Kant Joint Stock Company
Preliminary IFRS Financial Statements
for the year ended
31 December 2005

Contents

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Independent Auditors' Report

To the Board of Directors of Kant Joint Stock Company

Report on the Preliminary IFRS Financial Statements

We have audited the accompanying preliminary IFRS financial statements of Kant Joint Stock Company (the "Company"), which comprise the preliminary IFRS balance sheet as 31 December 2005, and the preliminary IFRS income statement, preliminary IFRS statement of changes in equity and preliminary IFRS statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these preliminary IFRS financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these preliminary IFRS financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared in accordance with the basis of preparation described in the notes.

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

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

Basis for Qualified Opinion

The Company transacts with a number of entities for which indications that they may be related parties exist. Although management has represented that such entities are not related parties, it was impracticable to satisfy ourselves as to whether or not these entities are related parties. Accordingly, we were unable to determine whether the disclosure of related party transactions and outstanding balances as at and for the year ended 31 December 2005, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures,* is complete.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the preliminary IFRS financial statements as at and for the year ended 31 December 2005 are prepared, in all material respects, in accordance with the basis of preparation described in Note 2.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a), which explains that these preliminary IFRS financial statements have been prepared as part of the Company's adoption of International Financial Reporting Standards ("IFRSs"). Note 2(a) describes how IFRSs have been applied under IFRS 1 *First-time Adoption of IFRSs*, including the policies expected to be adopted when management prepares its first complete set of IFRS financial statements as at and for the year ended 31 December 2006.

This report is provided on the basis that it is for your information only in connection with the Company's adoption of IFRSs and that it will not be copied or disclosed to any third party or otherwise quoted or referred to, in whole or in part, without KPMG Audit LLC's prior written consent.

Berdalina J. K. Certified Auditor Managing Partner	Matthew Cook Audit Partner

KPMG Audit LLC
State licence #0000021 dated 6 December 2006
to conduct audits

28 March 2007

	Note	2005 '000 KZT
Revenue	4	11,724,801
Cost of sales		(10,988,373)
Gross profit		**736,428**
Other income	5	18,350
Distribution expenses	6	(285,699)
Administrative expenses	7	(290,335)
Other expenses	8	(1,073)
Financial expenses	0	(52,742)
Profit before tax		**124,929**
Income tax expense	0	(7,050)
Profit for the year		**117,879**

The preliminary IFRS financial statements were approved by management on 28 March 2007 and were signed on its behalf by:

A.I. Shlegel
Executive Director

N.V. Tkach
Chief Accountant

The preliminary IFRS income statement is to be read in conjunction with the notes to and forming part of the preliminary IFRS financial statements set out on pages 5 to 31.

	Note	2005 '000 KZT
ASSETS		
Non-current assets		
Property, plant and equipment	12	1,889,042
Investments		85
Total non-current assets		**1,889,127**
Current assets		
Inventories	14	2,400,385
Income tax receivable		496
Trade and other receivables	15	1,924,823
Cash and cash equivalents	16	9,802
Total current assets		**4,335,506**
Total assets		**6,224,633**
EQUITY AND LIABILITIES		
Equity	17	
Share capital		686,353
Adjustment for effect of hyperinflation		164,752
Total share capital		**851,105**
Share premium		3,557
Treasury shares		(6)
Reserve capital		8,958
Retained earnings		1,976,493
Total equity		**2,840,107**
Non-current liabilities		
Deferred tax liabilities	13	218,140
Other liabilities		983
Total non-current liabilities		**219,123**
Current liabilities		
Loans and borrowings	18	391,336
Trade and other payables	19	2,774,067
Total current liabilities		**3,165,403**
Total equity and liabilities		**6,224,633**

The preliminary IFRS balance sheet is to be read in conjunction with the notes to and forming part of the preliminary IFRS financial statements set out on pages 6 to 31.

	2005 '000 KZT
OPERATING ACTIVITIES	
Profit for the year	117,879
Adjustments for:	
Depreciation	185,664
Loss on disposal of property, plant and equipment	1,073
Interest expense	61,500
Income tax expense	7,050
Operating profit before changes in working capital and provisions	**373,166**
Increase in inventories	(668,234)
Increase in trade and other receivables	(854,945)
Increase in trade and other payables	798,465
Cash flows utilised by operations before income taxes and interest paid	**(351,548)**
Income taxes paid	(3,747)
Interest paid	(57,816)
Cash flows utilised by operating activities	**(413,111)**
INVESTING ACTIVITIES	
Proceeds from disposal of property, plant and equipment	97
Proceeds from disposal of investments	51,939
Acquisition of property, plant and equipment	(194,351)
Cash flows utilised by investing activities	**(142,315)**
FINANCING ACTIVITIES	
Proceeds from issue of share capital	793
Net proceeds from borrowings	380,071
Cash flows from financing activities	**380,864**
Decrease in cash and cash equivalents	**(174,562)**
Cash and cash equivalents at beginning of year	184,364
Cash and cash equivalents at end of year (Note 16)	**9,802**

The preliminary IFRS statement of cash flows is to be read in conjunction with the notes to and forming part of the preliminary IFRS financial statements set out on pages 7 to 31.

'000 KZT	Share capital	Share premium	Treasury shares	Reserve capital	Retained earnings	Total
Balance at 1 January 2005	**850,840**	**3,029**	**(6)**	**8,958**	**1,858,614**	**2,721,435**
Profit and total recognized gains and losses for the year	-	-	-	-	117,879	117,879
Shares issued	265	528	-	-	-	793
Balance at 31 December 2005	**851,105**	**3,557**	**(6)**	**8,958**	**1,976,493**	**2,840,107**

The preliminary IFRS statement of changes in equity is to be read in conjunction with the notes to and forming part of the preliminary IFRS financial statements set out on pages 8 to 31.

1 Background

(a) Organisation and operations

The state-owned enterprise “Zhambyl Sugar Refinery” was registered as a joint stock company “Kant” on 17 December 1993. The registration was made in accordance with the Edict of the President of the Republic of Kazakhstan “On Organisational Measures as to the Reorganisation of State-Owned Enterprises to Open Joint Stock Companies” dated 5 March 1993 #1136 and a resolution of the Zhambyl Territorial Committee of the State Property and Privatization dated 29 November 1993 #29. The Company was re-registered as open joint stock company “Kant” on 8 January 1996. Following a change in legislation, the Company was re-registered as a joint stock company “Kant” in October 2004.

The Company’s registered office is 2, Zhaugashina Street, Taraz, Republic of Kazakhstan.

The Company’s principal activity is the production of refined sugar and processing of white beet.

In November 2000 the Company signed an Investment Contract (hereinafter, “the Contract”) with the Agency of Investments of the Republic of Kazakhstan within the framework of governmental support of investment activities. Under the Contract, the Company is required to modernize its sugar production and make investments of USD 5,095 thousand. These investments are to be used to buy new sugar producing machinery and equipment and to hire and develop personnel. The Company must maintain the number of its employees at not less than 1,171. In exchange, the Contract granted certain tax exemptions relating to corporate income tax and property tax and transferred the ownership of land with a value of KZT 70,848 thousand to the Company. The Contract run for 5 years and expired in 2005 with the exception of the corporate income tax exemption which expires in April 2007.

As at 31 December 2005 the Company employed 1,378 employees.

(b) Kazakhstan business environment

The Company’s operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes in taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The preliminary IFRS financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These preliminary IFRS financial statements have been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRSs), as part of the Company's preparation for the future adoption of IFRSs. When the Company prepares its first complete set of IFRS financial statements, as at and for the year ended 31 December 2006, they will be prepared in accordance with the Standards and Interpretations in effect as at that date.

Accordingly these preliminary IFRS financial statements, which are intended to form the comparative information in the Company's first complete set of financial statements, have been prepared by management using the accounting policies expected to be applied in the Company's first complete set of IFRS financial statements. Any changes to such accounting policies may require adjustment to these preliminary IFRS financial statements before they comprise such comparative information.

A reconciliation between these preliminary IFRS financial statements and the Company's Kazakhstan financial statements are in Note 24.

(b) Basis of measurement

The preliminary IFRS financial statements are prepared on the historical cost basis except that property, plant and equipment was valued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 1998 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Kazakhstan Consumer Price Index published by the Agency of Statistics of the Republic of Kazakhstan. Kazakhstan ceased to be hyperinflationary for IFRS purposes as at 1 January 1999.

(c) Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstan Tenge ("KZT"), which is the Company's functional currency and the currency in which these preliminary IFRS financial statements are presented. All financial information presented in KZT has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these preliminary IFRS financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

Note 12 – Property, plant and equipment; and

Note 0 – Contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the preliminary IFRS financial statements. These accounting policies have been consistently applied.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Foreign exchange differences arising on the translation are recognized in profit or loss.

(b) Financial instruments

Financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company’s contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company’s obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for financial income and expenses is discussed in note 3(l).

3 Significant accounting policies, continued

(c) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date (“deemed cost”).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current period are as follows:

- Buildings 30 to 75 years
- Equipment 5 to 15 years
- Vehicles 7 to 15 years
- Other 2 to 10 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted-average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3 Significant accounting policies, continued

(e) Impairment

i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

ii) Reversal of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

iii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies, continued

(f) Share capital

i) Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss.

ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(g) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company is exempt from corporate income tax with respect to increases in taxable income received from the production and sale of sugar in accordance with the Contract. This exemption expires on 1 April 2007. The increase in taxable income is calculated as the excess of the current taxable income over the maximum taxable income determined in accordance with tax legislation effective in 2000.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

3 Significant accounting policies, continued

(i) Income tax expense, continued

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Revenues

i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For domestic sales of finished products, transfer usually occurs when the product is shipped from the Company's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

iii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(k) Other expenses

i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3 Significant accounting policies, continued

ii) Social expenditure

To the extent that the Company's contributions to social programs benefit the community at large and are not restricted to the Company's employees, they are recognised in the income statement as incurred.

(l) Financial income and expenses

Financial income comprises foreign currency gains.

Financial expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(m) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at the Company's IFRS reporting date, 31 December 2006, and have not been applied in preparing these preliminary IFRS financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 becomes mandatory for the Company's 2007 financial statements.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Company's 2007 financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2005).

4 Revenue

	2005
	'000 KZT
Revenue from sales of sugar	11,493,078
Revenue from sales of polypropylene packaging	110,600
Other revenues	121,123
	11,724,801

5 Other income

	2005
	'000 KZT
Accounts payable written back	9,233
Government grant	5,887
Penalties and fines	496
Other operating income	2,734
	18,350

6 Distribution expenses

	2005
	'000 KZT
Transportation, shipping and insurance	192,756
Wages, salaries, and related social costs	45,615
Rent expenses	18,864
Customs duties	17,043
Business trips	5,701
Depreciation	393
Other distribution expenses	5,327
	285,699

7 Administrative expenses

	2005
	’000 KZT
Wages, salaries, and related social costs	81,532
Commissions and bank fees	66,412
Commitment fees for letters of credit	46,615
Plant inspection expenses	15,869
Property, land and other taxes and obligatory payments	14,490
Security and fire prevention	8,311
Materials	5,847
Communication services	5,826
Depreciation	5,034
Business trip expenses	4,296
Entertainment and representation expenses	4,077
Transport services	3,973
Sponsorship and welfare	2,284
Other general and administrative expenses	25,769
	290,335

8 Other expenses

	2005
	’000 KZT
Loss on disposal of property, plant and equipment	**1,073**

9 Total personnel costs

	2005
	’000 KZT
Wages and salaries	465,451
Contributions to pension fund	49,403
	514,854

The average number of employees during 2005 was 1,362.

10 Financial expenses

	2005
	’000 KZT
Interest expense on bank loans	14,641
Interest on preference dividends	244
Foreign exchange loss	37,857
	52,742

11 Income tax expense

	2005
	’000 KZT
Current tax expense	
Current year	7,405
Deferred tax expense	
Origination and reversal of temporary differences	(355)
	7,050

The Company’s applicable tax rate is the income tax rate of 30% for Kazakhstan companies.

Reconciliation of effective tax rate:

	2005	
	’000 KZT	**%**
Profit before tax	124,743	100
Income tax at applicable tax rate	37,479	30
Non-taxable exemption under the Contract	(32,099)	(26)
Non-deductible items	1,670	2
	7,050	**6**

12 Property, plant and equipment

'000 KZT	Land	Buildings	Equipment	Vehicles	Other	Construction in progress	Total
Cost/Deemed cost							
At 1 January 2005	71,335	784,883	873,874	77,091	12,760	61,582	1,881,525
Additions	-	-	1,932	-	-	192,419	194,351
Disposals	-	(5)	(3,116)	(58)	(1,090)	-	(4,269)
Transfers	-	84,628	134,311	-	-	(218,939)	-
At 31 December 2005	71,335	869,506	1,007,001	77,033	11,670	35,062	2,071,607
Depreciation and impairment losses							
At 1 January 2005	-	-	-	-	-	-	-
Depreciation charge	-	57,650	112,425	13,533	2,056	-	185,664
Disposals	-	-	(2,573)	(58)	(468)	-	(3,099)
At 31 December 2005	-	57,650	109,852	13,475	1,588	-	182,565
Net book value							
At 1 January 2005	**71,335**	**784,883**	**873,874**	**77,091**	**12,760**	**61,582**	**1,881,525**
At 31 December 2005	**71,335**	**811,856**	**897,149**	**63,558**	**10,082**	**35,062**	**1,889,042**

Depreciation expense of KZT 180,237 thousand has been charged in cost of goods sold, KZT 393 thousand in distribution expenses and KZT 5,034 thousand in administrative expenses.

(a) Determination of deemed cost

In 2005 management commissioned LLP "Eltal-Uveman" to independently appraise property, plant and equipment as at 1 January 2005 in order to determine its deemed cost on the date of the Company's adoption of IFRSs. The fair value of property, plant and equipment was determined to be KZT 1,881,525 thousand.

The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Kazakhstan and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

12 Property, plant and equipment, continued

(a) Determination of deemed cost, continued

The depreciated replacement cost was estimated based on internal sources and analysis of the Kazakhstan and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Kazakhstan and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values which resulted in no adjustment to depreciated replacement cost in arriving at the above value.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results and the four-year business plan which assumes an annual sales growth rate of 7.5% which is in line with current average inflation rate. Cash flow projections after four-year period were based on an annual sales growth rate of 5% which is in line with long-term inflation forecasted for Kazakhstan.
- Production was approximately 180,000 tons in 2005 and is not forecast to increase in the four-year business plan.
- A discount rate of 21% was applied in determining the recoverable amount of the plants. The discount rate was calculated using the capital asset pricing model and was based on a risk free rate of 8%, a beta of 0.04% and market risk premium of 7.19%. The discount rate also includes an adjustment of 9.82% which represents the risk of investing in small companies and specific company risk of 3.25% which represents risk of investment in the Company related to management risk, reliability of forecasts, financial stability, diversification of the Company's products and customer base.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the depreciated replacement cost by approximately KZT 46,000 thousand.
- A decrease of one percentage point in the projected sales growth rate would have decreased the depreciated replacement cost by approximately KZT 13,000 thousand.

(b) Security

Properties with a carrying amount of KZT 1,825,485 thousand are subject to a registered debenture to secure bank loans (see Note 0).

(c) Government grant

In accordance with the Contract, the Company received a grant of land from the government. The land is carried at deemed cost.

13 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 KZT	Assets	Liabilities	Net
	2005	2005	2005
Property, plant and equipment	-	(239,814)	(239,814)
Intangible assets	294		294
Trade and other receivables	318	-	318
Defered revenue	14,130	-	14,130
Accrued expenses	4,440	-	4,440
Trade and other payables	2,492	-	2,492
Net tax assets/(liabilities)	**21,674**	**(239,814)**	**(218,140)**

(b) Movement in temporary differences during the year

'000 KZT	1 January 2005	Recognised in income	31 December 2005
Property, plant and equipment	(243,756)	3,942	(239,814)
Intangible assets	(50)	344	294
Trade and other receivables	1,902	(1,584)	318
Defered revenue	15,896	(1,766)	14,130
Accrued expenses	7,110	(2,670)	4,440
Trade and other payables	403	2,089	2,492
	(218,495)	**355**	**(218,140)**

14 Inventories

	2005
	'000 KZT
Raw materials and consumables	729,774
Work in progress	2,132
Finished goods and goods for resale	1,668,479
	2,400,385

Finished goods and raw materials at a cost of KZT 2,398,067 thousand are pledged as security for bank loans at 31 December 2005 (refer to Note 18).

15 Trade and other receivables

	2005
	'000 KZT
Accounts receivable – trade	1,296,344
Advances paid	483,721
Tax receivable	5,935
Other receivables	138,823
	1,924,823

16 Cash and cash equivalents

	2005
	'000 KZT
Bank balances (in KZT)	9,278
Petty cash (in KZT)	503
Cash in transit (in KZT)	21
Cash and cash equivalents in the statement of cash flows	**9,802**

17 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**	**Preference shares**
	2005	**2005**
Authorised shares	15,440,171	9,829
Par value	KZT 100	KZT 100
On issue at beginning of year	6,860,881	9,829
Issued for cash	2,650	-
On issue at end of year, fully paid	**6,863,531**	**9,829**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

17 Equity, continued

(a) Share capital, continued

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the greater of 25% of par value of shares or the dividend attributable to ordinary shareholders. The dividend is cumulative. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(b) Treasury shares

At the balance sheet date the Company held 6,000 of its own shares.

(c) Dividends

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. As at 31 December 2005 the Company had retained earnings, including the profit for the current year, of KZT 2,002,236 thousand. In 2005 the shareholders approved dividends on the preference shares of KZT 244 thousand.

18 Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see Note 20.

	2005
	'000 KZT
Current	
Credit line with Nurbank	**391,336**

The Company has established a revolving credit line with Nurbank which carries at a fixed interest rate of 11.3% per annum. The credit line was granted for a period of two years and expired on 16 November 2006. The credit line is denominated in USD and has a maximum credit limit of USD 26,000 thousand. It is secured by a floating charge over finished goods and raw-sugar, amounting to KZT 2,398,067 thousand, and property, plant and equipment with a carrying amount of KZT 1,825,485 thousand (see notes 12 and 14).

The Company also has a USD 10,000 thousand credit line facility with Kazkommertsbank which has not been drawn down at the balance sheet date.

19 Trade and other payables

	2005
	'000 KZT
Accounts payable – trade	2,574,109
Tax payable	62,192
Deferred revenue	47,101
Salary and related taxes payable	23,538
Advances received	13,875
Interest payable	4,965
Dividends payable	1,082
Other payables and accrued expenses	47,205
	2,774,067

The Company has entered into several letter of credit arrangements to secure payment to its suppliers. The letters of credit are issued prior to the shipment of raw materials and have terms of between 120 and 180 days. The issuers charge between 1.5 % - 2.5% per annum on the face value of the letter of credit until the payment comes due. The Company either then settles the obligation itself, or the bank pays and converts the face value of the letter of credit into an interest-bearing loan.

20 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Company's business. The Company does not hedge its exposure to such risk.

(a) Credit risk

The Company requires collateral in respect of certain of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there was a significant concentration of credit risk attributable to receivable from four major debtors with carrying amount of KZT 1,159,474 thousand. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

20 Financial instruments, continued

(c) Foreign currency risk

The Company exposed foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Tenge. The currencies giving rise to this risk are primarily USD and RUR. Management does not hedge the Company's exposure to foreign currency risk.

The Company has the following foreign-currency denominated financial assets and liabilities:

'000 KZT	USD-denominated 2005	RUR-denominated 2005
Current assets		
Receivables	202,767	5,757
Current liabilities		
Payables	(2,587,554)	-
Non-current liabilities		
Loans and borrowings	(391,336)	-
	(2,776,123)	**5,757**

The following exchange rates applied at 31 December:

	KZT 2005
USD 1 equals	133.77
RUR 1 equals	4.65

(d) Fair values

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. In assessing fair values, management used the following major methods and assumptions:

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2005
	'000 KZT
Less than one year	**449**

The Company leases a number of warehouse and factory facilities under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the current year KZT 19,849 thousand was recognised as an expense in the income statement in respect of operating leases.

22 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these preliminary IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

23 Related party transactions

(a) Control relationships

The Company is owned and ultimately controlled by a citizen and resident of the Republic of Kazakhstan Mr. Rakhat Aliev.

(b) Transactions with management and close family members

i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 0):

	2005
	'000 KZT
Salaries	7,391
Bonuses	3,163
	10,554

24 Explanation of transition to IFRSs

The accounting policies set out in note 3 have been applied in preparing the preliminary IFRS financial statements for the year ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 January 2005 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its former basis of accounting under Kazakhstan Accounting Standards ("KAS"). An explanation of how the transition from KAS to IFRSs has affected the Company's financial position as at 1 January 2005 is set out in the following tables and the notes that accompany the tables. The Company has not prepared financial statements in accordance with KAS for any period subsequent to 1 January 2005.

24 Explanation of transition to IFRSs

	Note	KAS 1 January 2005 '000 KZT	Effect Transition to IFRSs	IFRS 1 January 2005 '000 KZT
ASSETS				
Non-current assets				
Property, plant and equipment	(a)	1,066,736	814,789	1,881,525
Intangible assets		1,323	(1,323)	-
Investments		85	-	85
Deferred tax assets	(b)	18,523	(18,523)	-
		1,086,667	794,943	1,881,610
Current assets				
Inventories		1,732,151	-	1,732,151
Trade and other receivables		1,070,374	-	1,070,374
Short term investments		51,939		51,939
Cash and cash equivalents		184,364	-	184,364
		3,038,828	-	3,038,828
Total assets		**4,125,495**	**794,943**	**4,920,438**
EQUITY AND LIABILITIES				
Equity				
Share capital	(d)	687,071	163,769	850,840
Revaluation reserve	(c)	56,923	(56,923)	-
Share premium		3,029	-	3,029
Treasury shares		(6)	-	(6)
Reserve capital		8,958	-	8,958
Retained earnings	(c)	1,414,723	443,891	1,858,614
Total equity		**2,170,698**	**550,737**	**2,721,435**
Non-current liabilities				
Deferred tax liabilities	(b)	-	218,495	218,495
Other liabilities	(e)	-	983	983
			219,478	219,478
Current liabilities				
Loans and borrowings	(e)	1,546,360	(1,535,095)	11,265
Trade and other payables	(e)	408,437	1,559,823	1,968,260
		1,954,797	24,728	1,979,525
Total equity and liabilities		**4,125,495**	**794,943**	**4,920,438**

24 Explanation of transition to IFRSs, continued

(a) Property, plant and equipment

	KAS 1 January 2005 '000 KZT	Adjustment of property, plant and equipment to fair value	IFRS 1 January 2005 '000 KZT
Cost/Deemed cost			
Land and buildings	254,415	601,803	856,218
Machinery and equipment	713,724	160,150	873,874
Vehicles	28,387	48,704	77,091
Other	8,628	4,132	12,760
Construction in progress	61,582	-	61,582
Total	**1,066,736**	**814,789**	**1,881,525**

At the date of transition to IFRSs the Company has elected to measure its property, plant and equipment at fair value as deemed cost. Deemed cost has been based on fair value determined by an independent appraiser (Note 12). The effect was to increase property palnt and equipment by KZT 814,789 thousand.

(b) Deferred tax assets/liabilities

	KAS 1 January 2005 '000 KZT	Reclassification of deferred tax assets to net off deferred tax liabilities	Adjustment of deferred taxes with respect to the fair value adjustments	Adjustment to deferred tax asset with respect to deferral of grant income	IFRS 1 January 2005 '000 KZT
Deferred tax assets	18,523	(18,523)	-	-	-
Deferred tax liabilities	-	18,523	(244,436)	7,418	(218,495)
	18,523	**-**	**(244,436)**	**7,418**	**(218,495)**

Deferred tax assets have been offset against deferred tax liabilities.

(c) Reserves and retained eanings

	KAS 1 January 2005 '000 KZT	Reclassification of revaluation reserve and adjustment for revaluation of PP&E to deemed cost	Adjustment to retained earnings with respect to deferral of grant income	IFRS 1 January 2005 '000 KZT
Revaluation reserve	56,923	(56,923)	-	-
Retained earnings	1,414,723	461,201	(17,310)	1,858,614

The revaluation reserve resulting from prior revaluations of property, plant and equipment has been transferred to retained earnings. Retained earnings were increased as a result of the revaluation of property, plant equipment to deemed cost and related deferred tax adjustments.

24 Explanation of transition to IFRSs, continued

(d) Share capital

	KAS 1 January 2005 '000 KZT	Adjustment for the effects of hyperinflation	Reclassification of preference shares to liabilities	IFRS 1 January 2005 '000 KZT
Share capital	687,071	164,752	(983)	850,840

(e) Liabilities

	KAS 1 January 2005 '000 KZT	Adjustment to deferred income with respect to deferral of grant income	Reclassification of payables to suppliers guaranteed by letters of credit	Reclassification of preference shares to liabilities	IFRS 1 January 2005 '000 KZT
Other liabilities	-	-	-	983	983
Loans and borrowings	1,546,360	-	(1,535,095)	-	11,265
Trade and other payables	408,437	24,728	1,535,095	-	1,968,260