cement Business is dependent upon the continued support of the Kazakh government through the issue of work permits. In the event work permits are not granted or renewed there is likely to be an adverse impact on the Group's ability to operate the Cement Business.

### 3.5 Labour force

The Group relies on the skill and expertise of its employees for the efficient production of cement. Whilst Kazakhstan has an educated and technically competent workforce, the demand for specialised skilled labour created by the simultaneous development of several major industrial and commercial projects has exceeded locally available supply. Management expertise and marketing skills are also in short supply. There is a risk that the Group will not be able to attract enough skilled labour and management personnel for the continued efficient operation of the plant and/or for any future operational expansions.

### 3.6 Retention of key business relationships

The Group relies significantly on relationships with other entities (including customers and suppliers) and also on good relationships with regulatory and Government departments. The Group also relies upon third parties to provide essential contracting services.

While the Directors have no reason to believe otherwise, there can be no assurance that the Group's existing relationships will continue to be maintained or that new ones will be successfully formed and the Group could be adversely affected by changes to such relationships or difficulties in forming new ones. Any circumstance, which causes the early termination or non-renewal of one of these key business relationships could adversely impact the Group, its business, operating results or prospects.

### 3.7 Ageing plant

The successful continued production of cement is dependent upon the continued operation of ageing equipment and plant facilities. Whilst the Group has operated the plant successfully and efficiently in the past, the actual cost of maintaining aging equipment and plant facilities and any downtime operational costs are difficult to predict. As such, there can be no assurance that operational costs will not exceed expectations and have an adverse impact on the Group's operations and profitability.

### 3.8 Costs of supplies

The Kazakh economy is growing rapidly and, as a result, materials and supplies necessary for the continued operation of the Cement Plant may be subject to shortages and/or significant price volatility. Potential shortages or price rises in key supplies and materials may adversely impact upon the Group's operations and financial position.

### 3.9 Plant expansion

As set out elsewhere in this Admission Document, the Group is exploring the possibility of refurbishing one or both of its dormant dry cement manufacturing lines. In the event it proceeds, the expansion of the plant through any refurbishment will expose the Group to a number of risks associated with any major industrial expansion, namely: financing risk on the expansion; cost risk in that actual costs may exceed the estimates; engineering risks associated with the refurbishment; commissioning risks and marketing and sales risks associated with the new production. It is not possible to quantify any of these risks at this early stage in managements' deliberations on the refurbishment. However, a major expansion such as the one envisaged has the potential to materially impact the financial position of the Group.

The expansion of the plant will also be subject to a number of Government approvals. There can be no certainty that these approvals will be granted in a timely manner, or at all.

### 3.10 Insurance

Insurance against all risks associated with cement production are not extensively available in Kazakhstan. As such, the Group only enters into insurance agreements where such services are available and deemed suitable. Consequently the Group is not insured against all risks over which cement manufacturing operations in other parts of the world may be expected to carry cover, because the Group considers the required cost to be excessive having regard to the benefits that would accrue. For example, the Group's Cement Plant is insured, however, the Group is not insured for any form of business interruption.

### 3.11 Emerging legal system

Kazakhstan only became an independent country in 1991 and as such has a legal system which is not as established as that of the United Kingdom. Because of the emerging status of the Kazakh legal system there can be no assurance that the Group will be able to seek legal recourse for the protection of its legal rights in the same manner as would apply in the United Kingdom.

### 3.12 Emerging banking system

The banking system of Kazakhstan is one of the most developed in Central Asia and it is rapidly moving towards the adoption of international banking standards under the supervision of the National Bank of Kazakhstan. Nevertheless, there can be no assurance that local bank funding and services will be available on terms satisfactory to the Group particularly in circumstances where the Group requires project finding of a long term and sizeable nature.

### 3.13 Civil unrest

Whilst there are no nascent insurrections in Kazakhstan and politically motivated civil disturbances remain rare, it is difficult to judge the impact of any future political insurgency or Governmental change. Further, whilst Kazakhstan has good relations with its neighbours, the Government continues to express concern over the security of its borders with Kyrgyzstan and Uzbekistan, which it views as vulnerable to penetration by extremist groups. In the event it occurs, civil unrest within Kazakhstan may impact upon the market for the Group's cement, its financial position and possibly its property and ownership of the Cement Business.

# Part 4 – Additional Information

## 1 Corporate Information

Steppe Cement was incorporated as an offshore company in the Malaysian Federal Territory of Labuan on 17 September 2004 under the Offshore Companies Act 1990 of Malaysia (OCA). The Federal Territory of Labuan was declared by the Malaysian government as an international offshore financial centre in October 1990.

The liability of the shareholders in Steppe Cement is limited by shares.

Under Section 7 of the OCA, Steppe Cement is only permitted to carry on in, from and through Labuan any business which may lawfully be carried on in Malaysia but it shall not carry on the business of banking or insurance or any such similar business unless it is licensed under the laws currently in force in Malaysia. In addition, Steppe Cement is not permitted to;

(a) carry on business with a resident of Malaysia except as permitted by the Offshore Banking Act 1990 (Malaysia) (OBA) or by the Labuan Offshore Financial Services Authority (LOFSA);

(b) carry on business except as permitted by the OBA;

(c) carry on business in the Malaysian currency except for defraying its administrative and statutory expenses and where Section 147 of OCA applies;

(d) carry on business as an insurance or a reinsurance company except as permitted by the Offshore Insurance Act 1990 (Malaysia) (OIA);

(e) carry on shipping operations in Malaysia; or

(f) carry on any business of a trust company.

The registered office of Steppe Cement is situated at Brumby House, 1st Floor, Jalan Bahasa, P.O. Box 80148, 87011 Labuan Federal Territory, Malaysia.

The Controller of Foreign Exchange of Malaysia has declared the Company a non-resident for Malaysian exchange control purposes. Non-resident Malaysian companies such as Steppe Cement may open and maintain external accounts with Malaysian resident banks to facilitate the payment of statutory and administrative expenses in Malaysia, including the granting of loans to staff pursuant to the terms and conditions of service. Steppe Cement is also permitted to fund external accounts in Malaysian Ringgit, otherwise than for purposes mentioned above. In this regard Steppe Cement is allowed to use its funds in the external accounts to purchase Ringgit assets. The company is freely allowed to deal in foreign currencies other than the currencies of Israel, Serbia and Montenegro.

Steppe Cement is the parent company of the Group. The companies which constitute the Group are detailed in Section 3 of Part 1 of this Admission Document.

## 2 Malaysian Federal Territory of Labuan Companies Legislation

Steppe Cement is governed by the OCA and also other offshore legislation in relation to its operation as an offshore company in Labuan.

The Labuan Offshore Financial Services Authority (LOFSA) is the main regulator of the OCA pursuant to the Labuan Offshore Financial Services Authority Act 1996.

Section 119 of the OCA provides that the Minister of Finance may make regulations for the supervision and control of takeover and merger transactions. At the date of this Admission Document, no such regulations have been made by the Minister.

## 3 The City Code

Whilst the Company will be listed on AIM it will not be subject to the provisions of the City Code. The Company is subject to the provisions of the OCA as referred to in Section 2 above.

## 4 Share Capital

The Shares that Steppe Cement will have in issue at Admission are detailed in Section 5 of Part 1 of this Admission Document. There are no other listed or unlisted securities issued by the Company other than as set out in that Section.

Application for Admission is being made in respect of all of the Company's Shares. On Admission, the Shares on issue will rank pari passu in all respects.

Other than as set out above, the Shares have not been admitted to dealing on any recognised investment exchange, no application for such admission has been made and there are no other intended arrangements for dealings in the Shares.

## 5 Memorandum and Articles of Association - Rights Attaching to Shares and Powers of the Company

The activities of the Company are governed by the provisions of its Memorandum of Association which sets out its business objects and the powers that may be exercised in support of its objects. The objects of the Company as set out in the Memorandum of Association may be altered with the consent of a special resolution of the Company (being a resolution of not less than three-fourths of the members of the Company being entitled so to do, vote in person or, where proxies are allowed, by proxy, at a meeting of members of which not less than 21 days' notice specifying the intention to propose the resolution as a special resolution has been duly given) (Section 24(1) of the OCA). Likewise, the Articles and Association of the Company ("Articles") may also be amended by special resolution (Section 24(1) of the OCA, Article 111). The Articles govern the Company's administration and the relationship between its members and the Board of Directors, including the rights attaching to Shares and the powers of the Company, a summary of which is as follows:

### 5.1 Rights attaching to Shares

The rights attaching to Shares are set out in the Articles and the OCA. The following is a summary of the principal rights attaching to the Shares.

#### (a) General meeting and notices

Pursuant to Article 35, members holding not less than one-tenth of the total paid-up capital are entitled to make a written request to the Directors to convene a meeting of the members. Under the OCA, directors of an offshore company shall, notwithstanding anything in the articles of association, on the requisition of ten or more members, or members holding at the date of the deposit of the requisition not less than one-tenth of the total paid-up capital of the company, proceed to convene a meeting of members (Section 95(2) of the OCA).

Each member is entitled to receive notice of, to attend personally or be represented by proxy and to speak and vote or to speak and vote by proxy at a general meeting of the company and to receive all notices, accounts and other documents required to be sent to members under the articles of association and the OCA (Sections 95 (4), 96(1) and 112 of the OCA).

#### (b) Voting rights

At a general meeting of Steppe Cement, whether on a show of hands or on a poll, every holder of a voting share present in person or by proxy shall have one vote for every voting share of which he is a holder (Section 98 of the OCA, Article 47). If voting is by poll, the holder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way (Section 97(2) of the OCA).

Where there are two or more persons jointly entitled to a share or shares and if more than one of such persons shall vote in person or by proxy at any meeting of members, the vote of that person whose name appears first among such voting joint holders in the share register shall alone be counted (Article 50).

#### (c) Issue of Shares

The directors may, on behalf of the Company, offer, allot, grant options over or dispose of the unissued shares of the Company (whether forming part of the original or any increased capital) to such persons at such times and for such terms and conditions as the directors may determine (Section 47(1) of the OCA, Article 5). However, without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any shares in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the directors may from time to time determine (Article 6). All prices and values given in respect of shares shall be expressed in a currency other than Malaysian currency (Section 47(1) of the OCA).

The company shall observe and comply with the OCA and the CREST rules applicable to any allotment of its shares (Article 6(2)). Shares may be issued on the terms that they are redeemable or at the option of the Company are liable to be redeemed on such terms and in such manner as the directors before or at the time of the issue of the shares may determine. The directors may redeem any shares at a premium (Articles 7 and 8).

Section 43(1) of the OCA provides that where an offshore company makes any allotment of its shares, the company shall, within one month thereafter lodge with the LOFSA a return of the allotment.

Under Section 46 of the OCA, if the company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to the share premium account and the provisions in respect of the reduction of share capital in the OCA shall, except provided therein, apply as if the share premium account was paid up share capital of the company. The company may, with the prior written approval of LOFSA, issue at a discount shares of the company of a class already issued (Section 50 of the OCA).

Pursuant to Article 22, the director may from time to time make calls upon members in respect of any money unpaid on their Shares. Section 44 of the OCA provides that an offshore company may:-

(i) make arrangements, on the issue of shares, for varying the amounts and times of payment of calls as between shareholders;

(ii) accept from any member the whole or any part of the amount remaining unpaid on any shares although no part of that amount has been called up; and

(iii) pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

**(d) Variation of rights**

Presently, the share capital of the Company consists of only one class of Shares. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class and of the holders of not less than three-fourths of the issued shares of any other class of shares which may be affected by such variation (Article 9).

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith (Article 10).

**(e) Transfer of Shares**

Subject to the CREST Rules, the Deed Poll executed by Computershare as depository ("Deed"), the OCA and the restrictions in the Articles, Shares shall be transferable but every transfer shall be in writing in the usual common form or in such other forms as the directors shall from time to time approve. All transfers of the Depository Interests and any cancellation of the Depository Interests or withdrawal of the deposited securities shall be effected in accordance with the CREST rules and the Deed (Article 17(1) and (2), Section 76 of the OCA). The Company shall not register a transfer of shares or debentures unless a proper instrument of transfer has been delivered to the Company save where the transmission of shares is by operation of law (Section 80(1) of the OCA). The instrument of transfer of any Share shall be executed by or on behalf of the transferor, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of the members (Article 18). A fee of US$1.00 shall be charged on the registration of every transfer (Article 20)(See notes below, this fee does not apply to CREST transfers of Depository Interests in the UK).

**These transfer arrangements do not apply to Depository Interests issued to Shareholders who wish to hold their shares in electronic form in CREST. Depository interests may be traded on CREST through United Kingdom based stockbrokers in the way that listed shares and Depository Interests are generally exchanged via CREST.**

**For further information concerning CREST, Shareholders should contact their stockbroker or CRESTCo Limited at 33 Cannon Street, London EC4M 5SB.**

In accordance with the provisions of the OCA, the directors, may in their discretion, and without assigning any reason, refuse to register a transfer of any share to any person of whom they do not approve and a transfer of any share on which the company has a lien (Article 19, Section 81(1) of the OCA). The directors may also suspend the registration of a transfer for not more than thirty days in any year (Article 21).

In relation to stamp duty payable on instruments executed by an offshore company, the Stamp Duty (Exemption) Order 2000 provides that:

(i) all instruments which are executed by the offshore company in connection with an offshore business activity;

(ii) all Memorandum and Articles of Association of an offshore company; and

(iii) all instruments of transfer of shares in an offshore company,

will be exempted from stamp duty.

"Offshore business activity" shall have the meaning assigned to it in the Labuan Offshore Business Activity Tax Act 1990 (Malaysia) (LOBATA). Section 2(1) of LOBATA defines an "offshore business activity" as: "*an offshore trading or an offshore non-trading activity carried on in or from Labuan in a currency other than the Malaysian currency by an offshore company with non-residents or with another offshore company, but does not include shipping operations:*

*Provided that-*

(i) in relation to an offshore company carrying on an offshore banking business, such activity may be carried on with residents and, where permitted under sub-section (2) of Section 20 of the Offshore Banking Act 1990, transactions may be carried on in Malaysian currency;

(ii) in relation to an offshore company carrying on an offshore insurance business, such activity may be carried on with residents and, where permitted under sub-section (2) of Section 21 of the Offshore Insurance Act 1990, transactions may be carried on in Malaysian currency;

(iii) in relation to the holding of investments by an offshore company in a domestic company, such holding may be in Malaysian currency;

(iv) in relation to an offshore company carrying on a money-broking business, such activity may be carried on with residents where permitted under paragraph (a) of sub-section (3) of Section 7 of the Offshore Companies Act 1990;

(v) in relation to an offshore company carrying on an offshore leasing business, such activity may be carried on with residents where permitted under paragraph (a) of sub-section (3) of Section 7 of the Offshore Companies Act 1990; or

(vi) the Minister may approve the carrying on of such activity with residents or such transactions in Malaysian currency".

Under the LOBATA:

(i) "offshore non-trading activity" means an activity relating to the holding of investments in securities, stock, shares, loans, deposits and immovable properties by an offshore company on its own behalf; and

(ii) "offshore trading activity" includes banking, insurance, trading, management, licensing or any other activity which is not an offshore non-trading activity.

**(f) Dividends**

The directors may by resolution declare a dividend out of the profits of the Company or in excess of the amount recommended by the directors (Article 89, Section 140 of the OCA). Dividends may be declared and paid in money, shares or other property (Article 90).

In declaring the dividend, the directors may,

(i) include the net appreciation of the assets of the Company in computing the profits;

(ii) deduct from any dividend or other monies payable to any member on or in respect of a share all sums money (if any) presently payable by him to the Company on account of calls or in connection therewith, or on any other accounts;

(iii) retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists; and

(iv) before recommending any dividend, set aside out of profits of the Company reserve for contingencies or for any other purpose to which the profits of the Company maybe properly employed in the business of the Company or be invested in such investments as the directors think fit.

(Articles 91 and 94)

The directors may from time to time pay to the members such interim dividends as appear to them to be justified by the profits of the Company (Article 92). Subject to the rights of holders of shares entitled to special rights as to dividends, all dividends shall be declared and paid according to the par value of the shares in issue (Article 93).

As mentioned earlier, for exchange control purposes, the Company has been declared a non-resident of Malaysia. In respect of the payment of dividends to its overseas shareholders, the Company is allowed to freely remit dividends in foreign currency to such shareholder. In this regard, the Controller of Foreign Exchange has given permission for the free inflow and outflow of funds through Foreign Currency Accounts opened and maintained by an offshore company.

### (g) Winding-up

Subject to the OCA, a liquidator may, in accordance with a resolution of members, divide amongst the members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. A liquidator has the discretion to vest the whole or any part of the assets in trusts for the benefit of the contributories, but no member shall be compelled to accept any shares or other securities whereon there is any liability (Article 109).

The winding-up provisions under the Companies Act 1965 of Malaysia and the Companies (Winding-Up) Rules 1972 will also apply to the winding up of an offshore company (Section 131 of the OCA).

### (h) Alteration of capital

The Company may by, special resolution, alter its capital in the manners provided for in the Articles and the OCA. In particular, subject to the OCA, the Company may increase its share capital by the creation of new shares, consolidating and dividing all or any of its share capital, subdividing its shares, converting its paid-up shares into stock and reconverting that stock into paid-up shares of any denomination, cancelling shares and redenominating the currency of any shares (Section 51 of the OCA).

### (i) Preference Shares

Article 6 authorises the Company to issue preference shares. Pursuant to the OCA, the Company is required to set out in its Articles the rights of the holder of such a share with respect to the repayment of capital, participation in surplus assets and profits, cumulative or non-cumulative dividends, voting and priority of payment of capital and dividend in relation to other shares or other classes of preference shares (Section 54(1) of the OCA). At the date of this Admission Document, the Company has no preference shares in issue.

## 5.2 Powers of the Company and Directors

### (a) Powers of the Company

Under prevailing Malaysian law, the Company is a separate legal entity from its directors and shareholders whereby the Company may own property and can sue as well as be sued in its own name. The liability of a shareholder's contribution to the Company's assets is limited to the amount of his shareholding.

The Company has the powers under the OCA and its Memorandum of Association, inter alia, to:

(i) carry on any business, other than a business which is prohibited by the OCA;

(ii) carry on the business of an investment holding company and for that purpose to acquire and hold either in the name of the Company or in that of any nominee shares, stocks, debentures, debenture stocks, bonds, notes, obligations and securities;

(iii) hold shares, debt obligations or securities in a company incorporated under the CA;

(iv) carry on business in the Malaysian currency when seeking to hold or otherwise invest in shares, debt obligations or other securities in a company incorporated under the CA;

(v) to borrow or raise money and to guarantee or otherwise secure the debts, liabilities or obligations of any third party;

(vi) mortgage, pledge or charge its assets and other property as collateral security for its debts, liabilities or obligations or in connection with its guarantee or grant of other security for any third party;

(vii) enter into or be a party to any transaction or document;

(viii) acquire, hold, dispose of or deal with the whole or any part of its undertaking or business;

(ix) assume any duties, obligations or liabilities;

(x) acquire any rights or interests;

(xi) to lend or borrow;

(xii) procure its registration or recognition in any place outside Labuan;

(xiii) issue shares, debentures and options, and to take shares, debentures and options and to redeem and forfeit the same;

(xiv) give indemnities and guarantees and obtain indemnities and guarantees;

(xv) do all such things as are incidental or conducive to the exercise of the powers of the Company and all other things which are not prohibited under the OCA.

Pursuant to Section 20 of the OCA, no act or purported act of an offshore company (including the entering into of an agreement by the company and including any act done on behalf of the company by an officer or agent of the company under any purported authority, whether express or implied, of the company) and no conveyance or transfer of property, whether real or personal, to or by an offshore company shall be invalid by reason only that the company was without capacity or power to do the act or to execute or take the conveyance or transfer.

Article 98 provides for the Company, by authority of a special resolution, to purchase its own shares or provide any financial assistance for the purchase of its own shares in any manner permitted by the OCA. Section 48(1) of the OCA provides that the company may provide financial assistance, whether directly or indirectly, for the purpose of or in connection with the purchase of its own shares or the shares of any of its subsidiaries or of its holding company:

(i) in the ordinary course of its business, if the lending of money is part of the ordinary business of the company;

(ii) where the transaction has been approved by a special resolution of the company, and the directors have certified to the meeting, in writing, to the effect that there are no reasonable grounds for believing that

- the company is, or would after giving the financial assistance be, insolvent; or
- the realisable value of the company's assets, excluding the amount of any financial assistance or loan, be less than the aggregate of the company's liabilities and stated capital; or

(iii) to employees (other than a director) of the company or of any of its subsidiaries or of its holding company.

**(b) Directors**

Pursuant to Article 56, the Company shall have at least one and not more than seven directors. Under Section 87(1) of the OCA one of the directors of an offshore company may be a resident director who is a citizen or permanent resident of Malaysia. In this regard, no person other than an officer of a trust company or a company incorporated under the CA wholly owned by the trust company shall act or be appointed as a resident director of an offshore company (Section 87(2) of the OCA) and subject to any contrary provision in the articles of an offshore company, a director of an offshore company may be a corporation and such corporation may act by itself or through a nominee appointed in writing and may be appointed or may act as a director of more than one company (Section 87(4) of the OCA). Before the appointment of the director, the person to be appointed as the director must by himself or by his agent authorised in writing a consent in writing to act as a director and lodge such consent to the LOFSA (Section 88 of the OCA). However, the acts of a director shall be valid notwithstanding any defect that may be discovered in his appointment or qualification (Section 89 of the OCA).

A vacancy in the board of directors may be filled by a resolution of members or of a majority of the remaining directors (Article 58). A director may from time to time appoint another director or any person to be his alternate (Article 61). Article 62 provides that the Company may, by resolution, fix the emoluments of directors in respect of services rendered or to be rendered in any capacity to the Company and the directors may also be paid such expenses as approved by a board resolution.

The directors may from time to time appoint one or more of their body to the office of managing director for such period and on such terms as they think fit and, subject to the terms of the agreement entered into in any particular case, may revoke any such appointment (Article 67(a)).

Article 70 provides that the directors shall manage the affairs of the Company and exercise all powers of the Company as are not by the OCA or the Articles required to be exercised by the members and other such requirements as may be prescribed by a resolution of the members. The directors have the power, amongst others, to borrow money and to mortgage or charge the Company's undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or any third party (Article 75).

## 6 Directors' and Other Interests

### 6.1 Directors' holdings

The interests of the Directors and of the persons connected with them (within the meaning of Section 346 of the UK Companies Act 1985 (as amended)) in the Shares and Options of the Company immediately prior to Admission are as follows:

| Director | Number of Shares | % of Shares |
|---|---|---|
| Azmi Wan Hamzah | 32,434,310 | 32.4% |
| Javier del Ser Perez | 15,510,800 | 15.5% |

The interests of Azmi Wan Hamzah will be held in equal amounts by Mango Bay Enterprises Inc (16,217,155 shares) and Halfmoon Bay Enterprises Inc (16,215,155 shares).

The interests of Javier del Ser Perez will be held by Portola Group Ltd, which will hold 15,510,800 shares in the Company.

Save as set out above, none of the Directors has any interest in the share capital of any company in the Group.

**6.2 Lock-in agreements**

No Shares in the Company are subject to any lock in agreements or other trading restriction.

**6.3 Transactions, assets, contracts or arrangements**

Other than as described below, no Director has, or has had, any direct or indirect interest in any:

- transaction which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole and which has been effected in the current or immediately preceding financial period or was effected during any earlier financial period and remains in any respect outstanding or unperformed;
- asset which has been acquired or disposed of by, or leased to, any member of the Group or which is proposed to be so acquired, disposed of, or leased; or
- contract or arrangement existing at the date of this Admission Document which is significant to the business of the Group.

The "Transactions with related parties" described in note 19 of the financial information of Central Asia Cement included at Section 5 of Part 2 of this Admission Document were:

- Management services fees – payments to Asian Engineering Consultancy for the provision of management services including the employment of certain expatriate staff engaged in the Cement Business. Asian Engineering Consultancy is owned by interests associated with David C Watt and Javier del Ser Perez. The arrangements under which the management services fees were payable was discontinued effective from 1 September 2005 with the role previously undertaken by Asian Engineering Consultancy transferring over to 100% owned Group company, Mechanical & Electrical Consulting Services Ltd (see Section 3 of Part 1 of this Admission Document for details).

  Payments made by Central Asia Cement to Asian Engineering Consultancy from 1 January 2005 to 1 September 2005 when the arrangement was discontinued amounted to approximately US$457,000.

  As noted in the financial information of Central Asia Cement included at Section 5 of Part 2 of this Admission Document the transactions between Central Asia Cement and Asian Engineering Consultancy were carried out on an arms-length basis.

- Legal services fees – comprised payments on an arms-length basis to a legal firm controlled by Central Asia Cement director Michael Wilson. Mr Wilson is not a director of Steppe Cement but through HSBC Nominees holds a beneficial 4.9% interest in Steppe Cement.

**6.4 Directors' service agreements and remuneration**

Details of the current service agreements and remuneration of each Director with the Company are as follows:

Pursuant to a service agreement Azmi Wan Hamzah is employed as Chairman of the Company. As Chairman his remuneration is £40,000 per annum.

Pursuant to a service agreement, Javier del Ser Perez is employed as a part-time executive of the Company as an Executive Director. As an Executive Director his remuneration is £66,000 per annum. In the event that the Company appoints a full-time Chief Executive, Javier will remain on the board as a Non-Executive Director.

John Richardson is employed as a Non-Executive Director. John receives a Director's fee of £25,000 per annum.

It is estimated that the aggregate remuneration to be paid to the Directors of the Company in the financial year ending 31 December 2005 under arrangements currently in force will not exceed £50,000.

**6.5 Additional directorships/partnerships**

In addition to their directorships of the Company and other companies in the Group, the Directors hold or have held at some time during the 5 years preceding the date of this Admission Document the following directorships or are or have been at some time in the 5 years preceding the date of this Admission Document partners in the following businesses:

| Name | Current directorships/ partnerships | Past directorships/ partnerships |
|---|---|---|
| Azmi Wan Hamzah | **In Malaysia**<br>Azymuth Management Sdn Bhd<br>Wisma Perkasa Sdn Bhd<br>Rohas Sdn Bhd<br><br>**In Australia**<br>Bridley Australia Pty Ltd<br>Riverlea Pty Ltd<br>Riverlee Pty Ltd<br>Noarlunga Properties Pty Ltd<br>108 Flinders Street Pty Ltd<br><br>**In the British Virgin Islands**<br>Mango Bay Enterprises Inc<br>Halfmoon Bay Enterprises Ltd<br><br>**In Kazakhstan**<br>Kasean LLP<br>Kamako LLP<br><br>**In Mauritius**<br>South East Asia Bank Ltd | **In Malaysia**<br>Chuan Huat Resources Berhad<br>Bell & Order Berhad<br>Land & General Berhad<br>Syarikat Pengeluar Air Selangor Holdings Berhad<br>Amway Holdings Berhad<br>Rohas Euco Industries Berhad<br>Pembangunan Pulau Bertuah Sdn Bhd<br>Api-Api Resort Sdn Bhd<br><br>**In Australia**<br>Overseas & General Limited<br><br>**In Sri Lanka**<br>Asian Hotels Corporation Ltd<br>Transasia Hotel Corporation Ltd |
| Javier del Ser Perez | **In Kazakhstan**<br>Chagala Hotels LLP<br>Almaty Land LLP<br>Opera Holding LLP<br>UEE Kazakhstan LLP<br><br>**In Hong Kong**<br>Asian Engineering Consultancy Ltd<br><br>**In the British Virgin Islands**<br>Kazakhstan Asset Management Ltd | |
| John Alan Richardson | **In the United Kingdom**<br>Zeno LLP | |

### 6.6 Directors' backgrounds

Other than as described below, no Director has:

- any unspent convictions in relation to indictable offences;
- ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- ever been a director of a company which, while he was a director or within 12 months after his ceasing to be a director, had a receiver appointed, entered into liquidation, entered into administration, entered into a voluntary arrangement, or made any composition or arrangement with its creditors generally, or with any class of its creditors;
- ever been a partner in a partnership which, while he was a partner or within 12 months after his ceasing to be a partner, entered into compulsory liquidation, administration or partnership voluntary arrangement;
- owned, or been a partner in a partnership which owned, any asset which, while he owned that asset, or while he was a partner or within 12 months after his ceasing to be a partner in the partnership which owned that asset, entered into receivership;
- been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies); or
- been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

John Richardson was appointed Interim CEO and Vice Chairman of Iridium LLC in 1999 subsequent to that company's financial problems having been announced to the market. In August 1999, Iridium LLC filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code (US). Iridium LLC was eventually liquidated in March 2000.

Land and General Berhad entered into a number of debt restructuring schemes which were accepted by its creditors from the late 1990s whilst Azmi Wan Hamzah was Chairman. Azmi retired from the Chairman's position of Land and General Berhad in August 2001 and the company continues to trade as a company listed on the Bursa Malaysia.

### 6.7 Benefits

Save as disclosed below or elsewhere in this Admission Document, no person, directly or indirectly, in the last 12 months has received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are trade suppliers, professional advisers or otherwise as disclosed in this Admission Document) any payment or benefit from the Company or securities in the Company to the value of £10,000 or entered into any contractual arrangements to receive the same from the Company at the date of Admission.

### 6.8 Shareholders

The details of all Shareholders who had a beneficial interest in at least 3 per cent of the issued share capital of the Company as at the date of this Admission Document are set out in the table in Section 5 of Part 1 of this Admission Document.

Save as described in that table, the Directors are not aware of any person who is interested, directly or indirectly, in 3 per cent or more of the issued share capital of the Company or of any other person who, directly or indirectly, jointly or severally, could exercise control over the Company.

## 7 Material Contracts

The Directors consider that the contracts described below to which the Group is a party are those which an investor would reasonably regard as material and which they and their professional advisers would reasonably require to make an informed assessment of the operations of the Group. To fully understand all rights and obligations of a material contract it would be necessary to review each contract in full and these summaries below should be read in light of that.

### 7.1 Associated with the AIM Admission

#### (a) RFC Nomad engagement agreement

Under an agreement dated 31 May 2005 between the Company and RFC, the Company appointed RFC as its Nominated Adviser for the purposes of the AIM Rules for an initial period of 12 months after the Admission, which will continue thereafter until terminated by either the Company or RFC giving the other party 2 months written notice. If RFC gives such notice to the Company, RFC will provide all reasonable assistance to transfer the engagement to another nominated adviser. During the initial appointment period, either party can terminate the agreement if the other party is in breach of the agreement or the AIM Rules.

Under the terms of the agreement, the Company agreed to pay RFC a fee of US$346,500 in respect of Admission, a management fee of 0.5% of any capital raised through an AIM broker, and an annual fee of US$46,200 payable quarterly in advance from Admission.

RFC agrees to provide services required by the Company in relation to the Admission and the Company accepts certain obligations including, amongst other things to advise and consult with RFC in relation to certain matters. The Company also agrees to indemnify RFC in relation to any loss or damage suffered by RFC that is in any way related to the engagement except in certain restricted circumstances.

#### (b) Westhouse Broker engagement agreement

Under an agreement dated 3 June 2005 between the Company and Westhouse, the Company appointed Westhouse as its Broker for the purposes of the AIM Rules for an initial period of 12 months after the Admission, which will continue thereafter until terminated by either the Company or Westhouse giving the other part 3 months written notice.

Under the terms of the agreement, the Company agreed to pay Westhouse a fee of £25,000 in respect of Admission and an annual fee of £25,000 payable quarterly in advance from Admission. The Company has also agreed to pay Westhouse a further fee of £15,000 and up to 5% on any capital raised, should the Company raise capital subsequent to Admission.

### 7.2 Bank loan agreement

Under an agreement dated 2 November 2004, between the Central Asia Cement and Kazkommertsbank Joint Stock Company (JSC), Kazkommertsbank JSC agreed to lend Central Asia Cement an amount of US$12,000,000 (the "loaned amount") and in return Central Asia Cement agreed to repay the loaned amount and all interest payments on the loaned amount at 12.5% per annum by the 2nd of February 2007.

On 2 November 2004, Central Asia Cement agreed to pledge several of its assets as security for the loaned amount in favour of Kazkommertsbank JSC. Under the agreements Central Asia Cement pledged the following assets until 2 February 2007:

- certain Real Estate and Land Plots valued at US$5,378,000;
- certain items of Movable Property valued at a total of US$9,022,000; and
- funds in the amount of US$500,000 to be received in the future to Central Asia Cement's bank accounts with Kazkommertsbank JSC.

### 7.3 Electric power supply agreements

Central Asia Cement entered into an agreement with AES Ekibastuz on 29 April 2004 for the sale and supply of electricity. Central Asia Cement has also entered into agreements with KEGOC JSC on 19 April 2004, KEGOC JSC on 6 December 2004 and Karagandy Zharyk LLP for the provision of services relating to:

- electric power regulation;
- transmission of electric power through the electric inter-regional network; and
- transmission and distribution power through the electric power circuits.

All of the agreements expire on the 31 December 2005.

### 7.4 Rail carriages agreement

Central Asia Cement entered into an agreement with the National Company Kazakhstan Temir Zholy JSC on 16 August 2004 for the ongoing use of rail carriages. The applicable tariff for a supplier in the Company's position is US$1,666,296. The current agreement runs until the 19 August 2009.

### 7.5 Customer agreements

Through Central Asia Cement, the Group has entered into a number of agreements with major customers, who have agreed to buy significant amounts of cement products. The material current customer Agreements are:

- on the 6 December 2004, Central Asia Cement entered into an agreement with Stoiconstrucktsia JSC, for the supply of 100,000 tonnes of Portland cement and 200,000 tonnes of sulphate-resistant cement. The total value of the agreement to Central Asia Cement is US$19,230,769; and

- on 23 February 2005, Central Asia Cement entered into an agreement with Astana-Beton NT LLP for the supply of least 32,000 of Portland cement. The total value of the agreement to central Asia Cement is US$2,584,615.

Both these material customer supply agreements will expire on the 31 December 2005.

## 8 Taxation Implications for UK Residents of Investing in Steppe Cement

The contents of this Section 8 are intended only to provide a general outline of the taxation implications to UK residents of an investment in Steppe Cement.

### 8.1 UK taxation general

The statements set out below are intended only as a general guide to the tax position based on current UK tax legislation and Inland Revenue practice and apply only to certain categories of UK persons. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Shares. Prospective purchasers of Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the acquisition, ownership and disposition of Shares in the Company. In particular, Shareholders are advised to consider the potential impact of any relevant Double Tax Agreement on their

Shareholders who may be subject to tax in any jurisdiction other than the United Kingdom should consult their professional advisers without delay.

The statements do not cover all aspects of UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares in the Company by particular investors. The statements apply only to Shareholders who are the beneficial owners of the Shares but are not applicable to all categories of Shareholders, and in particular are not addressed to:

- Shareholders who do not hold their Shares as capital assets;
- Shareholders who own (directly or indirectly) 10% or more of the Company;
- special classes of Shareholders such as dealers in securities or currencies, broker-dealers, or investment companies;
- Shareholders who hold Shares as part of straddles, hedging or conversion transactions; or
- Shareholders who hold Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise).

Except where indicated, the statements below in respect of the taxation of dividends and distributions and the taxation of chargeable gains only cover the principal UK tax consequences of holding Shares for holders who are resident in the UK for tax purposes although it should be noted that special rules, which are not covered, apply to such holders of Shares who are not domiciled in the UK.

**8.2 UK taxation of dividends and distributions**

The Company will not be required to withhold UK tax from dividends paid on the Shares. A UK holder, or a holder of Shares who is carrying on a trade, profession or vocation in the UK through a branch or agency in connection with which the Shares are held will, depending upon the holder's particular circumstances, be subject to UK income tax or corporation tax as the case may be on the amount of any dividends paid by the Company. An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will be taxable at the Schedule F ordinary rate (10% in 2004-05) and/or (depending on the amount of the holder's overall taxable income) at the Schedule F upper rate (32.5% in 2004-05). A Shareholder resident outside the UK may be subject to foreign taxation on dividend income under local law.

Any overseas withholding tax suffered on the dividends by a holder of Shares who is tax resident in the UK may be eligible for double taxation relief under the UK tax laws either through credit against any UK tax liability in respect of dividends (subject to certain restrictions or limitations) or through deduction in arriving at taxable income to the extent that such withholding tax cannot be reclaimed by the holder under any applicable double taxation convention.

**8.3 UK taxation of chargeable gains**

A disposal, or deemed disposal, of Shares in the Company by a Shareholder who is either resident or ordinarily resident for tax purposes in the UK will, depending on the Shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains in the UK. Broadly, Shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Shares unless such Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or, in the case of companies only, a permanent establishment. Such Shareholders may be subject to foreign taxation on any gain under local law.

Special rules may apply to tax gains on disposals made by individuals at a time when they are temporarily not resident or ordinarily resident in the UK.

**8.4 UK stamp duty**

The following comments do not apply on the issue or transfer of Shares into depository or clearance arrangements, to which special rules apply. Transfers of depository interests within CREST will be subject to stamp duty reserve tax at the rate of 0.5 per cent.

Any agreement to transfer, or any transfer of, Shares registered on the Company's UK branch register will generally be subject to UK stamp duty or stamp duty reserve tax at the rate of 0.5 per cent of the consideration for the transfer. UK stamp duty may arise on other transfers of Shares depending on the circumstances, such as where the transfer is executed in the UK.

### 8.5 UK inheritance tax

Shares or Depository Interests beneficially owned by an individual may (subject to certain exemptions and reliefs) be subject to UK inheritance tax on the death of the individual or, in certain circumstances, if the Shares or Depository Interests are the subject of a gift or other transfer of value by the individual.

For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift under particular rules applied to gifts where the donor reserves or retains some benefit. UK inheritance tax is not generally chargeable on gifts to individuals or to certain types of settlements made more than seven years before the death of the donor.

Holders should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold any Shares or Depository Interest through trust arrangements. Holders should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another jurisdiction.

**It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers before investing in Shares. Taxation consequences will depend on particular circumstances.**

**Neither the Company nor any of its officers, employees, agents and advisers accepts any liability or responsibility in respect of taxation consequences connected with an investment in Shares in the Company.**

## 9 Working Capital

The Directors, having made due and careful inquiry and taking into account the Company's existing cash, are of the opinion that the working capital available to the Company and the Group will, from the time of the Company's Admission, be sufficient for the requirements of the Group for at least 12 months from the date of Admission.

## 10 Corporate Governance

The following outlines the main corporate governance practices that have been adopted by the Board.

### 10.1 Board of Directors

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

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

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Group's activities and to ensure that it adheres to appropriate ethical standards. This position will be reviewed as the Group develops.

### 10.2 Board processes

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

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

### 10.3 Independent professional advice and access to Company information

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

### 10.4 Composition of the board

Section 87(1) of the OCA provides that every offshore company shall have at least one director who may be a resident director. Section 87(2) states that only an officer of a trust company established in Labuan shall act or be appointed as a resident director. The Company's Articles provide that there shall be at least one and not more than 7 directors. There is no requirement for any shareholding qualification.

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 determined within the limitations imposed by the Company's Articles and as circumstances demand.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Under the Company's Articles, the directors may appoint one more of their body to the office of managing director.

### 10.5 Remuneration policies

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

### 10.6 Risk management

Management is in the process of establishing and implementing the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. Areas that will be covered include the Group's risk profile, quality and integrity of personnel, financial reporting, environmental regulation, occupational health and safety standards.

### 10.7 Ethical standards

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

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

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

### 10.8 Financial reporting and budgeting

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

## 11 General

### 11.1 Expenses

The expenses of or incidental to the Admission that are payable by the Company are estimated to amount to approximately US$650,000.

### 11.2 Financial position

Save as disclosed in this Admission Document there has been no significant adverse change in the financial position or prospects of Steppe Cement since 31 December 2004.

### 11.3 Litigation and arbitration

The Group is not engaged in any legal or arbitration proceedings nor, as far as the Directors are aware, are any legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Company which may have or have had a significant effect on the Company's financial position other than a potential claim against Group company, Central Asia Cement by the Kazakh tax authorities.

The matter arises from Central Asia Cement importing 25 tons of triethanolamine into Kazakhstan in February 2003 for the production of cement without obtaining a corresponding import license. In February 2005 the state authorities brought a criminal action against a former General Director of Central Asia Cement for conducting business activities without a respective license.

The Group has received legal advice that there is no great likelihood that the criminal case against the former General Director will be successful.

Whilst Central Asia Cement and its current management are not involved with the criminal proceedings, there is a possibility that after closing the criminal case the relevant authorities may seek to convert the proceedings into an administrative case and impose an administrative fine on Central Asia Cement, as well as start administrative proceedings against Central Asia Cement seeking confiscation of income received as a result of conducting business activities without the corresponding license.

The Group has received legal advice that the likelihood of this matter proceeding to a conclusion whereby Central Asia cement would be required to pay any material fine or penalty is very low.

### 11.4 Exceptional factors

The Directors are unaware of any exceptional factors which have influenced the Group's recent activities other than the significant growth in the demand for cement in Kazakhstan as a consequence of the return to a period of strong economic growth within the country.

### 11.5 Investments in progress

Save as disclosed in Part 1 of this Admission Document, there are no significant investments in progress. The Company continuously evaluates new investment opportunities, however, no significant investment commitments in relation to any such opportunities have been made by the Company as at the date of this Admission Document.

### 11.6 Dependence on licences, contracts etc

The Group does not depend on any patents or other intellectual property rights, licences or particular contracts save as disclosed in this Admission Document.

### 11.7 Third party sourced information

All information contained in this Admission Document sourced from third parties has been accurately reproduced and, as far as the Directors are aware and able to ascertain from the information published by the third parties referred to, no material facts have been omitted which would render the reproduced information inaccurate or misleading. The third party reproduced information included in this Admission Document comprises:

- Statistics extracted from the International Cement Review '*Global Cement Report' (6$^{th}$ Edition*); and
- Statistics compiled and published by the International Monetary Fund.

### 11.8 Consents

Deloitte & Touche has given and not withdrawn its written consent for the inclusion of references to its name in the form and context in which it appears and to the inclusion of its reports set out in Part 2. To the maximum extent permitted by law, Deloitte & Touche expressly disclaims and takes no responsibility for any part of this Admission Document.

The following persons have given and not withdrawn their written consent to being named in this Admission Document but have not made any statements that are included in this Admission Document and there are no statements identified in this Admission Document as being based on any statements made by those persons:

- RFC;
- Westhouse;
- Skrine;
- Lane & Partners LLP;
- McGuireWoods Kazakhstan LLP;
- AKD Prinsen Van Wijmen;
- Equity Trust Secretaries Ltd; and
- Computershare Investor Services PLC.

To the maximum extent permitted by law, each of the persons referred to above expressly disclaims and takes no responsibility for any part of this Admission Document other than the references to their name.

### 11.9 Inspection of documents

Copies of the following documents may be inspected at the offices of Westhouse during usual business hours on any business day for a period of 14 days following the date of this Admission Document:

- the Memorandum and Articles of Association of the Company;
- Deloitte and Touche's reports contained in Part 2;
- the Directors' service and other agreements referred to in Sections 6 and 7 of this Part 4; and
- the written consents referred to in this Section 11.

## 12 Availability of Admission Document

Copies of the Admission Document will be available during normal business hours on any business day free of charge to the public at the offices of Westhouse and on Steppe Cement's website (www.cac.kz) for a period of one month from the date of Admission.

Dated: 9 September 2005