Rosa JSC

Financial Statements

For the year ended December 31, 2004

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For the year ended December 31, 2004

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Report of Independent Auditors

To the Shareholders and Board of Directors of Rosa JSC

We have audited the accompanying balance sheet of Joint Stock Company Rosa (the "Company") as at December 31, 2004 and the related statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 12, 2005
Almaty

BALANCE SHEET
As at December 31, 2004

In thousands of Tenge	Notes	2004	2003
ASSETS			
Non-current assets			
Property, plant and equipment	4	**2,517,812**	2,668,581
Advances paid for property, plant and equipment		**89,146**	–
Available-for-sale investments	5	–	1,054
		2,606,958	2,669,635
Current assets			
Inventories	6	**218,413**	248,623
Trade accounts receivable	7	**351,827**	350,583
Advances to suppliers	8	**436,602**	115,054
Other current assets	9	**49,052**	47,610
Cash and cash equivalents	10	**486**	3,427
		1,056,380	765,297
TOTAL ASSETS		**3,663,338**	3,434,932
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	**500,000**	100,000
Revaluation reserve		**946,554**	1,072,522
Reserve capital		**3,708**	3,708
Retained earnings		**328,928**	126,859
		1,779,190	1,303,089
Non-current liabilities			
Interest-bearing loans and borrowings	12	**1,155,982**	194,519
Deferred income tax liabilities	22	**411,971**	436,318
		1,567,953	630,837
Current liabilities			
Interest-bearing loans and borrowings	12	**184,348**	1,016,420
Trade accounts payable	13	**64,782**	104,594
Income tax payable		**11,110**	19,335
Vendor financing obligations	14	–	246,843
Other current liabilities	15	**55,955**	113,814
		316,195	1,501,006
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,663,338**	3,434,932

The accompanying notes on pages 5 to 27 are an integral part of these financial statements.

Chairman of the Board

Ryzabek M. Ibraev

Chief Accountant

Irina A. Timofeeva

April 12, 2005

STATEMENT OF INCOME
For the year ended December 31, 2004

In thousands of Tenge	**Notes**	**2004**	2003
Sales	16	**1,542,405**	1,362,448
Cost of sales	17	**(932,740)**	(844,014)
Gross profit		**609,665**	518,434
Other income	18	**2,208,579**	272,633
Other expenses	18	**(2,188,382)**	(196,716)
General and administrative expenses	19	**(235,179)**	(207,585)
Selling expenses	20	**(127,071)**	(131,804)
Loss on the disposal of property, plant and equipment		**(6,465)**	(9,725)
Loss on the disposal of a subsidiary	23	–	(17,368)
Operating profit		**261,147**	227,869
Finance costs	21	**(210,343)**	(133,545)
Finance income	21	**8,193**	–
Foreign exchange gains (losses), net		**98,810**	(2,409)
Profit before income tax		**157,807**	91,915
Income tax	22	**(71,706)**	(62,452)
Net profit		**86,101**	29,463
Basic earnings per share (in Tenge)	24	**26.24**	21.63

The accompanying notes on pages 5 to 27 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2004

In thousands of Tenge	**2004**	2003
Cash flows from operating activities:		
Profit before income tax	**157,807**	91,915
Adjustments for:		
Finance costs	**202,150**	133,545
Depreciation	**255,338**	221,408
Loss on the disposal of property, plant and equipment, net	**6,465**	9,725
Provision for obsolete inventories	**5,320**	1,025
Provision for bad debts	**2,602**	6,031
Write off of available-for-sale investments	**1,054**	–
Unrealized foreign exchange gain, net	**(12,432)**	(11,874)
Loss on the disposal of a subsidiary	**–**	17,368
Operating cash flows before working capital changes	**618,304**	469,143
(Increase) / decrease in operating assets:		
Inventories	**24,890**	(22,029)
Trade accounts receivable	**(3,846)**	(268,390)
Advances to suppliers	**(321,548)**	(62,909)
Other current assets	**(1,442)**	2,303
Increase / (decrease) in operating liabilities:		
Trade accounts payable	**(39,812)**	180,146
Other current liabilities	**(53,308)**	52,744
Cash generated by operations	**223,238**	351,008
Income tax paid	**(104,278)**	(45,965)
Net cash provided by operating activities	**118,960**	305,043
Cash flows from investment activities:		
Purchase of property, plant and equipment	**(216,722)**	(531,751)
Proceeds from the disposal of property plant and equipment	**16,542**	119,655
Repayment of loans given to related parties	**–**	31,053
Net cash used in investment activities	**(200,180)**	(381,043)
Cash flows from financing activities:		
Proceeds from borrowings	**1,036,748**	570,855
Repayment of borrowings	**(899,063)**	(374,736)
Repayment of vendor financing obligations	**(266,093)**	–
Interest and penalties on loans and borrowings paid	**(178,762)**	(115,462)
Proceeds from the sale of ordinary shares	**400,000**	–
Dividends paid	**(14,551)**	(10,394)
Net cash provided by financing activities	**78,279**	70,263
Net change in cash and cash equivalents	**(2,941)**	(5,737)
Cash and cash equivalents at beginning of year	**3,427**	9,164
Cash and cash equivalents at end of year (Note 10)	**486**	3,427

The accompanying notes on pages 5 to 27 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2004

In thousands of Tenge	**Share capital**	**Revaluation reserve**	**Reserve capital**	**Retained earnings / (accumulated deficit)**	**Total shareholders' equity**
At December 31, 2002	100,000	1,280,662	3,708	(127,613)	1,256,757
Disposal of revalued items of property, plant and equipment, net of the related deferred income tax	–	(83,695)	–	83,695	–
Amortization of revaluation reserve, net of the related deferred income tax	–	(124,445)	–	124,445	–
Deferred income tax arising on the disposal of revalued items of property, plant and equipment (Note 22)	–	–	–	35,869	35,869
Net profit for the year	–	–	–	29,463	29,463
Dividends – preferred shares (Note 11)	–	–	–	(10,000)	(10,000)
Dividends – ordinary shares (Note 11)	–	–	–	(9,000)	(9,000)
At December 31, 2003	100,000	1,072,522	3,708	126,859	1,303,089
Contribution to share capital (Note 11)	400,000	–	–	–	400,000
Amortization of revaluation reserve, net of related deferred income tax	–	(124,998)	–	124,998	–
Disposal of revalued items of property, plant and equipment, net of related deferred income tax	–	(970)	–	970	–
Net profit for the year	–	–	–	86,101	86,101
Dividends – preferred shares (Note 11)	–	–	–	(10,000)	(10,000)
At December 31, 2004	**500,000**	**946,554**	**3,708**	**328,928**	**1,779,190**

The accompanying notes on pages 5 to 27 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2004

In thousands of Tenge

1. DESCRIPTION OF BUSINESS

The Joint Stock Company Rosa (the “Company” or “Rosa JSC”) was formed on December 4, 1995 as an open joint stock company under the laws of the Republic of Kazakhstan. The Company was created based on the former state plant “Pavlodar brewery plant”, constructed in 1975. On August 22, 2003 due to changes in Kazakhstan legislation, the Company was re-registered from an open joint stock company into a joint stock company.

The Company’s principal activity is the production and sale of beer and beverages in the Republic of Kazakhstan.

The Company’s registered legal address is: p/b 1180, Central Industrial Area, Pavlodar, 140005, Republic of Kazakhstan.

At December 31, 2004, the Company had one branch in Kokshetau, the Republic of Kazakhstan. At December 31, 2003, the Company had two branches in the Republic of Kazakhstan: in Ekibastuz and Kokshetau, and a representative office in Almaty.

As at December 31, 2004 and 2003, the Company employed 416 and 425 people, respectively.

On November 25, 2003, the Company sold its Subsidiary Startex LLP to a related party, which resulted in a net loss of KZT 17,368 thousand (Note 23). Startex LLP is a limited liability partnership registered in the Republic of Kazakhstan on August 9, 1999. Its primary activity is hosiery production. The registered legal address of Startex LLP is: 285/1, Kutuzov Street, Pavlodar, Republic of Kazakhstan.

As of December 31, the following shareholders owned more than 10% of the issued and outstanding shares of the Company:

Ordinary shareholder	2004, %	2003, %
Kinko JSC (former E & Com Invest CJSC)	**18**	19
Mr. Etekbai	**12**	72
Other	**70**	9
	100	100

Preferred shareholder	2004, number of shares	2003, number of shares
Ms. Kokh	**50,000**	50,000
Ms. Etekbai	**33,328**	33,328
Other	**16,672**	16,672
	100,000	100,000

During 2004, the management of Rosa JSC decided to increase its external as well as internal financing. In April 2004, the Company issued 1,000,000 bonds with a nominal value of 1,000 Tenge each. Bonds are traded on the Kazakhstan Stock Exchange (“KASE”) among the “A” listed securities (Note 12). In June 2004, the Company issued 4,000,000 ordinary shares with a par value of 100 Tenge. 70% of outstanding ordinary shares are traded on the KASE as “A” listed securities. Individuals and legal entities own less than 10% of ordinary shares (Note 11). The purpose of issuing the bonds and ordinary shares was to repay the Company’s outstanding borrowings and to finance working capital so as to increase beer and mineral water production.

The financial statements of Rosa JSC for the year ended December 31, 2004, were authorized for issue by the Chairman of the Board and Chief Accountant of the Company on April 12, 2005.

Liquidity matters

As discussed in Note 12 to the financial statements, at December 31, 2004, the Company had not been able to meet repayment schedules for certain funds borrowed from ATF Bank. At the same time the Company has not defaulted on coupon payments with respect to issued debt securities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. DESCRIPTION OF BUSINESS (continued)

Liquidity matters (continued)

Management's plans for repaying its existing debt are as follows:

1. As of the audit report date, Company management is in the process of refinancing ATF Bank loans with funds borrowed from another bank. It is expected that the refinancing will result in far more favorable terms and conditions than those received from ATF Bank, including lower interest rates and a longer maturity schedule.

2. The Company is increasing its production capacity, which will result in a significant increase in the production of beer and non-alcoholic beverages. As a result Company management expects a significant increase in revenue in 2005-2007, which will help generate cash flow to repay its borrowings.

3. Company management will also consider converting issued bonds into ordinary shares when the bonds mature.

4. The Company's major shareholders are considering obtaining foreign investment.

In the event that further financing is required, the Company management believes that the major shareholders will continue to cover financing needs by providing additional cash advances as required. Therefore, Management believes that current plans and actions make it possible for the Company to continue as a going concern.

2. DESCRIPTION OF ENVIRONMENT

The Kazakhstan economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market economy in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstan economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Company's operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. As at December 31, 2004, the Company does not believe that any material matters exist relating to developing markets and the evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are presented in thousands of Kazakhstan Tenge ("Tenge" or "KZT"), unless otherwise indicated.

The financial statements are prepared under the historical cost convention except for the revaluation of property, plant and equipment that has been measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently issued International Financial Reporting Standards

Effective April 1, 2004, the International Accounting Standards Board enacted IFRS 3 “Business Combinations”, which replaced IAS 22 “Business Combinations” and SIC-9, SIC-22 and SIC-28. The application of IFRS 3 “Business Combinations” has had no material effect on the financial position of the Company.

Effective January 1, 2005, IFRS 2 “Share-based Payment”, IFRS 4 “Insurance Contracts”, IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations” as well as fifteen revised IASs have been enacted. The Company has not determined the effect of the application of these new standards on its financial statements. However, the impact of the application of new standards on the Company’s financial statements is not expected to be material.

Management estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant management estimates relate to the depreciable lives of property, plant and equipment, allowances for bad and doubtful debts, allowance for obsolete and slow moving inventories and deferred taxation. Actual results could differ from those management estimates.

Measurement currency

Based on the economic substance of underlying events and circumstances relevant to the Company, the measurement currency of the Company has been determined as the Tenge. The KZT is used as Company revenue and its major costs are measured in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of underlying events and circumstances relevant to the Company. Transactions in other currencies are treated as transactions in foreign currencies.

Foreign currency translation

The Company maintains its accounting records in Tenge (“KZT”) and prepares its financial statements in Tenge. Transactions in foreign currencies are recorded at the market rate prevailing at the date of the transaction. Non-monetary assets are translated into Tenge using market rates, fixed by the Kazakhstan Stock Exchange (“KASE”). For foreign currencies that are not quoted by the KASE, exchange rates are calculated by the National Bank of Kazakhstan using cross-rates to the US dollar (“USD” or “US$”) in accordance with quotations received from “REUTERS”. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. All differences arising from a change in exchange rates subsequent to the date of a transaction are recorded in the statement of income.

The following table summarizes the foreign currency exchange rates of major currencies, which the Company uses in its operations, against the Tenge at April 12, 2005, December 31, 2004 and December 31, 2003:

	At April 12, 2005	At December 31, 2004	At December 31, 2003
US dollar	130.81	130.00	144.22
Euro	169.49	177.10	180.23

Basis of consolidation

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including recognized profits arising from intra-group transactions have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Where there is a loss of control of a subsidiary, financial statements include results for the part of the reporting year during which Rosa JSC had control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Recognition of financial assets and liabilities

The Company recognizes financial assets and liabilities on its balance sheets when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for the subsequent re-measurement of these items are disclosed in the respective notes set out in the accounting policy.

Derecognition of financial assets and liabilities

The Company derecognizes a financial asset or a portion of a financial asset when, and only when, the Company loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). The Company loses such control if it has fully utilized the rights to benefits specified in a contract, the rights expire, or the Company surrenders those rights.

The Company removes a financial liability (or a part of a financial liability) from its balance sheets when, and only when, it is extinguished – that is, when the obligation specified in a contract is discharged, cancelled or expires.

Property, plant and equipment

Property, plant and equipment is initially recorded at cost less accumulated depreciation and any impairment in value.

Subsequent to initial recognition, property, plant and equipment is carried at revalued amounts being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are made with sufficient regularity so that the carrying amount of property, plant and equipment does not differ materially from that, which would be determined using estimated fair values at the balance sheet date.

Any increase in the value of property, plant and equipment arising from the revaluation of such property, plant and equipment is credited to a revaluation reserve, except to the extent that it reserves a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is recorded in the statement of income to the extent of the decrease previously charged. A decrease in the carrying amount arising from the revaluation of property, plant and equipment is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued item of property, plant and equipment, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

The difference between depreciation on a revalued asset and depreciation based on the cost of that asset is transferred each year from a revaluation reserve to retained earnings.

Subsequent expenditure

Any subsequent expenditure on an item of property, plant and equipment that improves the condition of the asset beyond its originally assessed standard of performance is capitalized. All other subsequent expenditure, such as repair and maintenance expenditure, is charged to expenses.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	59 years
Machinery and equipment	8 – 12 years
Vehicles	8 – 10 years
Other	5 – 12 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, any 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income.

Investments

The Company classified its investments in the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and are included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. During the period in question the Company did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale, and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments when they are purchased and re-evaluates their classification on a regular basis.

All investments are initially recognized at cost, being the fair value of the consideration given and including transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at their amortized cost using the effective yield method.

Realized and unrealized gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

For investments that are actively traded in organized financial markets, the fair value is determined by referring to market bid prices quoted on the Stock Exchange at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by referring to the current market value of another instrument that is substantially the same or that has been calculated based on the expected cash flows of the underlying net asset base of the investment.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories is assigned by using the weighted-average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables are recognized and carried at their original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

Cash and cash equivalents

Cash comprises cash in hand and cash held on demand with banks.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Share capital contributions made in the form of assets other than cash are stated at the fair value of the assets at the date of contribution. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are recognized or impaired, as well as through the amortization process.

Vendor financing obligations

When vendor financing obligations are initially recognized, they are measured at cost, which is the fair value of the consideration received for them. After initial recognition, they are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The related interest expense resulting from the amortization process is recorded within finance costs in the statement of income.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Revenue and expense recognition

Revenue

Revenue is recognized when it is probable that economic benefits associated with a transaction will flow to the Company and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of the ownership of goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue from transportation services is recognized when transportation services are provided.

Operating expenses

Expenses are accounted for at the time the actual flow of the related goods or services occurs, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forwards of unused tax assets and unused tax losses can be recognized:

except where a deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be recognized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of a deferred income tax asset to be recognized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recognized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease payments are recognized as an expense in a statement of income on a straight-line basis over the lease term. Lease income is accounted for on a straight-line basis over the lease term on ongoing leases.

Employee benefits

The Company pays social tax according to current statutory requirements of the Republic of Kazakhstan. Following certain changes in Kazakhstan tax legislation, the effective rate of the Company's social tax in 2004 was 17% of the gross income of employees (2003: 21% of gross income). Social tax and related staff costs are expensed as incurred.

The Company withholds and contributes 10% from the salaries of its employees as the employee's contribution to their pension funds. Under legislation of the Republic of Kazakhstan, employees are responsible for their retirement benefits and the Company has no present nor future obligation to pay its employees upon their retirement.

Related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

Related parties include Company shareholders, key management personnel, associates and enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's shareholders or key management personnel.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Company has a current obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, an increase in a provision due to the passage of time is recognized as an interest expense.

Contingencies

Contingent liabilities are not recognized in financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Reclassifications

Certain 2003 amounts were reclassified to conform to the presentation of the 2004 financial statements. These reclassifications are summarized below:

	Amount
Balance Sheet:	
Advances received were reclassified from trade and other payables to other current liabilities	28,377
Statement of Income:	
Other income was reclassified from other income, net	236,765
Other expenses were reclassified from other income, net	196,716
Sales were reclassified into other income	35,868
Statement of Cash Flows:	
The increase of cash flows from trade and other payables was reclassified to an increase in cash flows from other current liabilities	28,377

None of the above reclassifications impacted net income or shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2004 is as follows:

	Land	Buildings	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
At December 31, 2003, net of accumulated depreciation	**40,913**	**827,948**	**1,501,331**	**27,231**	**14,899**	**256,259**	**2,668,581**
Additions	136	–	49,577	30,006	15,881	31,976	127,576
Disposals	(558)	(3,935)	(21,208)	(6,697)	(1,722)	–	(34,120)
Transfers	–	–	83,561	–	41	(83,602)	–
Depreciation charge for the year		(15,857)	(224,925)	(11,941)	(2,615)	–	(255,338)
Depreciation on disposals	–	410	6,086	3,872	745	–	11,113
At December 31, 2004, net of accumulated depreciation	**40,491**	**808,566**	**1,394,422**	**42,471**	**27,229**	**204,633**	**2,517,812**
At December 31, 2003							
Fair value	40,913	952,285	2,425,559	105,538	23,770	256,259	3,804,324
Accumulated depreciation	–	(124,337)	(924,228)	(78,307)	(8,871)	–	(1,135,743)
Net carrying amount	**40,913**	**827,948**	**1,501,331**	**27,231**	**14,899**	**256,259**	**2,668,581**
At December 31, 2004							
Fair value	40,491	948,350	2,537,489	128,847	37,970	204,633	3,897,780
Accumulated depreciation	–	(139,784)	(1,143,067)	(86,376)	(10,741)	–	(1,379,968)
Net carrying amount	**40,491**	**808,566**	**1,394,422**	**42,471**	**27,229**	**204,633**	**2,517,812**

At December 31, 2004 and 2003, certain items of property, plant and equipment with a total net carrying amount of KZT 1,818,684 thousand and KZT 2,058,684 thousand, respectively, had been pledged as security for certain of the Company's borrowings (Note 12).

During 2003, the Company obtained an independent appraisal of its property, plant and equipment, effective November 30, 2002, at market values. As a result of this appraisal the net carrying amount of the Company's property, plant and equipment as of November 30, 2002 was increased by KZT 1,441,443 thousand.

The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less any accumulated depreciation was as follows:

	Land	Buildings	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net carrying amount:							
At December 31, 2003	5,889	189,318	815,496	14,701	6,344	256,259	1,288,007
At December 31, 2004	**5,625**	**184,595**	**857,637**	**38,975**	**19,993**	**204,633**	**1,311,458**

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments consisted of the following at December 31, 2004 and 2003:

Name	Company's Holding, %	2004 Cost, KKZT	2003 Cost, KKZT	Principal activity	Country
Sary Arka Bank	Less than 5	–	5,214	Financial services	Kazakhstan
Other investees	Less than 5	–	1,054	Financial services	Kazakhstan
Combi CJSC	15	–	–	Fodder production	Kazakhstan
Investment Pension Fund "Vash Vibor"	Less than 5	–	–	Investment activities	Kazakhstan
Balance at cost		–	6,268		
Less: Allowance for diminution in value		–	(5,214)		
		–	1,054		

The movements in the allowance for diminution in value were as follows for the years ended December 31:

	2004	2003
Allowance for diminution in value at the beginning of the year	**(5,214)**	(13,667)
Write-offs	**5,214**	8,453
Allowance for diminution in value at the end of the year	**–**	(5,214)

During 2004 the Company wrote off all its available-for-sale investments to reflect their permanent reduction in value against the corresponding allowance and the excess of KZT 1,054 thousand was charged to the statement of income.

6. INVENTORIES

Inventories consisted of the following at December 31:

	2004	2003
Packaging and packaging materials	**91,445**	92,267
Raw materials	**52,789**	73,222
Finished goods	**33,826**	27,947
Work in process	**19,734**	17,875
Spare parts	**11,807**	12,750
Advertising materials	**8,872**	18,507
Fuel	**4,825**	5,079
Construction materials	**642**	824
Other	**5,240**	10,919
	229,180	259,390
Less: Allowance for obsolete inventories	**(10,767)**	(10,767)
	218,413	248,623

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

	2004	2003
Allowance for obsolete inventories at the beginning of the year	**(10,767)**	(9,742)
Charge for the year	**(5,320)**	(1,025)
Write-offs	**5,320**	–
Allowance for obsolete inventories at the end of the year	**(10,767)**	(10,767)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following at December 31:

	2004	2003
Trade accounts receivable from related parties (Note 23)	**321,466**	272,846
Trade accounts receivable from third parties	**55,166**	102,542
	376,632	375,388
Less: Allowance for bad debts	**(24,805)**	(24,805)
	351,827	350,583

At December 31, 2004 and 2003, trade accounts receivable were denominated in Tenge.

The movements in the allowance for bad debts were as follows for the years ended December 31:

	2004	2003
Allowance for bad debts at the beginning of the year	**(24,805)**	(18,774)
Charge for the year	**(2,602)**	(6,031)
Write-offs	**2,602**	–
Allowance for bad debts at the end of the year	**(24,805)**	(24,805)

8. ADVANCES TO SUPPLIERS

Advances to suppliers consisted of the following at December 31:

	2004	2003
Advances to related parties (Note 23)	**416,591**	99,342
Advances to third parties	**20,011**	15,712
	436,602	115,054

	2004	2003
Advances for raw materials	**348,525**	115,054
Advances for services	**88,077**	–
	436,602	115,054

At December 31, the Company's advances to suppliers were denominated in various currencies as follows:

	2004	2003
Tenge	**425,533**	115,054
Russian rubles	**6,063**	–
Euro	**5,006**	–
	436,602	115,054

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. OTHER CURRENT ASSETS

Other current assets consisted of the following at December 31:

	2004	2003
Due from related parties (Note 23)	**16,354**	3,027
Due from employees	**7,453**	15,880
Receivable for rent	**5,028**	910
Prepaid excise duties	**2,321**	–
Prepaid expenses	**666**	536
Other	**17,230**	27,257
	49,052	47,610

At December 31, 2004 and 2003, other current assets were denominated in Tenge.

10. CASH AND CASH EQUIVALENTS

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

	2004	2003
Cash in hand	**391**	1,554
Current accounts with banks – KZT	**95**	1,873
	486	3,427

At December 31, 2004 and 2003, current accounts with banks were interest free.

11. SHARE CAPITAL

The share capital of the Company consisted of the following at December 31, 2004:

	Number of shares			
	Authorized	Issued and paid	Par value, KZT	Amount, KKZT
Ordinary shares	4,900,000	4,900,000	100	490,000
Preferred shares	100,000	100,000	100	10,000
	5,000,000	**5,000,000**	**100**	**500,000**

The share capital of the Company consisted of the following at December 31, 2003:

	Number of shares			
	Authorized	Issued and paid	Par value, KZT	Amount, KKZT
Ordinary shares	900,000	900,000	100	90,000
Preferred shares	100,000	100,000	100	10,000
	1,000,000	**1,000,000**	**100**	**100,000**

The share capital of the Company was contributed by the shareholders in cash and in kind (property, plant and equipment). The shareholders are entitled to dividends and any capital distribution in cash.

Each ordinary share entitles the holder to one vote and an equal share in dividends declared. Preferred shares are non-voting, non-redeemable and guarantee annual cumulative dividends of no less than 100% of their nominal value.

The Board of Directors Meeting on June 28, 2004 decided to increase share capital by KZT 400,000 thousand by means of issuing 4,000,000 ordinary shares at a par value of KZT 100 each. All issued shares were purchased at the par value by the existing shareholders of the Company based on preemptive purchase rights.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. SHARE CAPITAL (continued)

Subsequently on July 2004 one of the major shareholders of the Company sold a part of its shares through the Kazakhstan Stock Exchange. Those shares were purchased by individuals and legal entities that individually own less than 10% of the Company's outstanding ordinary share capital.

The Shareholder Meeting on March 16, 2003 declared dividends on preferred and ordinary shares for the year ended December 31, 2002 of KZT 10,000 thousand and KZT 9,000 thousand, respectively.

The Shareholder Meeting on March 20, 2004 declared dividends on preferred shares for the year ended December 31, 2003 of KZT 10,000 thousand. No dividends on ordinary shares for the year ended December 31, 2003 were declared.

12. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings, including accrued interest, consisted of the following at December 31:

	Original currency	**Maturity date**	**Effective interest rate per annum**	**2004**	2003
Long-term borrowings:					
Kazakhstan bonds	KZT	April 14, 2007	9.5%	**1,051,886**	–
ATF bank loan	Euro	December 1, 2007	Euribor+5%	**208,249**	342,330
ATF bank loan	USD	August 24, 2004	14%	**80,195**	868,609
Less: Current portion of long-term borrowings				**(184,348)**	(1,016,420)
				1,155,982	194,519

Kazakhstan bonds

In April 2004, the Company issued 1,000,000 long-term KZT denominated coupon bonds. 998,200 of these bonds were placed on the Kazakhstan Stock Exchange with a premium of KZT 38,548 thousand and interest of 11% per annum. Net cash received from this issue amounted to KZT 1,036,748 thousand. The unamortized amount of the premium as at December 31, 2004 equaled KZT 30,355 thousand. The effective interest rate of the bonds equals 9.5% per annum. The majority of the bonds were purchased by various Pension Funds and Commercial Banks of the Republic of Kazakhstan. The bonds mature in April 2007. The principal and coupon interest on the bonds is payable upon maturity and semiannually, respectively. At December 31, 2004, the accrued coupon was equal to KZT 23,331 thousand.

ATF bank

At December 31, 2004 the full amount of the US dollar denominated loan was overdue. At December 31, 2004, the accrued interest and penalties on the overdue loan amounted to KZT 16,290 thousand (2003: KZT 527 thousand).

At December 31, 2004, KZT 15,928 thousand of a Euro denominated loan was overdue. At December 31, 2004, the accrued interest and penalties on the overdue loan amounted to KZT 2,905 thousand (2003: KZT 252 thousand). Interest and principal are repayable monthly. Principal is repayable in equal installments.

At December 31, 2004 and 2003, certain items of property, plant and equipment with a total net carrying value of KZT 1,818,684 thousand and KZT 2,058,684 thousand, respectively, were pledged as security for the Company's borrowings (Note 4).

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable consisted of the following at December 31:

	2004	2003
Trade accounts payable to third parties	**61,911**	97,480
Trade accounts payable to related parties (Note 23)	**2,871**	7,114
	64,782	104,594

At December 31, trade accounts payable were denominated in various currencies as follows:

	2004	2003
Tenge	**43,945**	56,475
Russian rubles	**20,236**	6,816
US dollar	**601**	14,897
Euro	–	26,406
	64,782	104,594

14. VENDOR FINANCING OBLIGATIONS

At December 31, 2003 vendor financing obligations comprised Euro denominated long-term payables to a foreign supplier with maturity in 2004. These payables arose from the purchase of machinery and equipment by the Company. At December 31, vendor financing obligations were interest free and consisted of the following:

	2004	2003
Principal	–	166,533
Amortized discount	–	80,310
	–	246,843

At December 31, the maturity dates of vendor financing obligations were as follows:

	2004	2003
Short-term portion:		
2004	–	246,843
Long-term portion:		
2004	–	–
	–	246,843

During 2004, the Company fully repaid these payables to the supplier of related purchased machinery and equipment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

	2004	2003
Due to employees	**17,859**	6,770
Taxes other than income tax payable	**16,551**	47,514
Dividends payable	**12,877**	17,428
Advances received	**4,639**	28,377
Professional services payable	**1,974**	5,698
Pension fund obligations	**1,531**	3,813
Other	**524**	4,214
	55,955	113,814

At December 31, 2004 and 2003, other current liabilities were denominated in Tenge.

16. SALES

Sales consisted of the following for the years ended December 31:

	2004	2003
Sales of beer	**1,045,127**	939,460
Sales of non-alcoholic beverages	**497,278**	352,798
Sales of Coca-Cola trade mark beverages	–	67,719
Sales of textiles	–	2,471
	1,542,405	1,362,448

Sales of textiles relate to the Company's subsidiary – Startex LLP. In November 2003, the Company sold the Subsidiary to a related party (Note 23).

In 2002, the Company started the production of Coca-Cola beverages under the license of JV Coca-Cola Almaty Bottlers LLP. Due to the net loss incurred as a result of these operations, in late 2002, the Company ceased production of these products. Sales of Coca-Cola trade mark beverages in 2003 relate to sales of the remaining stock of those beverages.

17. COST OF SALES

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

	2004	2003
Raw materials	**573,644**	491,424
Depreciation	**227,197**	191,064
Payroll and related staff costs	**58,753**	39,049
Services provided by production support units	**41,523**	39,643
Maintenance and repairs of property, plant and equipment	**13,485**	2,901
Damaged goods	**5,523**	6,645
Utilities	**5,222**	4,078
Cost of sales of Coca-Cola trade mark beverages	–	56,420
Other	**7,393**	12,790
	932,740	844,014

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. OTHER INCOME AND EXPENSES

The composition of other income for the years ended December 31 was as follows:

	2004	2003
Revenue from the sale of bottles and returnable containers	**2,140,724**	197,129
Revenue from sales of raw materials	**26,652**	60,493
Revenue from transportation services	**11,627**	11,184
Other	**29,576**	3,827
	2,208,579	272,633

The composition of other expenses for the years ended December 31 was as follows:

Cost of bottles and returnable containers sold	**(2,138,003)**	(128,490)
Cost of raw materials sold	**(22,341)**	(57,751)
Cost of transportation services rendered	**(10,363)**	(10,475)
Other	**(17,675)**	–
	(2,188,382)	(196,716)

For the years ended December 31, 2004 and 2003, revenue from sales of raw materials, and revenue from transportation services were mainly derived from transactions with related parties of the Company (Note 23).

During 2003, the Company accounted for its returnable tare (bottlers, cases and beer kegs) as its own inventory, since the returnable tare was not sold to the customers but was supposed to be returned back to the Company in accordance with sales contract terms.

Since January 1, 2004 the Company has started to sell its returnable tare to customers and then buy it back due to requirements of Kazakhstan tax legislation. This has resulted in a significant increase in revenue from the sale of bottles and returnable containers, and also related costs.

During 2003, the Company made just one sale of returnable containers (beer kegs) to one of its related parties.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2004	2003
Payroll and related staff costs	**67,149**	45,447
Taxes other than income tax	**25,147**	28,006
Professional services	**21,755**	22,567
Fines and penalties	**17,509**	2,660
Business trips	**16,107**	11,402
Maintenance and repairs	**14,623**	7,169
Depreciation	**11,628**	12,211
Communication	**8,781**	7,625
Damaged goods	**7,348**	6,058
Provision for obsolete inventories	**5,320**	1,025
Bank commissions	**4,812**	7,527
Security services	**4,420**	3,282
Transportation	**3,635**	2,081
Processing of finished goods with expired maturity	**3,461**	1,536
Provision for bad debts	**2,602**	6,031
Advertising and publications	**2,521**	3,675
Representation expenses	**1,791**	1,889
Membership payments	**1,413**	920
Write off of available-for-sale investments	**1,054**	–
Utilities	**1,024**	892
Office expenses	**533**	351
Commissions and other fees	**441**	2,510
Expenses incurred by the disposed of subsidiary	–	17,070
Other	**12,105**	15,651
	235,179	207,585

20. SELLING EXPENSES

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

	2004	2003
Transportation	**48,391**	37,715
Advertising	**18,007**	29,847
Payroll and related staff costs	**17,224**	20,146
Depreciation	**16,513**	18,133
Maintenance and repairs	**14,698**	11,582
Business trips	**4,347**	3,448
Professional services	**3,825**	4,529
Utilities	**1,366**	1,636
Rent	–	896
Other	**2,700**	3,872
	127,071	131,804

21. FINANCE (COSTS) / INCOME

Finance costs consisted of the following for the years ended December 31:

	2004	2003
Interest on bank loans	**(79,084)**	(110,418)
Coupon interest on bonds	**(77,590)**	–
Interest and penalties on overdue loans	**(34,419)**	(779)
Amortization of discounts on vendor financing obligations	**(19,250)**	(22,348)
	(210,343)	(133,545)

Discounts on vendor financing obligations arise from the deferred terms of payment for machinery and equipment purchased by the Company from foreign suppliers (Note 14).

Finance income consisted of the following for the years ended December 31:

	2004	2003
Amortization of bond premiums	**8,193**	–

Bond premium arises due to net cash received in excess of the bonds' nominal amount (Note 12).

22. INCOME TAX

The Company is subject to income tax of 30% on taxable profit as determined under the laws of the Republic of Kazakhstan. Income tax expense consisted of the following for the years ended December 31:

	2004	2003
Current income tax	**83,700**	61,524
Adjustments in respect of current income tax for previous years	**12,353**	–
Deferred income tax (benefit) / expense	**(24,347)**	928
	71,706	62,452

A reconciliation of the income tax expense applicable to profit before income tax at the statutory income tax rate against current income tax expense was as follows for the years ended December 31:

	2004	2003
Accounting profit before income tax	**157,807**	91,915
Statutory tax rate	**30%**	30%
Theoretical tax expense at the statutory rate	**47,342**	27,575
Tax effect of permanent differences:		
Adjustments in respect of current income tax for previous years	**12,353**	–
Fines and penalties	**4,513**	798
Provision for obsolete inventories	**769**	308
Finance costs	**9**	30,209
Foreign exchange gains	**(4)**	(3,562)
Income tax consequences of the disposal of the subsidiary	–	9,530
Other permanent differences	**6,724**	(2,406)
Income tax expense reported in the accompanying financial statements	**71,706**	62,452

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. INCOME TAX (continued)

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective balance sheet dates against temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, consisted of the following at December 31:

	2004	2003
Deferred tax assets:		
Allowance for bad debts	**7,442**	7,442
Bond premiums	**9,106**	–
Accrued expenses	**10,571**	4,111
	27,119	11,553
Deferred tax liabilities:		
Property, plant and equipment	**(439,090)**	(447,871)
Net deferred tax liabilities	**(411,971)**	(436,318)

Aggregate deferred tax relating to items (credited) / charged to shareholder equity consisted of the following for the years ended December 31:

	2004	2003
Deferred tax relating to the revaluation of property, plant and equipment	**–**	**(35,869)**

23. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions for the year ended December 31, 2004 or had significant balances outstanding at December 31, 2004 are detailed below. Transactions were entered into with related parties during the ordinary course of business on normal commercial terms.

Balances and transactions with related parties of the Company as at and for the years ended December 31, 2004 and 2003 consisted of the following:

	Sales		**Purchases**		**Advances to suppliers for raw materials and services**		**Trade receivables / (payables)**		**Other current assets**		**Advances paid for property, plant and equipment**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Kinko JSC	**329**	43,813	**–**	57,995	–	2	**(2,871)**	–		–	–	–
Irmad LLP	**20,964**	14,664	**4,688**	2,807	**156,442**	86,107	**27,037**	23,117	**11,201**		–	–
Accer LLP	**2,344,010**	972,148	**1,346,681**	133,862	–		**111,846**	249,729	**4,974**	3,027	**43,322**	–
El Invest LLP	**10**	248,009	**6,791**	279,873	**260,149**	–	–	(7,114)	–	–	–	–
KDK JSC	**660,675**	–	**339,367**	–	–	–	**179,467**	–	**179**	–	–	–
E-Com Invest LLP	–	–	**13,116**	–	–	–	**3,116**	–	–	–	–	–
Mr. Etekbai	–	–		–	–	13,233		–	–	–	–	–
	3,025,988	1,278,634	**1,710,643,**	474,537	**416,591**	99,342	**318,595**	265,732	**16,354**	3,027	**43,322**	–

Irmad LLP, Accer LLP, El Invest LLP, E-Com Invest LLP and KDK JSC are companies registered in the Republic of Kazakhstan in which a substantial interest in the voting power is owned by major shareholders of the Company. Kinko JSC (former E & Com Invest CJSC) is a joint stock company incorporated in the Republic of Kazakhstan, and is one of the major shareholders of the Company (Note 1).

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board and Board of Directors of the Company, and totals 8 persons both as at December 31, 2004 and 2003. Total compensation to key management personnel included in general and administrative expenses in the statement of income amounted to KZT 16,433 thousand and KZT 6,770 thousand for the years ended December 31, 2004 and 2003, respectively.

Compensation to key management personnel consists of contractual salaries and performance bonuses depending on operating results.

Disposal of Subsidiary

In November 2003, the Company announced the decision of its Board of Directors to dispose of its subsidiary – Startex LLP. The Subsidiary did not represent a separate major line of business or geographical area of operations as defined by IAS 14 “Segment Reporting”. The business of Startex LLP has been loss making for a number of years. The disposal of Startex LLP to El Invest LLP, a related party, was completed on November 25, 2003.

The cash flows incurred by Startex LLP for the period from January 1, 2003 until the date of disposal were as follows:

	November 25, 2003
Operating	(622)
Investing	–
Financing	–
Net cash outflow	(622)

Net assets disposed of:

Property, plant and equipment	133,200
Inventories	2,832
Trade and other receivables	2,640
Cash	19
	138,691
Trade and other payables	(1,323)
	137,368

Consideration received:

Off-set of trade and other payables to El Invest LLP	120,000
Loss on disposal	17,368

The disposal of Startex LLP resulted in a zero net cash inflow. The tax expense relating to the loss on disposal is KZT 9,530 thousand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Company does not have any options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic earnings per share computations:

	2004	2003
Net profit for the year	**86,101**	29,463
Less: dividends on preferred shares	**(10,000)**	(10,000)
Net profit attributable to ordinary shareholders	**76,101**	19,463
Weighted average number of ordinary shares for basic earnings per share	**2,900,000**	900,000
Basic earnings per share (in Tenge)	**26.24**	21.63

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and also none before these financial statements were completed.

25. COMMITMENTS AND CONTINGENCIES

Tax contingencies

The various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of taxes unpaid. Interest is assessable at 14% per annum. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2004. Although such amounts are possible and may be material, it is the opinion of Company management that these amounts are either not probable, not reasonably determinable, or both.

Financial commitments and contingencies

At December 31, the Company's financial commitments and contingencies consisted of the following:

	2004	2003
Guarantees	**260,000**	–

In accordance with the decision of the Board of Directors of the Company dated July 30, 2004, the Company provided a full joint guarantee to Kazkommertsbank JSC as security for a credit line of USD 2,000 thousand, which was opened by Kazkommertsbank JSC for Kinko JSC, a related party to the Company.

The Company applies similar principles as those applied when assessing the required allowance for losses under other credit facilities and assessing the likelihood of loss under a guarantee.

Insurance matters

At December 31, 2004 and 2003, the Company did not have insurance coverage in place covering its property, plant and equipment. However, the Company was in compliance with statutory requirements for mandatory insurance with regard to its employees and vehicles.

25. COMMITMENTS AND CONTINGENCIES (continued)

Legal actions and claims

In the ordinary course of business, the Company is subject to legal actions and claims.

Management believes that the ultimate liability, if any, arising from these actions will not have a material adverse effect on the financial position or the results of future operations of the Company.

26. FINANCIAL INSTRUMENTS

The Company, in connection with its activities, is exposed to various financial risks associated with its financial instruments. Financial instruments are comprised primarily of cash, receivables, payables and borrowings.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of accounts receivable. While the Company may be subject to losses in the event of non-performance by its counterparties, Company management does not expect such losses to occur.

Concentrations of credit risk with respect to accounts receivable are limited due to its large number of customers. The Company places its cash with high quality credit financial institutions.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's operations are carried out in the Republic of Kazakhstan and, as such, a significant portion of the Company's business is transacted in Kazakhstan tenge. Company management believes that any possible fluctuations of foreign exchange rates will not have a material impact on the financial position of the Company and the results of its operations.

Interest rate risk

The interest rate risk to the Company is the risk of changes in market interest rates that could reduce the overall return on its investments and increase cash outflow on its borrowings. The Company limits its interest rate risk by monitoring changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Cash flow risk

The cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. Company management believes that any possible fluctuations in future cash flows associated with a monetary financial instrument will not have material impact on the Company's operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

The subsequent disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation”. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties under arm’s length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Company’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Company to estimate the fair value of these financial instruments:

Trade and other receivables and payables

For assets and liabilities maturing within twelve months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments.

For assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates.

Interest-bearing loans and borrowings

An estimate was made by discounting scheduled future cash flows of individual loans by applying the estimated maturity using prevailing market rates as of the respective year-end.

Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

Available-for-sale investments

Unlisted securities are stated at cost, unless there has been any permanent decrease in value, as the fair value for these investments cannot be reliably measured.

Substantially all the Company’s monetary assets and liabilities are carried at their estimated fair values at December 31, 2004 and 2003. The fair value of available-for-sale investments with a net carrying amount totaling KZT 1,054 thousand as at December 31, 2003 (2004: nil) is not estimable. The details of these investments are disclosed in Note 5.

28. SEGMENT INFORMATION

The Company’s operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 “Segment Reporting”. The Company’s assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Company’s revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

29. SUBSEQUENT EVENTS

In February 2005 the Company arranged insurance coverage for the majority of its property, plant and equipment with a local insurance company.