

**Khimpharm JSC**  
Financial Statements  
for the year ended 31 December 2008

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## **Independent Auditors' Report**

To Management of Khimpharm JSC

We have audited the accompanying financial statements of Khimpharm JSC ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation 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 financial statements based on our audit. 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 free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 and fair presentation 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*

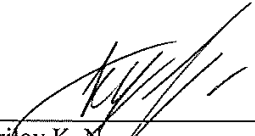
The Company has not disclosed the name of its ultimate controlling party as at 31 December 2008 and 31 December 2007, which is required by International Financial Reporting Standard IAS 24 *Related Party Disclosures*.

*Qualified Opinion*

In our opinion, except for the omission of the disclosure described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


  
Berdalina J. K.  
Certified Auditor,  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate No. 007 of  
28 February 1994

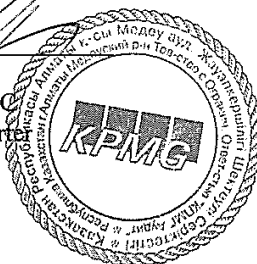


  
Gavrilov K. N.  
Audit Partner

**KPMG Audit LLC**

*State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan*

  
Berdalina J. K.  
President of KPMG Audit LLC  
acting on the basis of the Charter

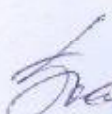


28 August 2009

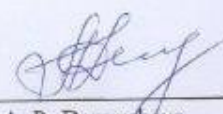
*Khimpharm JSC*  
Income Statement for the year ended 31 December 2008

		2008	2007
	Note	'000 KZT	'000 KZT
Revenue	6	4,649,671	3,938,510
Cost of sales	7	(3,022,205)	(2,629,107)
Gross profit		1,627,466	1,309,403
Other income	8	62,917	-
Distribution expenses	9	(457,085)	(337,101)
Administrative expenses	10	(458,370)	(399,832)
Other expenses	11	(8,133)	(33,029)
Results from operating activities		766,795	539,441
Financial income	13	15,756	-
Financial expenses	13	(508,851)	(395,569)
Profit before income tax		273,700	143,872
Income tax benefit/(expense)	14	108,535	(84,768)
Profit for the year		382,235	59,104
Earnings per share	25		
Basic and diluted earnings per share			
- Ordinary shareholders		KZT 72.88	KZT 11.27
- Preference shareholders		KZT 72.88	KZT 11.27

These financial statements were approved by Management on 28 August 2009 and were signed on its behalf by:

  
R. Sh. Baigartov  
General Director



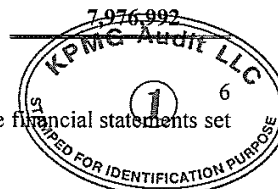
  
A. R. Denyusheva  
Chief Financial Officer



**Khimpharm JSC**  
Balance Sheet as at 31 December 2008

	Note	2008 '000 KZT	2007 '000 KZT
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	5,832,285	5,401,670
Intangible assets	17	225,935	91,775
Advances for property, plant and equipment and intangible assets		24,676	17,805
Deferred expenses	18	34,559	42,243
<b>Total non-current assets</b>		<b>6,117,455</b>	<b>5,553,493</b>
<b>Current assets</b>			
Inventories	20	1,428,055	1,360,968
Trade and other receivables	21	997,341	868,930
Advances for goods and services	22	64,644	114,599
Deferred expenses	18	19,865	14,423
Cash and cash equivalents	23	19,150	64,579
<b>Total current assets</b>		<b>2,529,055</b>	<b>2,423,499</b>
<b>Total assets</b>		<b>8,646,510</b>	<b>7,976,992</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	24	1,557,783	1,557,783
Share premium		78,574	62,604
Reserve for own shares		(5)	(5)
Revaluation reserve		1,840,730	1,093,500
Retained earnings		522,600	12,358
<b>Total equity</b>		<b>3,999,682</b>	<b>2,726,240</b>
<b>Non-current liabilities</b>			
Loans and borrowings	26	785,444	1,021,196
Deferred tax liabilities	19	673,998	1,018,414
<b>Total non-current liabilities</b>		<b>1,459,442</b>	<b>2,039,610</b>
<b>Current liabilities</b>			
Loans and borrowings	26	2,578,370	2,478,998
Trade and other payables	27	275,618	376,254
Advances received		45,314	37,734
Provisions	28	240,269	308,225
Income tax payable		47,815	9,931
<b>Total current liabilities</b>		<b>3,187,386</b>	<b>3,211,142</b>
<b>Total liabilities</b>		<b>4,646,828</b>	<b>5,250,752</b>
<b>Total equity and liabilities</b>		<b>8,646,510</b>	<b>7,976,992</b>

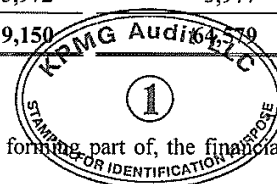
The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 52.



**Khimpharm JSC**  
Statement of Cash Flows for the year ended 31 December 2008

	2008 '000 KZT	2007 '000 KZT
<b>Cash flows from operating activities</b>		
Profit for the year	382,235	59,104
<i>Adjustments for:</i>		
Depreciation and amortisation	507,577	445,501
Loss on disposal of property, plant and equipment	4,237	33,029
Loss on revaluation of property, plant and equipment	3,896	-
Net finance expense	493,095	395,569
Income tax (benefit)/expense	(108,535)	84,768
<b>Operating profit before changes in working capital and provisions</b>	<b>1,282,505</b>	<b>1,017,971</b>
Change in deferred expenses	2,242	4,179
Change in inventories	(67,087)	(237,173)
Change in trade and other receivables	(164,727)	(159,284)
Change in advances for goods and services	49,955	154,789
Change in trade and other payables	(100,636)	301,014
Change in provisions	(67,956)	-
Change in advances received	7,580	3,316
<b>Cash flows from operations before income taxes and interest paid</b>	<b>941,876</b>	<b>1,084,812</b>
Income taxes paid	(16,764)	(8,482)
Interest paid	(452,379)	(479,705)
<b>Cash flows from operating activities</b>	<b>472,733</b>	<b>596,625</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(270,539)	(366,560)
Proceeds from disposal of property, plant and equipment	31,463	70,415
Acquisition of intangible assets	(158,072)	(84,445)
Repayment of loans to related parties	36,316	213,000
Loans provided to related parties	-	(36,316)
<b>Cash flows utilised in investing activities</b>	<b>(360,832)</b>	<b>(203,906)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from the issue of share capital	-	549
Proceeds from borrowings	7,719,878	4,715,741
Repayment of borrowings	(7,880,984)	(5,064,964)
Dividends paid	(196)	(196)
<b>Cash flows utilised in financing activities</b>	<b>(161,302)</b>	<b>(348,870)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(49,401)</b>	<b>43,849</b>
Cash and cash equivalents at beginning of year	64,579	16,753
Effect of exchange rate fluctuations on cash and cash equivalents	3,972	3,977
<b>Cash and cash equivalents at end of year (Note 23)</b>	<b>19,150</b>	<b>64,579</b>

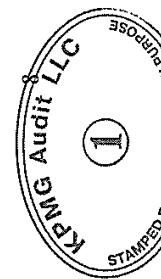
The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 52.



**Khinpharm JSC**  
*Statement of Changes in Equity for the year ended 31 December 2008*

<b>'000 KZT</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Reserve for own shares</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
Balance at 1 January 2007	1,557,675	41,870	(5)	1,249,558	(202,608)	2,646,490
Profit for the year	-	-	-	-	59,104	59,104
Realisation of property, plant and equipment revaluation reserve, net of deferred taxation	-	-	-	(156,058)	156,058	-
Total recognised income and expense	-	-	-	-	-	59,104
Discounts recognised on interest-free loans received from related parties, net of deferred taxation	-	20,293	-	-	-	20,293
Dividends to shareholders	-	-	-	-	(196)	(196)
Shares issued	108	441	-	-	-	549
<b>Balance at 31 December 2007</b>	<b>1,557,783</b>	<b>62,604</b>	<b>(5)</b>	<b>1,093,500</b>	<b>12,358</b>	<b>2,726,240</b>
Balance at 1 January 2008	1,557,783	62,604	(5)	1,093,500	12,358	2,726,240
Profit for the year	-	-	-	-	382,235	382,235
Revaluation of property, plant and equipment, net of deferred taxation	-	-	-	575,432	-	575,432
Realisation of property, plant and equipment revaluation reserve, net of deferred taxation	-	-	-	(128,203)	128,203	-
Effect of change in income tax rate on deferred tax on revaluation of property, plant and equipment	-	-	-	300,001	-	300,001
Total recognised income and expense	-	-	-	-	-	1,257,668
Discounts recognised on interest-free loans received from related parties, net of deferred taxation	-	15,970	-	-	-	15,970
Dividends to shareholders	-	-	-	-	(196)	(196)
<b>Balance at 31 December 2008</b>	<b>1,557,783</b>	<b>78,574</b>	<b>(5)</b>	<b>1,840,730</b>	<b>522,600</b>	<b>3,999,682</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 52.





## **1 Background**

### **(a) Organisation and operations**

Khimpharm JSC (“the Company”) is a joint stock company incorporated and domiciled in the Republic of Kazakhstan. The Company’s registered office is Rashidov Street, Shymkent, 160019, the Republic of Kazakhstan.

The Company’s principal activity is the production and sale of pharmaceutical products under a general licence issued by the Health Protection Agency of the Republic of Kazakhstan in 2001. The pharmaceutical products are predominately sold in Kazakhstan and other countries within the Commonwealth of Independent States (see Note 5).

### **(b) Business environment**

The Company’s operations are subject to country risk being the economic, political and social risks inherent in doing business in the Republic of Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of, or changes to, taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the the capital and credit markets has further increased the level of economic uncertainty of the environment.

The financial statements reflect management’s assessment of the impact of the business environment of the Republic of Kazakhstan 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### **(b) Basis of measurement**

The financial statements are prepared on the historical cost basis except that property, plant and equipment is stated at revalued amounts.

### **(c) Functional and presentation currency**

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



## **2 Basis of preparation, continued**

### **(d) Impact of current market conditions and the Company's liquidity**

At 31 December 2008 the Company had substantial borrowings repayable within twelve months as disclosed in Notes 26. Further at 31 December 2008 the Company's current liabilities exceeded its current assets by KZT 658,331 thousand. The Company's ability to repay borrowings and other current liabilities when they fall due is dependent on the Company's ability to sell its products at reasonable prices, to increase its cash inflows from operating activities and to obtain additional borrowings or renegotiate a new repayment schedule for existing borrowings. The recent substantial increase in the volatility of economic activity and the reduction in liquidity in Kazakhstan as a result of global conditions mean that there is some uncertainty which may have a significant adverse impact on the Company's operations.

The Company's management has agreed with some of its lenders, Halyk Bank and other related parties, to defer the repayment of loan principal until January 2010 (see Note 33). In addition, the Company's shareholders referred to in Note 32 have confirmed that they will provide such financial and other support as is necessary to permit the Company to continue in operational existence and to repay borrowings and other liabilities when they fall due.

Further details about the Company's liquidity risks are given in Note 29.

### **(e) Use of judgments, estimates and assumptions**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 6 – Revenue;
- Note 16 – Revaluation of property, plant and equipment;
- Note 20 – Net realizable value of inventories;
- Note 21 – Impairment loss on trade receivables and provision for sales rebates and returns; and
- Note 28 – Provisions.



## 2 Basis of preparation, continued

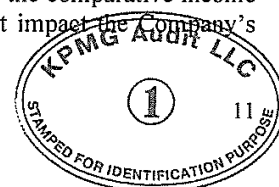
### (f) Reclassifications

Certain comparative amounts have been reclassified to conform to the current year's presentation. The effect of the reclassifications on the corresponding figures can be summarized as follows:

	As previously reported	Effect of reclassifica- tions	As reclassified
<b>Income statement for the year ended 31 December 2007</b>			
Cost of sales	(2,551,284)	(77,823)	(2,629,107)
Distribution expenses	(333,827)	(3,274)	(337,101)
Administrative expenses	(481,600)	81,768	(399,832)
Other income	671	(671)	-
		-	
<b>Balance sheet as at 31 December 2007</b>			
Property, plant and equipment	5,457,498	(55,828)	5,401,670
Intangible assets	35,945	55,830	91,775
Advances for property, plant and equipment	17,807	(2)	17,805
Tariffs and other receivables	836,627	32,303	868,930
Cash and cash equivalents	96,882	(32,303)	64,579
Loans and borrowings (current portion)	(2,452,948)	(26,050)	(2,478,998)
Trade and other payables	(710,529)	334,275	(376,254)
Provisions	-	(308,225)	(308,225)
		-	
<b>Statement of cash flows for the year ended 31 December 2007</b>			
Change in trade and other receivables	(126,981)	(32,303)	(159,284)
Change in trade and other payables	213,796	87,218	301,014
Acquisition of property, plant and equipment	(421,523)	54,963	(366,560)
Proceeds from disposal of property, plant and equipment	69,548	867	70,415
Acquisition of intangible assets	(28,615)	(55,830)	(84,445)
Proceeds from borrowings	4,802,959	(87,218)	4,715,741
Cash and cash equivalents at end of year	96,882	(32,303)	64,579

The major reclassifications relate to the reclassification of certain expenses related to production activities from administrative expenses to cost of sales and the presentation of the tax provision separately from trade and other payables.

The above reclassifications impact the presentation of the respective items in the comparative income statement, balance sheet and statement of cash flows; however, they do not impact the Company's comparative profit for the year or equity.



### **3 Significant accounting policies**

The significant accounting policies applied in the preparation of the financial statements are described in Note 3(a) to 3(p). These accounting policies have been consistently applied.

#### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement.

#### **(b) Financial instruments**

Financial instruments comprise 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 any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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).

#### **(c) Share capital**

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

##### *Preference share capital*

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

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 the income statement.



### **3 Significant accounting policies, continued**

#### **(c) Share capital, continued**

##### *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

#### **(d) Property, plant and equipment**

##### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at revalued amount less accumulated depreciation and impairment losses. On initial recognition, items of property, plant and equipment are measured at cost.

Cost includes expenditure that is 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. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

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.

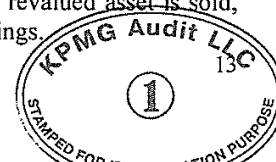
Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

##### **(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 the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

##### **(iii) Revaluation**

Items of property, plant and equipment are measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on property, plant and equipment is recognised directly in the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings.



### **3 Significant accounting policies, continued**

#### **(d) Property, plant and equipment, continued**

##### **(iv) Depreciation**

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 20-60 years
- plant and equipment 6-20 years
- vehicles 6-10 years
- other 3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### **(e) Intangible assets**

##### **(i) Intangible assets with finite useful lives**

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

##### **(ii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

##### **(iii) Amortisation**

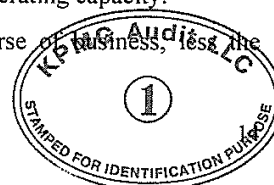
Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Computer software - 5 years
- Licences – Period of the license (12 years)
- Registration rights – Period of the registration rights (3-5 years)

#### **(f) 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, production or conversion costs and other costs incurred in 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

#### (g) Impairment

##### (i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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.

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 income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in the income statement.

##### (ii) *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 intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. 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.

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**

#### **(h) Employee benefits**

##### **(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including State pension fund of the Republic of Kazakhstan, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

##### **(ii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### **(i) 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.

##### **Onerous contracts**

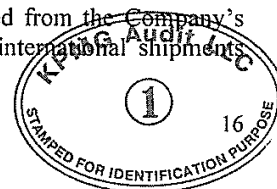
A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

#### **(j) Revenue**

##### **(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, and the amount of revenue can be measured reliably.

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





#### **4 Significant accounting policies, continued**

**(j) Revenue, continued**

**(ii) Services**

Revenue from services rendered is recognised in the income statement 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.

**(k) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in the income statement 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

**(ii) Social expenditure**

To the extent that the Company's contributions to social programs benefit of 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.

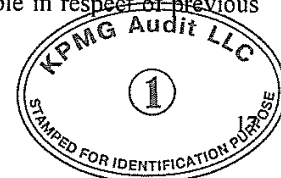
Financial expenses comprise interest expense on borrowings, unwinding of discount on interest-free loans received from related parties and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method, except that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Foreign currency gains and losses are reported on a net basis.

**(m) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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.



### **3 Significant accounting policies, continued**

#### **(m) Income tax expense, continued**

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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

#### **(n) Earnings per share**

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary and preference shares. Basic EPS attributable to ordinary shares is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Basic EPS attributable to preference shares is calculated by dividing the profit or loss attributable to preference shareholders of the Company by the weighted average number of preference shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary and preference shareholders and the weighted average number of ordinary and preference shares outstanding for the effects of all dilutive potential ordinary and preference shares. The Company has no dilutive potential ordinary or preference shares.

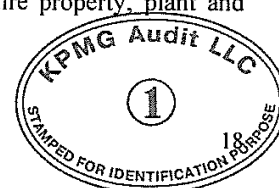
#### **(o) Segment reporting**

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Company's business and geographical segments. The business segments are determined based on the Company's management and internal reporting structure.

Inter-segment pricing is not determined on an arm's length basis and is based on the terms and conditions agreed between the parties.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the cost incurred during the year to acquire property, plant and equipment and intangible assets.



### 3 Significant accounting policies, continued

**(p) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these 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 8 *Operating Segments* introduces the "management approach" to segment reporting.  
IFRS 8 *Operating Segments*, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments (see Note 5). Under the management approach, the Company will represent segment information in respect of pharmaceutical products and other operations.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Company's 2009 financial statements is expected to have a significant impact on the presentation of the financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Various Improvements to IFRS have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

### 4 Determination of fair values

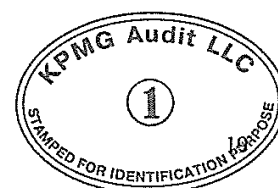
A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(b) Financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.



## **4 Determination of fair values, continued**

### **(c) Property, plant and equipment, continued**

The revalued amount of property, plant and equipment is determined on 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.

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

## **5 Segment reporting**

### **(a) Business segments**

The Company comprises the following main business segment:

- Pharmaceutical products. The production and sale of pharmaceutical products.

Other operations include sales of raw materials other than pharmaceutical products, operating leases of some of the Company's warehouses, microbiological and other services rendered.

### **(b) Geographical segments**

The pharmaceutical products segment is managed on a centralised basis in the Republic of Kazakhstan, but operates in four principal geographical areas, the Republic of Kazakhstan, other CIS countries, Euro-zone countries and other European countries.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

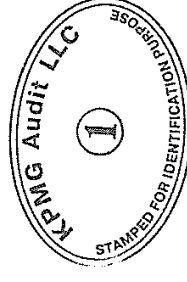


## 5 Segment reporting, continued

### (b) Geographical segments, continued

#### (i) Business segments

	Pharmaceutical products		Other operations		Total	
'000 KZT	2008	2007	2008	2007	2008	2007
Revenue from external customers	4,582,673	3,891,427	66,998	47,083	4,649,671	3,938,510
<b>Total segment revenue</b>	<b>4,582,673</b>	<b>3,891,427</b>	<b>66,998</b>	<b>47,083</b>	<b>4,649,671</b>	<b>3,938,510</b>
Segment result	755,900	532,993	10,895	6,448	766,795	539,441
Financial income	15,756	-	-	-	15,756	-
Financial expenses	(508,851)	(395,569)	-	-	(508,851)	(395,569)
Income tax benefit/(expense)	106,993	(83,755)	1,542	(1,013)	108,535	(84,768)
<b>Profit for the year</b>	<b>369,798</b>	<b>53,669</b>	<b>12,437</b>	<b>5,435</b>	<b>382,235</b>	<b>59,104</b>



## 5 Segment reporting, continued

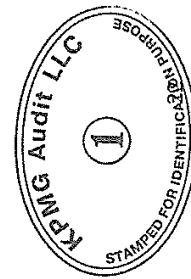
### (b) Geographical segments, continued

#### (i) Business segments, continued

	Pharmaceutical products		Other operations		Total	
	2008	2007	2008	2007	2008	2007
'000 KZT						
Segment assets	8,435,679	7,772,830	210,831	204,162	8,646,510	7,976,992
Segment liabilities	4,514,445	5,197,349	33,281	53,403	4,547,726	5,250,752
Depreciation/amortisation	494,212	432,182	13,365	13,319	507,577	445,501
Capital expenditure	428,609	516,074	-	-	428,609	516,074
Impairment losses on trade and other receivables and advances paid for goods and services	26,550	20,266	-	-	26,550	20,266
Write-down of inventories to net realisable value	45,834	39,206	-	-	45,834	39,206
Loss on revaluation of property, plant and equipment	3,896	-	-	-	3,896	-

#### (ii) Geographical segments

	The Republic of Kazakhstan		Other CIS countries		Euro-zone countries		Other European countries		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
'000 KZT										
Revenue from external customers	3,900,271	3,251,409	656,100	610,947	-	-	93,300	76,154	4,649,671	3,938,510
Segment assets	8,266,273	7,684,089	368,401	270,780	2,989	12,784	8,847	9,339	8,646,510	7,976,992
Capital expenditure	428,609	516,074	-	-	-	-	-	-	428,609	516,074



## 6 Revenue

	2008	2007
	'000 KZT	'000 KZT
Revenue from sales of pharmaceutical products	4,582,673	3,891,427
Revenue from services provided	48,442	32,310
Other revenue	18,556	14,773
	<u>4,649,671</u>	<u>3,938,510</u>

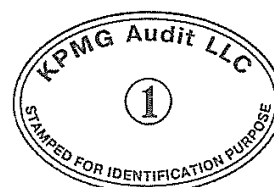
Sales are net of rebates and returns including management's estimate of the sales rebates and returns of pharmaceutical products sold at the reporting date. Other revenue primarily comprises revenue from sales of inventories other than pharmaceutical products and rental income from operating leases of some of the Company's warehouses.

## 7 Cost of sales

Cost of sales includes inventories recognised as an expense in the amount of KZT 1,841,101 thousand (2007: KZT 1,495,300 thousand), including write-down of inventories to their net realisable value of KZT 45,834 thousand (2007: KZT 39,206 thousand) and impairment losses on trade receivables and advances paid for goods and services related to production activities of KZT 14,945 thousand (2007: KZT 11,146 thousand).

## 8 Other income

	2008	2007
	'000 KZT	'000 KZT
Release of provision related to taxes other than income taxes following the expiry of the related tax review period (see Note 28)	62,917	-



## 9 Distribution expenses

	2008	2007
	'000 KZT	'000 KZT
Advertising	134,543	73,655
Transportation expenses	85,960	83,759
Tender expenses	81,054	75,303
Wages, salaries and related taxes	47,110	29,000
Non-recoverable value added tax	34,155	33,365
Depreciation and amortisation	17,347	6,968
Customs duties	16,977	5,348
Payments for using trademarks	11,003	-
Regional representatives' expenses	10,863	9,107
Business trips	7,115	9,823
Registration expenses	5,002	5,849
Contributions to State pension fund	4,780	2,902
Other	1,176	2,022
	<b>457,085</b>	<b>337,101</b>





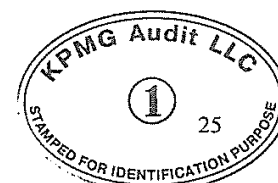
## 10 Administrative expenses

	2008 '000 KZT	2007 '000 KZT
Wages, salaries and related taxes	136,380	109,778
Repairs and maintenance	55,350	67,590
Representation expenses and business trips	35,959	30,440
Professional services	31,780	21,641
Non-recoverable value added tax	28,165	24,999
Depreciation and amortization	22,809	24,155
Security	21,483	14,835
Bank charges	18,971	11,369
Communication services	16,978	17,159
Contributions to State pension fund	13,522	10,984
Impairment loss on advances for goods and services and other receivables	11,605	9,120
Cleaning and stationery	10,649	13,715
Taxes other than income tax	8,110	12,612
Social expenditure	7,841	5,535
Vehicle maintenance	7,389	6,768
Fines and penalties	4,515	4,066
Utilities	3,469	1,611
Insurance	2,583	2,496
Trainings	2,089	4,883
Other	18,723	6,076
	<b>458,370</b>	<b>399,832</b>

## 11 Other expenses

	2008 '000 KZT	2007 '000 KZT
Loss on disposal of property, plant and equipment	4,237	33,029
Loss on revaluation of property, plant and equipment	3,896	-
	<b>8,133</b>	<b>33,029</b>

The Company's loss on disposal of property, plant and equipment consists of net losses on sale of property, plant and equipment of KZT 4,237 thousand (2007: KZT 8,552 thousand). Further in 2007 the Company incurred net losses on dismantling of two production lines of KZT 24,477 thousand. The decision to dismantle and dispose the two production lines was taken by management in 2007 due to the decision to stop the production of the respective pharmaceutical products.



## 12 Personnel costs

	2008	2007
	'000 KZT	'000 KZT
Wages, salaries and related taxes	563,078	498,472
Contributions to State pension fund	57,138	45,340
	<b>620,216</b>	<b>543,812</b>

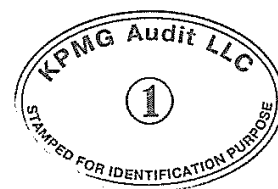
## 13 Financial income and expenses

	2008	2007
	'000 KZT	'000 KZT
<b>Financial income</b>		
Net foreign exchange gains	15,756	-
	<b>15,756</b>	<b>-</b>
<b>Financial expenses</b>		
Interest expense on financial liabilities measured at amortized cost	(464,968)	(326,937)
Unwinding of the discount recognized on interest-free loans received from related parties	(43,883)	(483)
Net foreign exchange losses	-	(68,149)
	<b>(508,851)</b>	<b>(395,569)</b>
<b>Net financial expense recognised in income statement</b>	<b>(493,095)</b>	<b>(395,569)</b>

The above financial income and expense include the following in respect for assets/(liabilities) not at fair value through profit and loss:

Total interest expense on financial liabilities, including unwinding of the discount on interest-free loans received from related parties

(508,851)	(327,420)
-----------	-----------



## 14 Income tax (benefit)/expense

	2008	2007
	'000 KZT	'000 KZT
<b>Current tax expense</b>		
Current year	54,648	16,999
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	74,149	67,769
Change in tax rate	(237,332)	-
	<b>(108,535)</b>	<b>84,768</b>

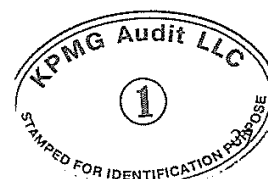
The Company's applicable tax rate in 2008 is the income tax rate of 30% for Kazakhstan companies (2007: 30%). With effect from 1 January 2009, 1 January 2010 and 1 January 2011, the income tax rate for Kazakhstan companies has been reduced to 20%, 17.5% and 15%, respectively. These rates have been used in the calculation of deferred tax assets and liabilities.

### Reconciliation of effective tax rate:

	2008		2007	
	'000 KZT	%	'000 KZT	%
Profit before income tax	273,700	100	143,872	100
Income tax at applicable tax rate	82,110	30	43,162	30
Change in tax rates	(237,332)	(87)	-	-
Non-deductible expenses	46,687	17	41,606	29
	<b>(108,535)</b>	<b>(40)</b>	<b>84,768</b>	<b>59</b>

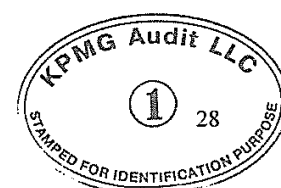
## 15 Income tax (benefit)/expense recognised directly in equity

	2008	2007
	'000 KZT	'000 KZT
Effect of change in income tax rate on deferred tax on revaluation of property, plant and equipment	(300,001)	-
Revaluation of property, plant and equipment	114,776	-
Discount on interest-free loans received from related parties	3,992	8,697
	<b>(181,233)</b>	<b>8,697</b>



## 16 Property, plant and equipment

'000 KZT	Land and buildings	Plant and equipment	Vehicles	Other	Construction in progress	Total
<i>Cost / Revalued amount</i>						
Balance at 1 January 2007	3,496,611	5,467,076	114,088	93,120	288,625	9,459,520
Additions	27,890	957,516	16,632	32,745	59,870	1,094,653
Disposals	(64,991)	(148,059)	(11,646)	(12,712)	-	(237,408)
Transfer	263,058	-	-	-	(263,058)	-
Balance at 31 December 2007	<u>3,722,568</u>	<u>6,276,533</u>	<u>119,074</u>	<u>113,153</u>	<u>85,437</u>	<u>10,316,765</u>
Balance at 1 January 2008	3,722,568	6,276,533	119,074	113,153	85,437	10,316,765
Additions	117,256	78,616	20,422	7,383	48,966	272,643
Disposals	-	(48,634)	(9,346)	(8,532)	(6,895)	(73,407)
Revaluation	300,539	394,080	(8,154)	(153)	-	686,312
Transfer	29,394	-	-	-	(29,394)	-
Balance at 31 December 2008	<u>4,169,757</u>	<u>6,700,595</u>	<u>121,996</u>	<u>111,851</u>	<u>98,114</u>	<u>11,202,313</u>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2007	(2,157,717)	(2,371,686)	(40,566)	(41,049)	-	(4,611,018)
Depreciation charge	(73,018)	(340,297)	(9,468)	(15,258)	-	(438,041)
Disposals	10,660	109,253	6,665	7,386	-	133,964
Balance at 31 December 2007	<u>(2,220,075)</u>	<u>(2,602,730)</u>	<u>(43,369)</u>	<u>(48,921)</u>	<u>-</u>	<u>(4,915,095)</u>
Balance at 1 January 2008	(2,220,075)	(2,602,730)	(43,369)	(48,921)	-	(4,915,095)
Depreciation charge	(77,790)	(389,004)	(10,606)	(15,240)	-	(492,640)
Disposals	-	25,473	4,528	7,706	-	37,707
Balance at 31 December 2008	<u>(2,297,865)</u>	<u>(2,966,261)</u>	<u>(49,447)</u>	<u>(56,455)</u>	<u>-</u>	<u>(5,370,028)</u>
<i>Net book value</i>						
At 1 January 2007	<u>1,338,894</u>	<u>3,095,390</u>	<u>73,522</u>	<u>52,071</u>	<u>288,625</u>	<u>4,848,502</u>
At 31 December 2007	<u>1,502,493</u>	<u>3,673,803</u>	<u>75,705</u>	<u>64,232</u>	<u>85,437</u>	<u>5,401,670</u>
At 31 December 2008	<u>1,871,892</u>	<u>3,734,334</u>	<u>72,549</u>	<u>55,396</u>	<u>98,114</u>	<u>5,832,285</u>
<i>Net book value had no revaluations taken place</i>						
At 1 January 2007	<u>266,492</u>	<u>2,360,175</u>	<u>63,611</u>	<u>52,070</u>	<u>288,625</u>	<u>3,030,973</u>
At 31 December 2007	<u>501,364</u>	<u>3,200,221</u>	<u>71,484</u>	<u>64,231</u>	<u>80,175</u>	<u>3,917,475</u>
At 31 December 2008	<u>615,613</u>	<u>2,990,440</u>	<u>87,310</u>	<u>66,453</u>	<u>92,852</u>	<u>3,852,668</u>



## **16 Property, plant and equipment, continued**

Depreciation expense of KZT 467,421 thousand has been charged to cost of sales (2007: KZT 414,378 thousand), KZT 4,491 thousand (2007: KZT 3,694 thousand) to distribution expenses and KZT 20,728 thousand (2007: KZT 19,969 thousand) to administrative expense.

### **(a) Revaluation**

In 2009 management commissioned “B.R.E.A.S” LLP to independently appraise property, plant and equipment as at 31 December 2008 which, in accordance with the Company’s accounting policy, is measured at fair value. The fair value of property, plant and equipment was determined to be KZT 5,832,285 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. Except for land, which was appraised on the basis of recent market transactions, the market for similar property, plant and equipment is not active in the Republic of 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.

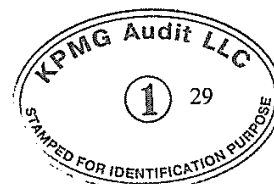
Consequently the revalued amount of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

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 values 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 five-year business plan.
- Total sales revenue was projected to increase by 18% in the first year of the business plan. The anticipated annual sales revenue growth included in the cash flow projections was 15.5% for the years 2009 to 2013. Management plans to achieve sales revenue of KZT 9,699,273 thousand by the fifth year of the business plan.
- Cash flows for a further three years were extrapolated assuming further 7% growth in annual revenue and expenses increasing in line with inflation.
- A discount rate of 19.12% was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 8.6% at a market interest rate of 17%.



## **16 Property, plant and equipment, continued**

### **(a) Revaluation, continued**

- A terminal value was derived at the end of an 8-year period. A terminal rate of 2.5% was considered in estimating the terminal value.

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 no effect on the depreciated replacement cost.
- A 10% decrease in future production volumes would have decreased the depreciated replacement cost values by KZT 593,304 thousand.

### **(b) Security**

Items of property, plant and equipment with a net book value of KZT 3,975,747 thousand are subject to a registered debenture to secure bank loans (2007: KZT 3,889,638 thousand) (see Note 26).

### **(c) Borrowing costs**

During 2007 property, plant and equipment additions included capitalised interest of KZT 65,067 thousand (2008: nil). The interest capitalised related to EUR-denominated borrowings of the Company which were made specifically for the purpose of acquiring and constructing the respective property, plant and equipment (see Note 26).



## 17 Intangible assets

'000 KZT	Computer software	Licences and registration rights	Total
<i>Cost</i>			
Balance at 1 January 2007	56,795	5,434	62,229
Additions	14,586	28,423	43,009
Balance at 31 December 2007	71,381	33,857	105,238
Balance at 1 January 2008	71,381	33,857	105,238
Additions	125,171	23,926	149,097
<b>Balance at 31 December 2008</b>	<b>196,552</b>	<b>57,783</b>	<b>254,335</b>
<i>Amortisation</i>			
Balance at 1 January 2007	(3,434)	(2,569)	(6,003)
Amortisation charge	(4,186)	(3,274)	(7,460)
Balance at 31 December 2007	(7,620)	(5,843)	(13,463)
Balance at 1 January 2008	(7,620)	(5,843)	(13,463)
Amortisation charge	(3,079)	(11,858)	(14,937)
<b>Balance at 31 December 2008</b>	<b>(10,699)</b>	<b>(17,701)</b>	<b>(28,400)</b>
<i>Net book value</i>			
At 1 January 2007	53,361	2,865	56,226
At 31 December 2007	63,761	28,014	91,775
<b>At 31 December 2008</b>	<b>185,853</b>	<b>40,082</b>	<b>225,935</b>

Computer software primarily comprises costs of a SAP installation. The SAP installation was not complete as at 31 December 2008 and 2007.

Amortization expense of KZT 12,856 thousand (2007: KZT 3,274 thousand) has been charged to distribution expenses and KZT 2,081 thousand (2007: KZT 4,186 thousand) to administrative expenses.



## 18 Deferred expenses

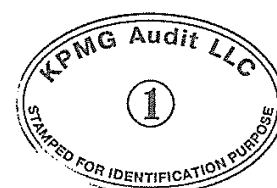
Deferred expenses represent prepayments made for insurance of equipment used in an ointment workshop. The total amount of insurance prepaid as at 31 December 2008 is KZT 54,424 thousand (2007: KZT 56,666 thousand).

## 19 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	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	-	-	(670,357)	(1,048,006)	(670,357)	(1,048,006)
Intangible assets	-	-	(27,351)	(8,333)	(27,351)	(8,333)
Deferred expenses	-	-	(10,885)	(14,978)	(10,885)	(14,978)
Inventories	24,096	29,919	-	-	24,096	29,919
Trade and other receivables	12,390	26,759	-	-	12,390	26,759
Loans and borrowings	-	-	(12,262)	(27,868)	(12,262)	(27,868)
Advances for goods and services	-	2,206	-	-	-	2,206
Trade and other payables	10,371	21,887	-	-	10,371	21,887
<b>Tax assets/(liabilities)</b>	<b>46,857</b>	<b>80,771</b>	<b>(720,855)</b>	<b>(1,099,185)</b>	<b>(673,998)</b>	<b>(1,018,414)</b>
Set off of tax	(46,857)	(80,771)	46,857	80,771	-	-
<b>Net tax assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>(673,998)</b>	<b>(1,018,414)</b>	<b>(673,998)</b>	<b>(1,018,414)</b>





## 19 Deferred tax assets and liabilities, continued

### (b) Movement in temporary differences during the year

'000 KZT	1 January 2007	Recognised in income	Recognised in equity	31 December 2007
Property, plant and equipment	(975,551)	(72,455)	-	(1,048,006)
Intangible assets	(1,554)	(6,779)	-	(8,333)
Deferred expenses	(17,284)	2,306	-	(14,978)
Inventories	30,775	(856)	-	29,919
Trade and other receivables	31,313	(4,554)	-	26,759
Loans and borrowings	(22,289)	3,118	(8,697)	(27,868)
Advances for goods and services	-	2,206	-	2,206
Trade and other payables	12,642	9,245	-	21,887
	<b>(941,948)</b>	<b>(67,769)</b>	<b>(8,697)</b>	<b>(1,018,414)</b>

'000 KZT	1 January 2008	Recognised in income	Recognised in equity	31 December 2008
Property, plant and equipment	(1,048,006)	192,424	185,225	(670,357)
Intangible assets	(8,333)	(19,018)	-	(27,351)
Deferred expenses	(14,978)	4,093	-	(10,885)
Inventories	29,919	(5,823)	-	24,096
Trade and other receivables	26,759	(14,369)	-	12,390
Loans and borrowings	(27,868)	19,598	(3,992)	(12,262)
Advances for goods and services	2,206	(2,206)	-	-
Trade and other payables	21,887	(11,516)	-	10,371
	<b>(1,018,414)</b>	<b>163,183</b>	<b>181,233</b>	<b>(673,998)</b>



## 20 Inventories

	2008	2007
	'000 KZT	'000 KZT
Raw materials and consumables	652,171	771,013
Work in progress	52,404	84,426
Finished goods and goods for resale	723,480	505,529
	<b>1,428,055</b>	<b>1,360,968</b>
Write-down of inventories in the current year	45,834	39,206

Due to introduction of a new ointment workshop that has high cost at initial stage of production, management performed an assessment of the recoverability of the ointment workshop inventory balances and as a result wrote down certain inventories to their net realizable value, which resulted in a loss of KZT 45,834 thousand (2007: KZT 39,206 thousand). The write-down is included in cost of sales.

Inventories with a carrying amount of KZT 394,467 thousand are subject to a registered debenture to secure bank loans (2007: nil) (see Note 26).

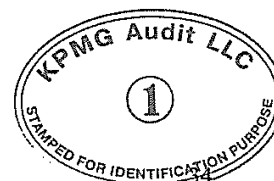
## 21 Trade and other receivables

	2008	2007
	'000 KZT	'000 KZT
Trade receivables from third parties	924,643	730,765
Due from employees	37,876	75,153
Other taxes receivables	20,433	8,473
Trade receivables from related parties	11,174	18,422
Guarantee deposits	2,727	32,303
Other receivables	488	3,814
	<b>997,341</b>	<b>868,930</b>

Trade and other receivables are stated net of impairment loss on trade and other receivables of KZT 40,195 thousand (2007: KZT 40,171 thousand) and provision for sales rebates and returns of KZT 50,579 thousand (2007: KZT 35,117 thousand).

Guarantee deposits relate to state tender guarantees. The guarantees mature within 3 months of the balance sheet date. The guarantee deposits cannot be used by the Company until the guarantees mature.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 29.



## 22 Advances for goods and services

	2008	2007
	'000 KZT	'000 KZT
Advances for goods and services to third parties	79,740	134,865
Cumulative impairment loss on advances	(15,096)	(20,266)
	<b>64,644</b>	<b>114,599</b>

During 2008 management performed an assessment of the recoverability of advances paid for goods and services, which resulted in the reversal of an impairment loss of KZT 5,170 thousand (2007: impairment loss of KZT 20,266 thousand). The reversal of impairment loss/impairment loss of KZT 3,038 thousand (2007: KZT 9,120 thousand) has been included in administrative expenses and KZT 2,132 thousand (2007: KZT 11,146 thousand) in cost of sales.

## 23 Cash and cash equivalents

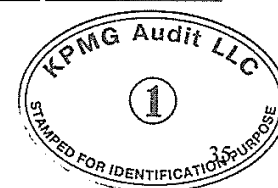
	2008	2007
	'000 KZT	'000 KZT
Petty cash	1,578	12,479
Bank balances	17,572	52,100
<b>Cash and cash equivalents in the balance sheet and the statement of cash flows</b>	<b>19,150</b>	<b>64,579</b>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 29.

## 24 Equity

### (a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	Preference shares	Ordinary shares	Preference shares
	2008	2008	2007	2007
Authorised shares	10,025,004	131,945	10,025,004	131,945
Par value	KZT 297	KZT 297	KZT 297	KZT 297
On issue at beginning of year	5,113,116	131,945	5,112,751	131,945
Issued for cash	-	-	365	-
<b>On issue at end of year, fully paid</b>	<b>5,113,116</b>	<b>131,945</b>	<b>5,113,116</b>	<b>131,945</b>



## **24 Equity, continued**

### **(a) Share capital, continued**

On 17 May 2007 the Company issued 365 ordinary shares with a par value of KZT 297. All issued shares were purchased at a total premium of KZT 441 thousand by the Company's existing shareholders.

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.

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the greater of 0.5% of nominal par value and the dividend per share attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. However, the dividend is not cumulative. 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) Share premium**

Share premium comprises fair value adjustments on the initial recognition of interest-free loans, net of deferred taxation, received from related parties and the excess of the consideration paid for the acquisition of the Company's shares over the par value of the shares.

### **(c) Reserve for own shares**

The reserve for own shares comprises the cost of the Company's shares held by the Company. At the balance sheet date the Company held 17 (2007: 17) of its own ordinary shares.

### **(d) Revaluation reserve**

The revaluation reserve relates to the revaluation of the Company's property, plant and equipment.

### **(e) 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 2008 the Company had retained earnings, including the profit for the current year, of KZT 522,600 thousand (2007: KZT 12,358 thousand).

During 2008 the Company declared dividends on preference shares of KZT 196 thousand (2007: KZT 196 thousand). The related dividend per share amounted to KZT 1.5 and KZT 1.5, respectively.

In the Republic of Kazakhstan dividends are subject to withholding tax of 0% for residents, 15% for non-residents, and 5% for individuals. The withholding tax liability arises when the dividends are paid.

No dividends on ordinary shares were declared in 2008 or 2007.



## 25 Earnings per share

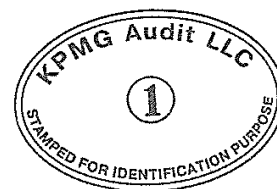
Earnings per share is calculated by dividing the profit attributable to ordinary and to preference shareholders (see Note 24(a)) by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

The following is a reconciliation of the profit attributable to ordinary and preference shareholders:

	2008 '000 KZT	2007 '000 KZT
Dividends declared during the year:		
Preference shares	196	196
Ordinary shares	-	-
Profit remaining undistributed:		
Preference shares	9,420	1,291
Ordinary shares	372,619	57,617
<b>Profit for the year:</b>	<b>382,235</b>	<b>59,104</b>
Attributable to preference shareholders	9,616	1,487
Attributable to ordinary shareholders	372,619	57,617

The following is a reconciliation of the weighted average number of shares:

	Preference shares 2008	Ordinary shares 2008	Preference shares 2007	Ordinary shares 2007
<i>Number of shares</i>				
Issued shares at 1 January	131,945	5,113,117	131,945	5,112,751
Effect of own shares held	-	(17)	-	(17)
Effect of shares issued in May 2007	-	-	-	213
<b>Weighted average number of shares for the year ended 31 December</b>	<b>131,945</b>	<b>5,113,100</b>	<b>131,945</b>	<b>5,112,947</b>



## 26 Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see Note 29.

	2008	2007
	'000 KZT	'000 KZT
<i>Non-current liabilities</i>		
Secured bank loans	785,444	1,021,196
<i>Current liabilities</i>		
Current portion of long-term and short-term secured bank loans	2,279,994	811,275
Loans from related parties	298,376	1,667,723
	<b>2,578,370</b>	<b>2,478,998</b>
	<b>3,363,814</b>	<b>3,500,194</b>

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2008		2007	
'000 KZT	Currency	Nominal Interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans	EUR	Euribor+ 0.75%	2013-2014	1,091,983	1,058,275	1,290,808	1,248,497
Secured bank loans	KZT	12.5%-17.5%	2008-2009	1,989,293	2,007,163	580,000	583,974
Loans received from related party	USD	-	2008-2009	302,963	298,376	1,668,206	1,667,723
				<b>3,384,239</b>	<b>3,363,814</b>	<b>3,539,014</b>	<b>3,500,194</b>

Bank loans are secured by the following:

- Property, plant and equipment with a net book value of KZT 3,975,747 thousand (2007: KZT 3,889,638 thousand) – see Note 16.
- Inventories with a carrying amount of KZT 394,467 thousand (2007: nil) – see Note 20.
- Financial guarantee from Halyk Bank JSC of EUR 8,500 thousand (2007: EUR 8,500 thousand).



## 27 Trade and other payables

	2008	2007
	'000 KZT	'000 KZT
Trade payables to third parties	193,857	241,681
Due to employees	38,839	21,403
Trade payables to related parties	31,364	91,267
Other taxes payable	11,132	20,808
Other payables and accrued expenses	426	1,095
	<b>275,618</b>	<b>376,254</b>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 29.

## 28 Provisions

'000 KZT	Tax
Balance at 1 January 2008	308,225
Provision used during the year	(5,039)
Provision reversed during the year	(62,917)
<b>Balance at 31 December 2008</b>	<b>240,269</b>

Tax provision for taxes relates mainly to undeclared taxes other than income tax, related penalties and late-payment interest. The provision is based on the estimates made according to the law enacted or substantively enacted at the balance sheet date. The tax provision is maintained, and updated if necessary, for the period during which the respective tax positions remain subject to review by the tax authorities, being generally five years from the date of filing the relevant tax return. Upon expiry of the statutory tax review period, the tax provision is released.

During 2008 the Company released a part of the tax provision of KZT 62,917 thousand (2007: nil) following the expiry of the statutory tax review period. The release of the tax provision is recognised as other income.

## 29 Financial risk management

### (a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk



## **29 Financial risk management, continued**

### **(a) Overview, continued**

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

### **(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

#### **(i) Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 12% of the Company's revenue is attributable to sales transactions with two major customers (2007: 22%). Geographically, credit risk is concentrated in Kazakhstan with domestic customers making up 61% of trade receivables (2007: 66%).

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from management; these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.





## 29 Financial risk management, continued

### (b) Credit risk, continued

#### (i) Trade and other receivables, continued

Above 90% of the Company's wholesale customers (distributors) have been transacting with the Company for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Company's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of management.

Goods are largely sold on a prepayment basis. The Company does not require collateral in respect of trade and other receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

#### (ii) Guarantees

The Company's policy is not to provide guarantees to related or third parties.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 KZT	Carrying amount	
	2008	2007
Trade and other receivables, excluding other taxes receivable	976,908	860,457
Cash and cash equivalents	19,150	64,579
	<b>996,058</b>	<b>925,036</b>



## 29 Financial risk management, continued

### (b) Credit risk, continued

#### (ii) Guarantees, continued

##### Exposure to credit risk, continued

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

'000 KZT	Carrying amount	
	2008	2007
Domestic	596,671	567,554
Other CIS countries	368,401	270,780
Other European countries	8,847	9,339
Euro-zone countries	2,989	12,784
	<b>976,908</b>	<b>860,457</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

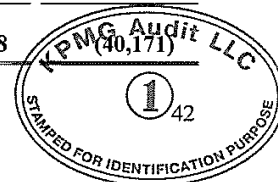
'000 KZT	Carrying amount	
	2008	2007
Wholesale customers	784,684	585,792
Retail customers	61,583	75,537
End-user customer	89,550	87,858
	<b>935,817</b>	<b>749,187</b>

The Company's most significant customer, a domestic wholesaler, accounts for KZT 84,157 thousand of the trade receivables carrying amount at 31 December 2008 (2007: KZT 82,105 thousand).

##### Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 KZT	Gross	Impairment	Gross	Impairment
	2008	2008	2007	2007
Not past due	204,001	-	407,811	-
Past due 0-30 days	299,998	-	182,145	-
Past due 31-90 days	418,089	(3,840)	290,181	(19,680)
Past due more than 91 days	95,015	(36,355)	20,491	(20,491)
	<b>1,017,103</b>	<b>(40,195)</b>	<b>900,628</b>	<b>(40,171)</b>



## 29 Financial risk management, continued

### (b) Credit risk, continued

#### (ii) Guarantees, continued

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2008 '000 KZT	2007 '000 KZT
Balance at 1 January	(40,171)	(60,869)
Increase during the year	(31,720)	-
Decrease due to recognised impairment loss	28,825	13,908
Decrease due to recovery of asset	2,871	6,790
<b>Balance at 31 December</b>	<b>(40,195)</b>	<b>(40,171)</b>

The impairment loss of KZT 14,643 thousand (2007: nil) is included in administrative expenses and KZT 17,077 thousand (2007: nil) is included in cost of sales.

Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 90 days; 90 percent of the balance, which includes the amount owed by the Company's most significant customer (see above), relates to customers that have a good track record with the Company.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be predicted, such as natural disasters.

There were no unused lines of credit as at 31 December 2008 and 2007.

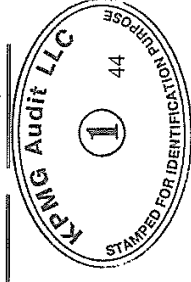
The following are the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements:



## 29 Financial risk management, continued

### (c) Liquidity risk, continued

2008 '000 KZT	Carrying amount	Contractual cash flows	0-6 mnths	6-12 mnths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
<b>Financial liabilities</b>									
Secured bank loans:									
<i>At fixed rate</i>	2,007,163	1,989,293	1,989,293	-	-	-	-	-	-
<i>At floating rate</i>	1,058,275	1,091,983	109,199	109,200	218,396	218,396	218,396	218,396	-
Loans from related parties	298,376	302,963	-	302,963	-	-	-	-	-
Trade and other payables, excluding other taxes payable	264,486	264,486	264,486	-	-	-	-	-	-
	<b>3,628,300</b>	<b>3,648,725</b>	<b>2,362,978</b>	<b>412,163</b>	<b>218,396</b>	<b>218,396</b>	<b>218,396</b>	<b>218,396</b>	<b>-</b>
<b>2007</b>									
<b>'000 KZT</b>									
<b>Financial liabilities</b>									
Secured bank loans:									
<i>At fixed rate</i>	583,974	580,000	580,000	-	-	-	-	-	-
<i>At floating rate</i>	1,248,497	1,290,808	107,569	107,569	215,134	215,134	215,134	215,134	215,134
Loans from related parties	1,667,723	1,668,206	1,438,031	230,175	-	-	-	-	-
Trade and other payables, excluding other taxes payable	355,446	355,446	262,217	93,229	-	-	-	-	-
	<b>3,855,640</b>	<b>3,894,460</b>	<b>2,387,817</b>	<b>430,973</b>	<b>215,134</b>	<b>215,134</b>	<b>215,134</b>	<b>215,134</b>	<b>215,134</b>



## 29 Financial risk management, continued

### (d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Generally the Company does not apply hedge accounting in order to manage volatility in profit or loss.

### (i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company's functional currency, that is KZT. The currencies in which these transactions primarily are denominated are Euro ("EUR"), U.S. Dollars ("USD") and Russian Roubles ("RUR").

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

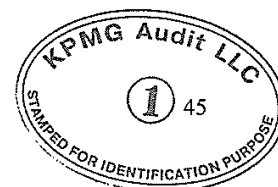
#### Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	USD- denomina- ted	EUR- denomina- ted	RUR- denomina- ted	USD- denomina- ted	EUR- denomina- ted	RUR- denomina- ted
'000 KZT	2008	2008	2008	2007	2007	2007
Trade and other receivables, excluding other taxes receivable	337,601	-	64,993	272,022	-	8,098
Cash and cash equivalents	-	-	-	28,983	-	-
Loans and borrowings	(298,376)	(1,058,275)	-	(1,667,723)	(1,248,497)	-
Trade and other payables, excluding other taxes payable	(69,894)	(35,521)	(35)	(2,141)	(6,752)	(14,563)
<b>Net exposure</b>	<b>(30,669)</b>	<b>(1,093,796)</b>	<b>64,958</b>	<b>(1,368,859)</b>	<b>(1,255,249)</b>	<b>(6,465)</b>

The following significant exchange rates applied during the year:

In KZT	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD 1	120.30	122.55	120.77	120.30
EUR 1	177.04	167.75	170.89	177.17
RUR 1	4.86	4.79	4.11	4.92



## 29 Financial risk management, continued

### (d) Market risk, continued

#### (i) Currency risk, continued

##### Sensitivity analysis

A 25% strengthening of the KZT against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Equity	Profit or loss
	'000 KZT	'000 KZT
<b>2008</b>		
USD	7,667	7,667
EUR	273,449	273,449
RUR	(16,240)	(16,240)
<b>2007</b>		
USD	342,215	342,215
EUR	313,812	313,812
RUR	1,616	1,616

A 25% weakening of the KZT against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### (ii) 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.



## 29 Financial risk management, continued

### (d) Market risk, continued

#### (ii) Interest rate risk, continued

##### Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

'000 KZT ‘	Carrying amount	
	2008	2007
<b>Fixed rate instruments</b>		
Financial liabilities	2,305,539	2,251,697
<b>Variable rate instruments</b>		
Financial liabilities	1,058,275	1,248,497

##### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

##### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

'000 KZT	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>2008</b>				
Variable rate instruments	(10,583)	10,583	(10,583)	10,583
<b>Cash flow sensitivity (net)</b>	<b>(10,583)</b>	<b>10,583</b>	<b>(10,583)</b>	<b>10,583</b>
<b>2007</b>				
Variable rate instruments	(12,485)	12,485	(12,485)	12,485
<b>Cash flow sensitivity (net)</b>	<b>(12,485)</b>	<b>12,485</b>	<b>(12,485)</b>	<b>12,485</b>



## 29 Financial risk management, continued

### (d) Market risk, continued

#### (iii) Other market price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements; such contracts are not settled net.

#### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

'000 KZT	Note	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Trade and other receivables, excluding other taxes receivable	21	976,908	976,908	860,457	860,457
Cash and cash equivalents	23	19,150	19,150	64,579	64,579
Loans and borrowings	26	(3,363,814)	(3,049,666)	(3,500,194)	(3,431,776)
Trade and other payables, excluding other taxes payable	27	(264,486)	(264,486)	(355,446)	(355,446)
		<u>(2,632,242)</u>	<u>(2,318,094)</u>	<u>(2,930,604)</u>	<u>(2,862,186)</u>

The basis for determining fair values is disclosed in Note 4.

The interest rates used to discount estimated cash flows, where applicable, are based on the market interest rates at the reporting date and were as follows:

	2008	2007
Loans and borrowings	10% - 14%	9% - 13%





## 29 Financial risk management, continued

### (e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Company defines as profit for the year divided by total equity at the end of the year. Management also monitors the level of dividends to ordinary shareholders.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company's target is to achieve a return on equity of between 2% and 10%; in 2008 the return was 9.33% (2007: 2.17%). In comparison the weighted average interest expense on interest-bearing borrowings was 14.8% (2007: 9.41%).

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

## 30 Operating leases

Non-cancellable operating lease rentals are receivable as follows:

	2008 '000 KZT	2007 '000 KZT
Less than one year	13,063	10,051

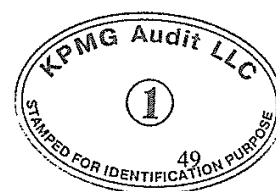
The Company leases out a number of warehouse facilities under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date based on the mutual agreement between the Company and the lessee. Lease payments are usually increased annually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

During the current year KZT 12,038 thousand was recognised in the income statement in respect of operating leases (2007: KZT 8,817 thousand).

## 31 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.



## 31 Contingencies, continued

### (b) Taxation contingencies

The taxation system in Kazakhstan relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years under newly amended tax law but 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. The Company's Executive Management Team 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 32 Related party transactions

### (a) Control relationships

The Company's immediate parent company is WestGain Limited, which owns 59.7% of the Company's ordinary shares.

No publicly available financial statements are produced by the Company's parent company, ultimate controlling party or any other intermediate controlling party.

### (b) Transactions with management

#### (i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 12):

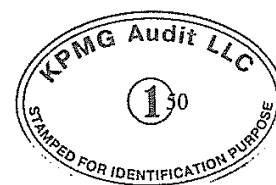
	2008	2007
	'000 KZT	'000 KZT
Salaries and bonuses	19,989	10,178
Contributions to pension fund	1,614	802
	<b>21,603</b>	<b>10,980</b>

#### (ii) Other transactions

At 31 December 2007 loans to directors of KZT 36,316 thousand (2008: nil) are included in "Due from employees" (see Note 21). No interest was payable on these loans. The loans were repayable on demand, and were repaid in 2008.

### (c) Transactions with other related parties

The Company's other related party transactions are disclosed below.



## 32 Related party transactions, continued

### (c) Transactions with other related parties, continued

#### (i) Revenue

	Transaction value	Outstanding balance	Transaction value	Outstanding balance
'000 KZT	2008	2008	2007	2007
Sale of goods:				
Fellow subsidiaries	1,200	198	19,787	2,988
Services provided:				
Fellow subsidiaries	18,934	10,976	22,136	15,434
	<u>20,134</u>	<u>11,174</u>	<u>41,923</u>	<u>18,422</u>

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

#### (ii) Expenses

	Transaction value	Outstanding balance	Transaction value	Outstanding balance
'000 KZT	2008	2008	2007	2007
Purchase of goods:				
Fellow subsidiaries	216,460	31,364	949,431	91,267

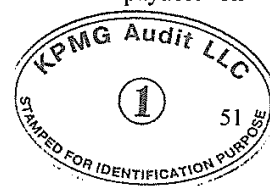
All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

#### (iii) Loans

	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
'000 KZT	2008	2007	2008	2007
Loans received:				
An intermediate controlling party	-	80,000	-	-
Fellow subsidiaries	268,774	1,696,230	298,376	1,667,723
	<u>268,774</u>	<u>1,776,230</u>	<u>298,376</u>	<u>1,667,723</u>

The loan from the Company's fellow subsidiaries are interest free. Upon initial recognition the loans were discounted using a market rate of interest of 14% (2007:13%). The resulting difference upon discounting of KZT 15,970 thousand (2007: KZT 20,293 thousand), net of deferred taxation, was recognised in share premium. The loans are repayable within twelve months of the balance sheet date. None of the loans are secured.

The loan from an intermediate controlling party was interest-free, unsecured and repayable on demand. The loan was received and repaid in 2007.



## **32 Related party transactions, continued**

### **(d) Pricing policies**

Related party transactions are not based on market prices.

## **33 Events subsequent to the balance sheet date**

### **(a) Current market conditions**

Subsequent to the balance sheet date financial markets in Kazakhstan influenced by global trends experienced substantial liquidity stress. This is likely to affect the assumptions, estimates and judgements used by management in preparing the financial statements for the year ending 31 December 2009. In particular, trade and other receivables and advances for goods and services are likely to have suffered impairments.

### **(b) Devaluation of national currency**

In February 2009 the KZT was devalued by approximately 23% to KZT 150 for USD 1. Management has not completed its analysis of the total effect of this devaluation on the Company's operations and financial position; however, the sensitivity analysis provided in Note 29 shows the effect of reasonably possible changes in currency exchange rates on the Company's financial assets and liabilities at the reporting date.

### **(c) Changes in tax legislation**

A number of amendments to the tax legislation in Kazakhstan have been made prior to the balance sheet date that take effect from a date subsequent to the balance sheet date. Of these amendments, potentially the following will have an impact on the Company's operations:

- With effect from 1 January 2009, 1 January 2010 and 1 January 2011, the income tax rate has been reduced to 20%, 17.5%, and 15%, respectively. These rates have been used in the calculation of deferred tax assets and liabilities (see Note 14).
- With effect from 1 January 2009, VAT rate has been reduced from 13% to 12% and VAT receivable may be used to settle a taxpayer's liabilities for other taxes. Tax loss carry-forwards period has been increased from 3 to 10 years. The social tax has been set at 11% for both Kazakh and foreign employees. Interest charges on loans from any lender unrelated to the borrower are fully deductible, regardless of the residency of the lender. Interest charges on loans from related parties and lenders residing in tax havens are subject to certain limitations. Property tax is levied only on a taxpayer's immovable property at the rate of 1.5%. Management has not completed its analysis of these changes in the tax legislation on the Company's financial position or performance.

### **(d) Change of loan repayment schedule**

Subsequent to the balance sheet date the Company has agreed a new repayment schedule for its loans from Halyk Bank and other related parties. In accordance with the new repayment schedule the repayment of principal for Halyk Bank KZT-denominated loans is deferred from 9 January 2009 until 10 January 2010 with interest at 12.5% per annum and the repayment of principal for USD-denominated interest-free loans from related parties is deferred from 25 January 2009 until 25 January 2010.

