

KazakhGold Group Limited - 2008 Annual Report & Accounts

KazakhGold Group Limited is the leading specialist gold mining company in Kazakhstan. We have world-class gold reserves and resources, estimated to be the largest in the country. Our international management team is developing our position as Kazakhstan's leading gold producer. We are also seeking to capitalise on international growth opportunities, such as in Romania and Kyrgyzstan.

KazakhGold Overview

- Combined gold reserves and resources of 59.6* million ounces, estimated to be the largest in Kazakhstan and over 25 per cent of the country's known gold resources
- Significant potential for a resource classification upgrade
- Development properties in Kazakhstan and elsewhere
- Modernisation programme underway to upgrade mining methods and processing technologies and expand production at the three main mines in Northern Kazakhstan
- Positioned as a low cost producer, with significant scope to achieve improved economies of scale
- Managed by an international team, with extensive knowledge of the local geology, business and regulatory environment

*Audited by Wardell Armstrong International to FSU classification as at 1 January 2008.



2008 Highlights

- Gold production of 103,760 ounces (2007: 232,060 ounces), including 4,593 ounces of gold from the reprocessing of finished product, reflects disruption to short-term production from investment in mine refurbishment and production capacity upgrades, together with lower than anticipated mining of high grade ore
- 110,929 ounces of gold sold (2007: 253,056 ounces)
- Average gold price received increased 17.1 per cent to US\$820 per ounce (2007: US\$700/ounce)
- FSU classified (audited by Wardell Armstrong International) gold reserves and resources of 59.6 million ounces, as at 1 January 2008
- Essential investment in upgrading and expanding capacity at Aksu, Bestobe and Zholymbet
- Further progress made to re-classify the Group's resource base to the JORC Code
- Initial exploration results indicate significant potential for a large open pit mine at Southern Karaultube, near the Zholymbet mine
- Successful institutional placement of 2.3 million new ordinary shares (via GDRs) at US\$ 23.0/GDR
- Recommended partial offer for 50.1 per cent of the Group received from an indirect wholly-owned subsidiary of Polyus Gold

2008 Key Results

	2008 (year to 31 December)	2007 (year to 31 December)
	US\$'000	US\$000
Revenue	91,001	176,996
Operating (loss)/profit	(47,782)	56,837
Pre-tax (loss)/profit	(56,804)	51,232
EBITDA	(26,816)	69,395
Earnings per share (US\$) - basic and fully diluted	2.26	0.39
Net assets	953,841	782,478
Gold production	103,760*	232,060
Average achieved sales price (US\$/contained oz)	820	700

* Including 4,593 ounces of gold from the reprocessing of finished product

2009 Progress and Priorities

- Progress the intended firm offer announced by Polyus Gold to acquire 50.1 per cent of the Group's share capital and a proposed US\$100 million equity capital raising, to be underwritten by Polyus Gold
- Increase production of high grade ore significantly at the Group's three main mines
- Continue construction of the 2.0 Mtpa tailings re-treatment plants at Bestobe and Zholybet and begin construction of a similar plant at Aksu
- Upgrade further resources to reserves, while progressing the ongoing conversion of FSU classified reserves and resources to the JORC Code
- Upgrade the Group's three main assay laboratories
- Refurbishment and modernisation of the Romaltyn plant in Baia Mare, Romania
- Resolve the future of the Jerooy project in Kyrgyzstan.

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CHAIRMAN'S STATEMENT

During 2008 KazakhGold Group undertook further significant work to upgrade and expand production capacity, as part of a planned programme of investment to realise the full potential of our world class asset base. As expected, this essential work constrained production for the year. The situation was also exacerbated by difficulties in gaining safe underground access to high grade ore at our main mines. The result was that production fell well short of expectations. As a consequence, as the year progressed, the Group's financial resources came under increasing pressure.

Meanwhile, from the second half of 2008, the first signs of a global credit crunch began to emerge. While this has highlighted the attractions of gold as an investment, increasing demand and providing a strong pricing environment, it has severely restricted the overall availability of capital.

In view of this I am pleased to report that Polyus Gold has announced, in conjunction with this Report and Accounts, its firm intention to make a revised offer for 50.1 per cent of KazakhGold's share capital, which is explained in more detail in the Financial Review. The Group then proposes to raise an additional US\$100 million of equity capital, which Polyus Gold has agreed to underwrite. These steps will provide the necessary funds and expertise to unlock the full potential of the Group's gold assets.

Results

Gold production for the year ended 31 December 2008 was 103,760 ounces, which includes 4,593 ounces from the reprocessing of finished product (2007: 232,060 ounces). The main reasons for the decline have already been mentioned. However, at our open pit operations, we were also unable to mine the expected volume of higher grade ore due to the need to first extract large quantities of low grade ore.

As a result of the production shortfall in 2008, revenue for the year declined by 48.6 per cent to US\$91.0 million (2007: US\$177.0 million). The Group benefited, however, from selling gold at an average price of US\$820 per ounce in 2008, a 17.1 per cent increase on the previous year and reflecting stronger international demand for gold during the period.

KazakhGold made a loss before tax of US\$56.8 million for the year (2007: profit before tax of US\$51.2 million). The profit attributable to shareholders was US\$118.8 million in 2008 (2007: US\$19.4 million). This increase resulted from the release of US\$177.7 million of deferred tax liability, resulting from a reduction in the future rate of Kazakh corporation tax.

Capital expenditure during the year was US\$192.5 million (2007: US\$91.5 million). This was mainly used to refurbish our underground mines at Aksu, Bestobe and Zholymbet, in order to enable safe and improved access to high grade ore in the future. We also upgraded our carbon-in-pulp (CIP) processing plants at Aksu and Zholymbet. During the year we began construction of 2.0 million tonne per annum capacity tailings retreatment plants at Bestobe and Zholymbet, and advanced our plans for a similar facility at Aksu.

In February, the Group successfully placed new ordinary shares with institutional investors, in the form of Global Depository Receipts (GDR). This raised a net US\$50.4 million, which has been used to fund the Group's ongoing capital expenditure requirements.

Despite the proceeds from the foregoing share placement, the capital expenditure and production shortfall in 2008 led to a significant deterioration in the Group's cash balance in the second half of the year. The Group ended 2008 with US\$14.0 million in cash and cash equivalents. In these circumstances, KazakhGold requires an additional capital injection as a priority.

Exploration

Throughout 2008 exploration continued at our three main mines and other high potential deposits. At Aksu we made good progress with developing our knowledge of the Vera zone, within our existing licence area. Elsewhere, initial exploration of the Southern Karaultube deposit revealed significant potential for a large open pit operation, within 5 km of the existing Zholymbet mine and processing facilities.

We continued our ongoing programme to convert our FSU classified reserves and resources, to the widely respected Australasian Joint Ore Reserves Committee (JORC) code. This work is important, in order to realise the full benefits of our gold deposits. The work is now underway and during 2008 we expanded the content of our database, to include historical and new exploration data relating to our main mines and other properties with near-term production potential.

Appointment of financial advisers

Bank of America Merrill Lynch was appointed as co-financial adviser in 2008 and has been working alongside ING and JPMorgan Cazenove, the company's brokers, to advise the Group on a number of corporate transactions. Following the approach received from Polyus Gold, Canaccord Adams was appointed as financial adviser on this specific matter.

Employees

On behalf of the Board, I wish to express my gratitude to the Group's employees for their enormous contribution in 2008. Their continued dedication and ongoing support is both appreciated and fundamental to the ongoing transformation of KazakhGold, so that the Group's full potential can be achieved.

Outlook

With several developed economies in recession and the availability of credit very restricted, the global macroeconomic environment looks set to remain challenging throughout 2009.

The decision in February 2009 by the Central Bank of Kazakhstan to devalue the Kazakh Tenge, by some 25 per cent against the US Dollar, is a welcome development. With much of our cost base denominated in Tenge, this immediately enhances the cost competitiveness of our operations.

Backed by significant gold reserves and resources, robust demand for gold and with the added financial and managerial support of Polyus Gold, the Group is ideally placed to consolidate its position as Kazakhstan's leading gold producer. As a consequence, in our partnership with Polyus Gold, I am confident that KazakhGold has an excellent long-term future.

OPERATIONAL REVIEW

Production Summary for 12 months ended 31 December 2008.			
<u>Mining</u>			
	Ore Mined (‘000 tonnes)	Grade (g/t)	Gold Content (oz)
Aksu	1,088	1.68	58,908
Bestobe	493	2.35	37,321
Zholymbet	351	4.12	46,541
Totals	1.932m tonnes	2.3g/t	142,770 ounces
<u>Processing</u>			
	Ore Treated	Grade	Gold Produced* (oz)
Aksu	775	2.17	36,142
Bestobe	487	2.17	29,138
Zholymbet	350	3.38	29,256
Quartz ore			9,224
Totals	1.612m tonnes	2.0g/t	103,760** ounces

*Total gold produced includes a small amount of gold recovered from quartz ore and other sources

** Includes 4,593 oz of gold from reprocessing of finished product.

Production

Gold production for the year to 31 December 2008 was 103,760 ounces, which includes 4,593 ounces of gold from the reprocessing of finished product (2007: 232,060 ounces).

It was anticipated that production would be constrained at our three main mines in 2007 and 2008, due to short-term disruption arising from the work to upgrade and expand production capacity. In the second half of 2008, however, it became necessary to significantly reduce the underground mining of high grade ore at Aksu, Bestobe and Zholymbet. This was due to the need for essential surface, shaft and underground rehabilitation work, to provide safe access to the high grade ore areas. The work was essential, in particular due to the poor condition of the mostly Soviet era sub-surface mine infrastructure at these deposits. It is expected that this refurbishment work will facilitate an increase in the volume of high grade ore mined in 2009.

At the Group’s open pit operations, the mining of higher grade ore was restricted during the year by the need to first extract low grade ore, in order to gain access to the strata of higher grade ore below. This, together with the underground refurbishment work at the Group’s three main mines, led to much lower than anticipated production in 2008.

During the year, the Group upgraded its production facilities. This included the installation of additional mills and cyclone facilities at Aksu and Zholymbet carbon-in-pulp (CIP) processing plants. Construction of 2.0 million tonne capacity tailings retreatment plants was begun at Bestobe and Zholymbet.

To complete the necessary investment to enable production levels to be raised significantly requires additional capital.

Reserves and Resources

Exploration and geology

The main focus of the Group’s geological activity over the year was to improve the geological understanding of the resources adjacent to its existing mining operations. This will enable future planned expansion of existing operations and the start of mining in new areas. Activity included site surface and underground exploration work that comprised underground development, drilling, trenching, and sampling. In addition, an assessment of the available historical geological data, and further data entry into a database of both ongoing, historical FSU and Kazakh geological exploration data was undertaken.

KazakhGold's Soviet classified resources and reserves were audited by Wardell Armstrong International (WAI) as at 1 January 2008. At that time the reserves and resources in Kazakhstan were 59.6 million ounces (see table below).

KazakhGold Gold Reserves and Resources (as at 1 January 2008*)

As at 1 January 2008	Ore (million tonnes)	Grade (g/tonne)	Gold (tonnes)	Gold (million oz)
Kazakh Reserves (B + C ₁)	158.80	2.68	426.17	13.70
Kazakh Resources (C ₂)	138.72	3.82	530.42	17.06
Kazakh Resources (P ₁)	235.84	2.80	895.72	28.80
Romania Reserves	10.00	0.84	8.40	0.26

*Audited by Wardell Armstrong International

Under the Former Soviet Union (FSU) and Romanian National Agency for Mineral Resources (NAMR) classifications codes of reserves and resources, the Group had a total of 13.96 million ounces of reserves (B + C₁ + Romanian reserves) as at 1 January 2008. In addition, gold resources amounted to 45.86 million ounces (C₂ + P₁), under the FSU classification.

During 2008 four Gemcom Surpac[®] licences were purchased and the FSU to JORC resource estimation conversion and work programme commenced. Wire framing of geological features and ore bodies has begun, so that the Surpac[®] software can enable three dimensional modelling of gold deposits, for resource estimation. Reserves and resources are then updated to reflect depletions of mined materials and also the addition of resources defined by exploration. Database construction remains ongoing, using both historical data and newly generated information. Data entry has focused on the zones that it is intended to mine in the short to medium term. This work is necessary for the conversion of the resources and reserves to the JORC code.

Over 2008 there was significant growth in the geological development and understanding of the Group's reserves and resources. At the three principal mines in Northern Kazakhstan, procedures were implemented that have shown improvement in grade control methods and sampling methodology undertaken, during both the open pit and underground mining process.

In January 2008, the Group attained ISO17025 accreditation for the laboratory at its offices in East Kazakhstan. A contractor will be selected to upgrade and expand the Group's three main assay laboratories and independently manage the laboratories under contract. The aim of this is to increase throughput, while maintaining and increasing the precision and accuracy of assaying and analysis. The plan is to then obtain ISO17025 accreditation for these three laboratories.

A world class asset base

A significant element of the Group's growth strategy is the ongoing estimation of its asset base at Aksu, Bestobe and Zholymbet. This work entails the reclassification of reserves and resources to the more internationally accepted JORC code. The preliminary results of this reconciliation study were made available by Wardell Armstrong International in January 2007, and later audited in 2008. They confirmed a world class asset base, of long-term benefit to the Group, with significant potential for a resource classification upgrade.

WAI's initial findings showed Aksu, Bestobe and Zholymbet with in excess of 7.0 million ounces of gold likely to be classified as either Measured or Indicated. WAI estimated that a further 8.0 million ounces of gold are at the Inferred status, with a realistic likelihood of upgrading to the Indicated category or better. A significant proportion of this combined 15.0 million ounces lies within designated open pit zones at each of the deposits.

The Group also holds nearly 20.0 million additional ounces of gold at Aksu, Bestobe and Zholymbet which WAI designated as unclassified, due to the need to do further exploration and evaluation work. However, as with the Inferred category, it is likely that a significant proportion of this will eventually be classified as indicated or better. An additional 10.0 million ounces currently remain as FSU classified P₁, until further drilling and sampling is carried out to facilitate conversion to the JORC code.

Exploration progress

Exploration work focused on the three key assets of Aksu, Bestobe and Zholymbet. Additional work was undertaken at Akzhal and Kaskabulak in East Kazakhstan. Geological activity during the year comprised 41,888 metres of core drilling, 2,117 metres of hydro-core drilling, and 2,000 metres of reverse air blast drilling. Further work included 6,811 linear metres of trenching, with 15,274 cubic metres excavated; 668 cubic metres of stripping works to expose near surface mineralised zones, and 6,437 metres of underground exploration development. In-pit drilling comprised 52,388 metres of Down the Hole hammer drilling, of which 1,232 metres were for exploration.

Other key developments during the year were:

- The purchase of three new Atlas Copco Diamec 262 drill rigs, to start a proposed underground drilling programme at Aksu and Bestobe;
- Contract negotiations were progressed to the final stages with international drill companies to manage and drill all future underground core drilling operations;
- Contract negotiations were advanced with reverse circulation drilling companies, to initiate surface drilling programmes, incorporating the drilling of existing dumps, pit extensions etc.

KazakhGold will continue to pursue exploration and evaluation work to both convert FSU/Kazakh classified resources and reserves to the JORC code, and to upgrade resources to reserves to provide sustainable reserves to meet its production targets.

PRINCIPAL OPERATING MINES

AKSU (Including Quartzite Hills)

Production highlights

In the year to 31 December 2008, 1.1 million tonnes of ore were mined at Aksu, with an average grade of 1.68 grammes of gold per tonne and a gold content of 58,908 ounces. 775,000 tonnes of ore were treated at Aksu, enabling production of 36,142 ounces of gold.

During the year:

- Access to the Vera ore body was obtained, enabling ore extraction to commence towards the end of 2008, as planned;
- Secondary mills were installed and commissioned at the existing CIP plant;
- A tertiary crushing and screening facility was installed and commissioning started at the existing CIP plant.

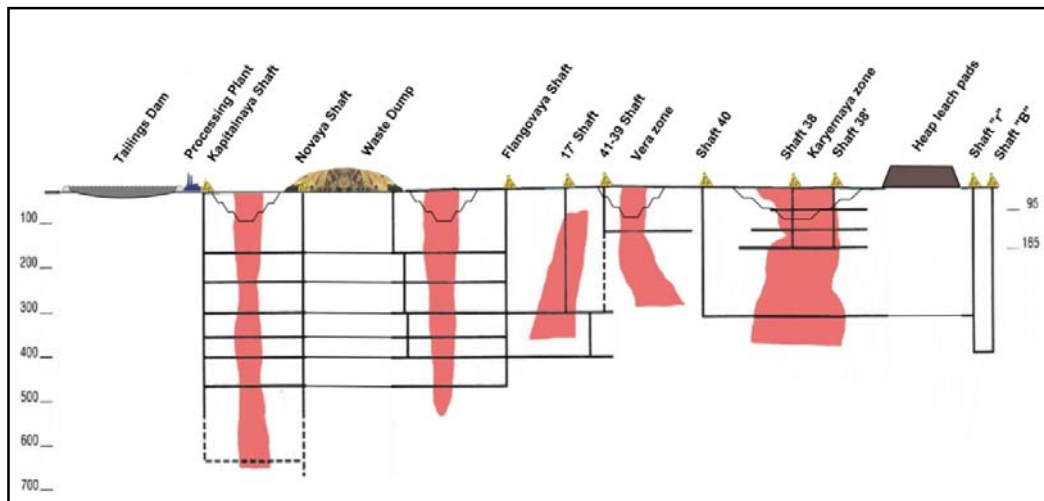
Exploration and geology

Over the year, open pit geological mapping and sampling were undertaken, to define ore zones and verify drilling profiles. The Group's exploration department and a Kazakh contract drilling company undertook core drilling work.

Based on the surface drilling exploration results from the Karyernaya zone, a report was submitted to the State Committee of Reserves (GKZ) showing the work completed and the resulting resource/reserve calculations.

Geological work undertaken during the year included:

- Surface diamond drilling at the open pit to redefine resources at a lower cut-off-grade (0.3g/t). 45 drill holes for 7,857 metres were completed. Estimation of gold reserves based on this work will be made during 2009 and submitted to the State for approval to mine;
- At the open pit, 27,745 metres of grade control drilling was completed. These drill holes adequately defined oxidised and transitional ore types, from the open pit, which were mined and either stockpiled or treated by Heap Leach or the Carbon-in-Leach (CIL) plant;
- At the open pit extension areas of Kotenko and Area 509, diamond core drilling intercepted sub-horizontal zones from 1 metre to 5 metres wide, with high-grade gold intercepts generally contained within large lower grade mineralized zones to a depth of 300 metres below surface. A total of 35 drill holes for 10,572 metres have been completed, based on a grid of 60 metres by 40 metres. This drilling targeted zones which can be both mined by extending the current open pits, as well as accessing the deeper gold from existing underground development. The drilling programme will continue during 2009;
- A total of 1,571 metres of underground exploration development work was completed;
- At the Vera ore body which is a new mining operation, diamond core drilling intercepted sub-horizontal high-grade mineralisation to a depth of 400 metres below surface. A total of 25 drill holes for 10,255 metres have been completed. Drilling initially focused on upgrading a C2 category block, as approved by GKZ (State Commission of Reserves), with drilling over a grid of 40 metres by 20 to 40 metres, to a depth of 400 metres. It is planned to extend underground mining of the Vera ore body during 2009, following approval of this block for mining; and
- The geological technical report of the reserves of the tailings management facility was submitted to GKZ in October 2008 for approval to allow mine planning. This submission follows satisfaction of the requirement to drill an additional 99 holes comprising 595 metres and further test work.



Mining

Underground mining of the Vera ore body began by the end of 2008, as planned. This followed rehabilitation work carried out in Shafts 39 and 41. This is expected to enable a significant increase in mining from these two shafts in 2009. The mined ore will be treated at Aksu's existing CIP processing plant.

At the Quartzite Hills ore body, surface, shaft and underground rehabilitation work was undertaken in two separate areas during the year. This rehabilitation work at Kapitalnaya Shaft and Flangovaya Shaft will continue during 2009. This is expected to allow mining of this ore body to commence later in 2009.

Ore treatment

In March, secondary mills were installed and commissioned at Aksu's carbon-in-pulp (CIP) processing plant. A tertiary crushing and screening facility at the CIP plant was designed and installed in the second half of 2008. Commissioning of this plant began towards the end of the year. Following subsequent optimisation, it is expected to enter full operation during the first half of 2009.

Construction of a new oxygen plant began in the first half and is expected to be completed in the first half of 2009. The granting of permits has continued to hinder this project at the existing Aksu processing facility. This plant will help increase gold recovery, while enabling cyanide consumption to be optimised. Meanwhile, at the heap leach facility, the size of crushed ore was reduced in order to improve heap leaching efficiency.

BESTOBE

Production highlights

In the year to 31 December 2008, 493,000 tonnes of ore were mined at Bestobe, with an average grade of 2.35 grammes of gold per tonne and a gold content of 37,321 ounces. 487,000 tonnes of ore were treated at Bestobe, enabling production of 29,138 ounces of gold.

During the year:

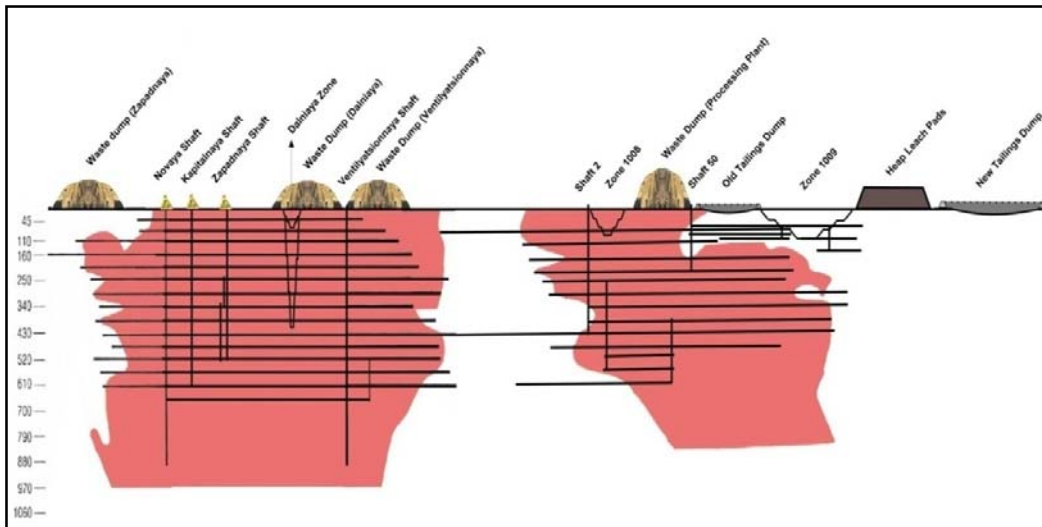
- Access was gained to the Dalnaya ore body for underground mining later in 2009;
- Good progress was made with the refurbishment of numerous shafts and surface infrastructure;
- A new mill and gravity concentrator circuit was completed and commissioned at the existing flotation plant area.

Exploration and geology

The surface drilling programme targeted expansion of the existing open pit areas. In addition to the core drilling, Down the Hole drilling was carried out, to define the pit expansion limits.

Geological work undertaken during the year included:

- 14,021 metres of grade control holes were drilled, to define ore blocks on a northeast extension of the open pit;
- Surface diamond core drilling continued at the Central Zone. Diamond drill core holes were all drilled to a target depth of about 150 metres. A total of 9,133 metres of drilling have been completed;
- 800 metres of underground drilling from 13 drill holes was completed, that targeted gold quartz veins on the - 700 metre level for reserve increase and mine planning;
- A total of 1,750 metres of underground exploration development work was completed;
- The geological technical report of the reserves of the tailings management facility was submitted to GKZ (State Commission of Reserves) in January 2009 for approval to allow mine planning.



Mining

Surface, shaft and underground development and rehabilitation work was progressed during 2008 and is continuing. This is to allow for future planned increases in underground mining later in 2009. Access to the Dalnaya ore body was gained towards the end of 2008, as anticipated. However, mining of this ore body is not expected to start until later in 2009, following completion of the rehabilitation work, in order to allow for tramming and hoisting. Refurbishment of the ventilation shaft and western shaft is ongoing within the Dalnaya ore body area.

Access to the quartz vein areas towards the eastern section of Bestobe has progressed well, and the equipping of 655 level has started. The refurbishment of the Novaya shaft headgear began during the second half of 2008, in preparation for the winter period, and will continue in 2009.

Ore treatment

In the second half of 2008, a new gravity concentrator was installed and commissioned at the existing flotation plant. This equipment works within the same circuit as the new mill that was commissioned earlier in the year. The new mill and gravity concentrator circuit will increase the availability of Bestobe's flotation plant, by permitting a reduction in the throughput to the existing mills. Additional crushing and screening equipment was also delivered to Bestobe during the year, this will enable a further improvement in the existing heap leach processing activity in 2009.

The delivery of additional crushing and screening equipment to Bestobe started during the year, this will enable a further improvement in the existing heap leach processing activity during 2009.

Construction of a 2.0 million tonnes per annum capacity tailings retreatment plant was temporarily suspended, awaiting the issue of appropriate permits and licences from the relevant authorities.

ZHOLYMBET

Production highlights

In the year to 31 December 2008 351,000 tonnes of ore were mined, with an average grade of 4.12 grammes of gold per tonne and a gold content of 46,541 ounces. During 2008, 350,000 tonnes of ore were treated, enabling production of 29,256 ounces of gold.

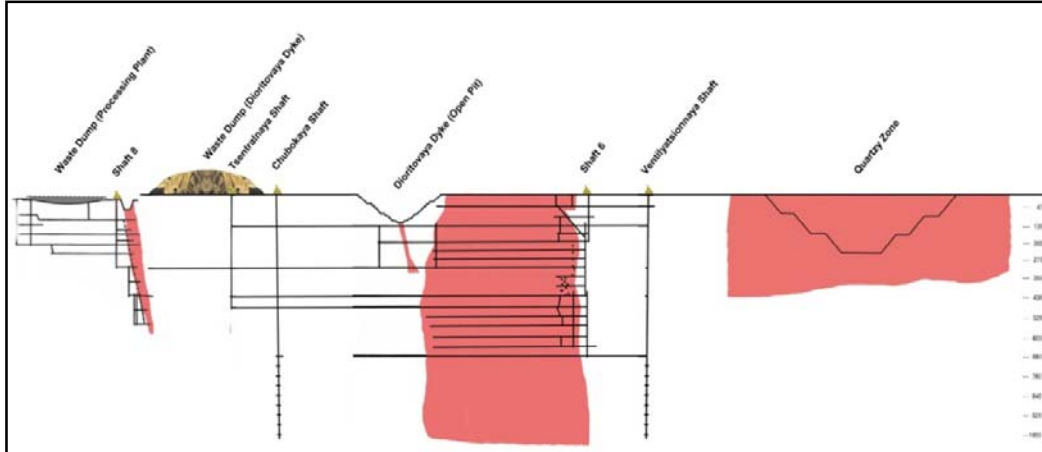
During the year:

- Shaft refurbishment and underground development work continued intermittently, in order to minimise interference with production;
- Two secondary mills and an oxygen generating plant were installed and commissioned at the existing processing facility.

Exploration and geology

Geological work carried out during the year included:

- A total of 3,116 metres of underground exploration development work. Most of the exploration development was completed on the southern section of the central ore body, where underground drilling programmes are planned;
- Surface diamond drilling within the area comprised 16 drill holes with 3,320 metres and surface Down the Hole hammer drilling comprised 8,810 metres.



Mining

During the year, shaft refurbishment and underground development work was progressed at Zholymbet and remains ongoing, on an intermittent basis, in order to maximise the availability of shafts and minimise production losses. This work, including the provision of new skip facilities, is expected to be completed in the first half of 2010, in order to enable a planned increase in mining and ore extraction in the second half of 2010.

The possible refurbishment and use of the Glubokaya shaft and ventilation shaft will be investigated during 2009, with a view to increasing the underground production from the deeper quartz vein areas.

Ore treatment

Two secondary mills were installed at the mine's CIP processing plant during the year and were commissioned during the second half of 2008. An oxygen generation plant was installed into a new building and the oxygen generating equipment was commissioned in April 2008.

Construction of the 2.0 million tonnes per annum capacity tailings retreatment plant was temporarily suspended, awaiting the issue of appropriate permits and licences from the relevant authorities.

EXPLORATION AND DEVELOPMENT PROPERTIES

Northern Kazakhstan

SOUTHERN (Yuzhny) KARAUJTUBE

Southern Karaultube (9.3 km²) is located in the Akmola region of Northern Kazakhstan, near the Group's existing Zholymbet mining operation. It can be explored and developed efficiently, with the results of earlier exploration work from the 1980s still available. A revised exploration permit was approved at the end of 2007, and exploration commenced in 2008 with:

- Phase 1 exploration hydro-core drilling of 51 holes - comprising 2,117 metres completed at Yuzhny Karaultebe (Zholymbet) that showed the potential for a large open pit with a strike length of over 2.5km and width up to 100 metres. The deposit was tested in the upper level only, for open pit planning (to a depth of about 100 metres) further to prospecting traverse work. It is known from historical core drilling that the grade increases in the primary deeper mineralization, and it is planned to test this in the future, once the initial open pit resource has been converted to reserves;
- 3,973 linear metres of trenches were dug and sampled on a shallow quartz stockwork zone, with the aim to define ore zones beneath 1 metre to 4 metres of overburden. The volume of trenching undertaken was 11,068 cubic metres, with 2,453 channel samples taken;
- Geological modelling using Surpac[®] software was initiated and a 12,750 metre reverse circulation drilling programme was planned.

KYZYLSORE

Kyzylsorskoe (60 km²) is located in the Akmola region of Northern Kazakhstan between the Aksu and Bestobe deposits. Gold veins occur above copper-molybdenum mineralisation, in both the bedrock and weathered overburden. No significant work was undertaken here in 2008.

Eastern Kazakhstan

AKZHAL & KASKABULAKSKOE

A subsoil contract from the Kazakh Government has been awarded for Akzhal. Dry commissioning of a crusher plant has been completed and truck stacking of the ore has started.

Kaskabulakskoe (491 km²) was one of five licences awarded to Kazakhaltyn in December 2005. No gold was produced during 2008. Further exploration is planned during 2009.

Exploration work in Eastern Kazakhstan comprised:

- Surface drilling, trenching, and channel sampling;
- 751 metres of surface core drilling; 1,812 metres of Down the Hole drilling and 2,838 linear metres of trenching and channel sampling.

Central Kazakhstan

ZONES 1 & 2 of AKSHATAU

Zones 1 & 2 of the Akshatau MMC deposit (56.6 km²) are located in the Karaganda region of Central Kazakhstan. There was no geological site activity in 2008. Zones have been sampled during field mapping and assays up to 10g/tonne have been previously determined.

Romania

ROMALTYN

Overview

The Romaltn assets include a gold recovery plant able to treat 2.5 million tonnes of tailings and ore per annum. In addition there are some 8.5 million recoverable tonnes at the central tailings dump, 7.8 km from the plant. Several exploration tenements, including Sophia and June 11 also formed part of the acquisition.

Romaltn has reserves of some 260,000 ounces at the Central Dam according to the Romanian National Agency for Mineral Resources (NAMR), and an estimated resource base of some 4.2 million ounces (based on NAMR measurement principles).

Exploration and geology

In 2008 exploration work was undertaken on both the Romaltn Exploration tenements (75.1 km²) and the Romaltn Mining tenements (78.5 km²), located North of Baia Mare, in Northern Romania. Work on the Romaltn Exploration tenements included the collection of 72 geochemical samples. Technical geological reporting and environmental reports were made for each tenement.

The focus of the activity over the period, to assess production potential, was at the Romaltn Mining tenements. During the year work included 9km² of land surveying, while trench sampling of 240 linear metres was completed. Core drilling was carried out at the June 11 property, within the Romaltn Mining tenement, to assess the potential for open pit mining. Some 900 metres of road access, 250 square metres of drill site preparation, and a total of 1,467 metres was drilled. Technical reporting included six geological and two environmental reports for the Romanian authorities.

The mineralisation at Romaltn's tenements is generally formed of free gold or gold, disseminated in quartz (60-70 per cent) and oxidation minerals. There are also pyrite, chalcopyrite, blende and galena found below the oxidation area. The gold grades vary both by direction and inclination from 0.5 to 70 grammes per tonne.

Licence restructuring

Following the year end a wholly-owned subsidiary of the Group, Romaltn Exploration, was awarded three new gold exploration licences (in part formerly held by Romaltn Mining) in the highly prospective Northern Carpathian Mountains. These licences were granted by the National Agency of Mineral Resources (NAMR) of Romania on 17 March 2009. They have an initial validity of five years, during which time their automatic conversion to a mining licence is possible, should the deposits explored prove feasible for gold production.

The three new licence areas cover a total area of 45.9 square kilometres, and contain the known gold deposits of Hanau, June 11, and Sofia (formerly held by Romaltn Mining). These deposits will be the target for stage one exploration work. All exploration tenements of the Romaltn Group of companies are now held by Romaltn Exploration.

Licence #	Tenement	Valid from	Valid until	Area (km ²)
11795	Camarzana North (including part of the former Bixad licence)	24.03.2009	24.03.2014	26.7
11796	Aunis-Piatra Handal (including part of the former Ilba-Baita licence)	24.03.2009	24.03.2014	18.0
11797	Poprad (including part of the former Sasar-Valea Rosie-Dealul Crucii licence)	24.03.2009	24.03.2014	1.2
698	Racsa South-East	3.08.1999	15.02.2010	53.6
TOTAL				99.5

The Group is interested in the potential to develop hard rock gold mining prospects. This will allow the increase and extension of production from its tailings retreatment operation at Baia Mare, Romania, where it is planned to start production during 2009. It is anticipated that tailings dam drilling will be undertaken to better define the grade distribution, based on a closely spaced drill programme, to provide data for detailed mine planning purposes.

Kyrgyzstan

As disclosed in Note 32 of the financial statements, the Group is in negotiations with the Government of Kyrgyzstan to secure a mining licence for the Jerooy gold project at Talas, to allow gold production to begin. The Directors believe that the Group will eventually be granted such a licence, enabling potential gold production of up to 180,000 ounces per annum to be reached, within a year of starting operations.

SALES

Gold sales of 110,929 ounces were achieved in 2008. The average price received per ounce of gold was US\$820, an increase of 17.1 per cent on the previous year. The total value of sales in 2008 was US\$91.0 million (2007: US\$177.0 million), with the decline reflecting lower than anticipated production levels for the year as outlined earlier in this Operational Review. Sales were primarily of Cathodic gold, to customers in Russia, Switzerland and the United Arab Emirates.

HEALTH, SAFETY & ENVIRONMENT

KazakhGold places a high importance on the health and welfare of its employees, ensuring safe working conditions are maintained at operations and upon minimising the environmental impact of its activities. These commitments are formalised by policies designed to ensure the welfare of employees, to benefit the local communities in which the Group operates and to protect the environment for future generations.

During 2008, there were no fatalities, serious injuries or safety procedure violations at KazakhGold's operations. The Group ensures that all employees engaged in operations receive mandatory safety training and are encouraged to develop a healthy lifestyle. The Group, through its main operating subsidiary Kazakhaltyn, continues to ensure that it operates in compliance with Kazakhstan's health and safety regulations. Furthermore, its ongoing investment in health and safety and associated training programmes are designed to progressively move towards best international practice.

COMMUNITY AND EMPLOYEE SUPPORT

During 2008 the Group's main operating subsidiary, Kazakhaltyn, has continued to provide support for a number of programmes and charitable activities in the communities in which it operates. More than US\$2.0 million in sponsorship and charitable contributions were made in 2008 to a number of organisations and activities. The beneficiaries included educational foundations, war veterans and disabled people.

FINANCIAL REVIEW

Revenue and profit

In the year to 31 December 2008, revenue was US\$91.0 million (2007: US\$177.0 million), a decline that resulted from a 57.3 per cent reduction in gold production compared with 2007. The average gold price on sales achieved in 2008 was US\$820 per ounce, which was US\$120 per ounce higher than the previous year.

The cost of sales in 2008 was US\$55.9 million (US\$88.2 million), reflecting lower sales volumes achieved compared with 2007. Gross profit was US\$35.1 million (2007: US\$88.8 million). During 2008, administrative expenses increased to US\$74.4 million (2007: US\$23.0 million). This steep increase was largely due to abnormal production expenses, which relate to wages and other costs not utilised in a productive capacity during the period of mine refurbishment - as a consequence, these costs are included under administrative expenses. There was also a doubling of other administrative expenses, reflecting increases in professional fees incurred in relation to the Polyus deal and payments of contractual bonuses.

As a result of the decline in gold sales and the foregoing increases in costs, the Group made an operating loss of US\$47.8 million for 2008 (2007: profit of US\$56.8 million). Net financing costs for the year increased to US\$9.0 million (US\$5.6 million). This increase reflected a decline in finance income compared with 2007, as funds were invested during 2008.

The Group made a loss before tax of US\$56.8 million in 2008 (2007: profit of US\$51.2 million). During the year, the Group benefited from a tax credit of US\$175.6 million. This credit arose is the main from the release of a deferred tax liability due to a change in future corporation tax rates. Further information is provided in Notes 14 and 31 of the financial statements. The abnormal tax credit received by the Group in 2008 enabled the profit attributable to equity shareholders to increase significantly to US\$118.8 million (2007: US\$19.4 million).

Earnings and dividends per share

Basic and diluted earnings per share in 2008 were US\$2.26 (2007: US\$0.39). As announced previously, the Group does not propose the payment of any shareholder dividends until the plant modernisation programme is completed, and our facilities reach their designed output capacity.

Debt

The Group had outstanding debt of US\$246.5 million as at 31 December 2008 (2007: US\$238.0 million). This increase reflects the Group's increased use of short-term bank loans to finance its operations.

Cash flow

Operations during the year absorbed US\$18.6 million, this compared with US\$71.3 million generated from operations in 2007. The Group had net cash at the end of 2008 of US\$14.0 million (31 December 2007: US\$160.3 million).

On 28 February KazakhGold successfully placed 2.3 million new ordinary shares with institutional investors, in the form of Global Depository Receipts (GDR), at a price of USD 23.0 per GDR. The net proceeds of US\$50.4 million have been used to fund the Group's ongoing capital expenditure requirements.

Capital expenditure during 2008 increased significantly over the previous year to US\$192.5 million (2007: US\$91.5 million), as the Group continued the implementation of its production modernisation and expansion plans.

Additional capital requirement

As detailed in the Operational Review, production in the second half of 2008 fell well short of expectations. This led to a significant deterioration in working capital and a requirement for KazakhGold to secure additional funds in order to continue to operate as a going concern in its current form.

Offer from Polyus Gold

During the year the Group received an approach from Jenington International Inc, an indirect wholly-owned subsidiary of Polyus Gold, regarding a possible partial offer for 50.1 per cent of the Group's existing share capital.

Today Polyus Gold has announced, in conjunction with this Report and Accounts, its firm intention to make a recommended offer for 50.1 per cent of the Group's share capital. Under the terms of the Partial Offer, KazakhGold shareholders will be entitled to receive approximately US\$7.18 in cash and 0.064 Polyus Gold Consideration Shares for each KazakhGold share. Upon completion of the Partial Offer, KazakhGold intends to raise US\$100 million of additional equity capital. The proceeds of the equity capital raising will be used to fund, in part, the Group's working capital requirements, including capital investment, and to fund the solicitation fee payable to the holders of the US\$200 million Senior Notes due in 2013. Jenington International Inc has agreed to underwrite the equity capital raising.

The Partial Offer is subject to satisfaction of certain conditions including valid acceptances being received in respect of not less than 50.1 per cent of the issued and to be issued share capital of KazakhGold. Gold Lion Holdings Limited has entered into an irrevocable undertaking to accept and vote in favour of the Partial Offer in respect of its entire holding of 22,100,000 KazakhGold Shares representing, in aggregate, approximately 41.7 per cent of the existing issued ordinary share capital of KazakhGold.

In conjunction with Polyus Gold's announcement of a firm intention to make a Partial Offer, Gold Lion Holdings Limited has entered into two subordinated shareholder loan facilities with KazakhGold for an aggregate of US\$31.025 million, the proceeds of which have been used to finance the Group's immediate working capital needs, to make the interest payment due under the Senior Notes and the redemption payment in respect of local Kazakh Bonds.

In evaluating the Partial Offer, the Directors are mindful of the need to balance the immediate benefits offered with the longer term interests of all stakeholders, in particular shareholders. After due consideration, the partial offer and the subsequent equity capital raising have the Board's unanimous support.

Other post balance sheet event

In February 2009, the Central Bank of Kazakhstan devalued the Kazakh Tenge by about 25 per cent against the US Dollar, to a rate of approximately KZT150 to US\$1. This will have a positive impact on the Group's operating costs, as a substantial proportion are payable in Tenge.

BOARD OF DIRECTORS

Kanat Shaikhanovich Assaubayev **Executive Chairman**

Kanat Assaubayev was appointed Executive Chairman in 2007, having previously served as President and Chief Executive Officer since the Group's IPO in 2005. He has been President of Kazakhaltyn since 1999, and was also a member of the Board of Directors of Kazakhaltyn from 2001 until 2004, subsequently being re-elected a Director in February 2005. Between 1991 and 1999, he established and participated in the management of a number of companies in Kazakhstan, in several different industrial sectors, some of which provided goods and services to various Kazakh government ministries.

He graduated from the Kazakh Polytechnic Institute in 1970, and later received a candidate of science degree from The Institute of Systemic Analysis in Moscow in 1978. In 1985 he was awarded a doctor of science degree from the Institute of Steel and Alloys in Moscow. In 2006, he was awarded the Kurmet Order by the President of Kazakhstan.

Member of the Health, Safety and Environment Committee

Baurzhan Kanatovich Assaubayev **Managing Director, Internal Affairs & Government Relations**

Baurzhan Assaubayev is a First Vice President of Kazakhaltyn, where he has been responsible for gold mining and processing operations since 1999. He graduated from the Kazakh National Technical University in 1992, where he specialised in system software development. In 1996 he received a candidate of science degree, from the same university, in the automation of technological processes and production cycles.

Aidar Kanatovich Assaubayev **Executive Vice Chairman, Corporate Development**

Aidar Assaubayev is a Vice President of Kazakhaltyn, which he joined in 1999. His responsibilities there include the supervision of the legal department, international activities and introduction of new mining and processing technologies. In 2000 he graduated with honours from the Kazakh National Technical University, where he specialised in engineering and economics. In 2006 he received a Doctor of economics degree from the Institute of Systemic Analysis in Moscow.

Member of the Health, Safety and Environment Committee

Marussya Maralovna Assaubayeva **Director, Human Resources and Corporate Affairs**

Marussya Assaubayeva was Vice President of Kazakhaltyn from 2000-2001 and was Director and Deputy Chairperson of the Board of Directors between 2001 and 2004. In 2005 she was re-elected as a Director and Deputy Chairperson of the Board of Directors. She graduated from the pharmaceutical department of the Almaty Medical Institute in 1972.

Member of the Health, Safety and Environment Committee

Sanzhar Kanatovich Assaubayev **General Manager, London Office**

Sanzhar Assaubayev is an Executive Director and General Manager of the London office of KazakhGold Group Ltd. He was appointed to the Board in June 2007. He joined Kazakhaltyn in 2004 as a Director of International Affairs. He graduated from Leysin-American University in Switzerland in 2004, and received a BBA from the American University in London in 2007.

Darryl Norton
Chief Operating Officer

Darryl Norton joined the Board as an Executive Director and Chief Operating Officer in 2007. He is responsible for production at KazakhGold's principal mining operations. He has over 27 years' experience in the engineering and mining industry, gained most recently as Executive Director at Oxus Gold plc. Prior to Oxus Gold, he spent 14 years at MAED Limited as Projects Director, where he led major projects for gold mining companies such as Durban Roodeport Deep, Anglogold and Oxus Gold, for whom he led the construction and commissioning of their Amantaytau Goldfields oxide project in Uzbekistan. Before joining MAED, he worked on capital projects for Fluor, TWP, Bateman and Gencor, including both surface and underground mining projects.

Toktarkhan Kozhagapanov
Non-Executive Director

Toktarkhan Kozhagapanov has been Chairman of the Board of Kazakhaltyn since 2001. Between 1993 and 1997 he served as Chairman of the Supervisory Board of JSC Turan Bank, leaving to become a Vice Governor of the Almaty region between 1997 and 2001. He graduated from the Kazakh Polytechnic Institute and the National Academy of Economics of the USSR Council of Ministers. He also has a candidate of science degree in Economics. In 1989, he received the title of Honoured Economist of the Republic of Kazakhstan. In 2005 he was awarded the Kurmet Order, a prestigious national award, by a decree of the President of Kazakhstan.

Member of the Audit and Remuneration Committees

David Netherway
Non-Executive Director

David Netherway is a mining engineer with over 30 years of experience in the mining industry. He is currently the CEO of Shield Mining Limited, an Australian listed company exploring for gold and base metals in Mauritania. From April 2002 until the completion of its takeover by Eldorado Gold Corporation in 2005, he served as the President and Chief Executive Officer of the Toronto listed Afcan Mining Corporation, a China focused gold mining company. He is a mine developer and operator who was involved in the construction and development of the Iduapriem, Siguiri, Kiniero and Samira Hill gold mines in West Africa and has mining experience which includes Australia, Canada, India, Nepal, Oman and Malaysia. Prior to joining Afcan, he held senior management positions in a number of mining companies, including Golden Shamrock Mines, Ashanti Goldfields and Semafo Inc.

He received a B.E. in Mining Engineering from the University of Melbourne in 1975 and a Certified Diploma in Accounting and Finance from the Chartered Association of Certified Accountants in the United Kingdom in 1985.

Chairman of the Health, Safety and Environment Committee; Chairman of the Remuneration Committee; Member of the Audit Committee

William (Bill) Trew
Non-Executive Director

Bill Trew has over 30 years' experience in the engineering and mining industry. He is Chairman of Gold Mines of Uganda, Chairman of Anglo Uganda Corporation and also Non-Executive Chairman of MAED Limited (Isle of Man). He was formerly Chief Executive Officer of Oxus Gold plc, the AIM listed Central Asian mining company. He began his career in 1980 with Gold Fields of South Africa, since which he has been an engineer for various other companies such as: Chamber of Mines Research Organisation; Dorbyl Heavy Engineering; and E.L. Bateman Limited. In 1990 he founded MAED Limited and has been involved as project manager in many of the company's major assignments, including the Yatela Heap Leach project and the Syama Gold Mine project - both in Mali, West Africa. He holds a B.Eng. (Mech.) Hon. from the University of Wales Institute Science and Technology, and an M.Eng from Rand Afrikaans University, Johannesburg. He is a registered professional Engineer with the Engineering Council of South Africa.

DIRECTORS' REPORT

The Directors of KazakhGold Group Limited have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

KazakhGold Group Limited and its subsidiaries (the "Group") is the ultimate holding company and the indirect parent company of Kazakhaltyn, a company incorporated in Kazakhstan and the operating company through which the Group holds its gold mining assets in Kazakhstan and Romania. The principal activities of the Group are exploration, mining and gold production. KazakhGold Group Limited was incorporated in Jersey on 26 September 2005 (registered number 91264), and was registered as a Public Company on 18 November 2005. The Group is centrally managed and controlled in England. It acts as a holding company and provides financing and management services to its subsidiaries, from its principal place of business in London.

BUSINESS REVIEW & FUTURE DEVELOPMENTS

A summary of the Group's main business developments for the period 1 January to 31 December 2008 and potential future developments is contained within the Chairman's Statement, Operational and Financial Reviews.

RESULTS AND DIVIDEND

An overview of the Group's results, covering the period 1 January to 31 December 2008, is provided in the Financial Review on page 15. Detailed financial information is included from page 28 to page 80 of the report.

The Directors do not propose the payment of shareholder dividends until the Group's plant modernisation and processing capacity programmes are completed, and the production facilities reach their designed output capacity. Thereafter, subject to KazakhGold's performance, the Group plans to commence paying dividends progressively.

POST-BALANCE SHEET EVENTS

Details of significant post balance sheet events are included within the Chairman's Statement and Financial Reviews.

KEY PERFORMANCE INDICATORS

(a) Economic

During the 2008, the Group was not able to grow its revenue or its earnings as measured by EBITDA (earnings before interest, tax, depreciation and amortisation). The principal reason was a shortfall in production during the year. The reasons for this are covered in the Chairman's Statement earlier in this report.

(b) Costs

Kazakhaltyn's direct cash production cost per contained ounce increased by 49.6 per cent to US\$392, which excludes abnormal production expenses explained in Note 8 (2007: US\$262/contained oz). This increase reflects the lower volume of production and utilisation of production facilities.

(c) Health and safety

Throughout the course of 2008, there were no fatalities or serious injuries reported at the Group's operations. There were no violations of safety procedures and no fines were levied for improper health and safety conduct.

(d) Environment

The Group is undergoing a programme of continuous improvement, to minimise the environmental impact of its operations. Progress in this regard is monitored by an Environment sub-committee of the Board. In 2008 there were no environmental incidents at the Group's operations.

(e) Community

At the end of 2008, the Group had 3,886 permanent employees. Their safety and well-being lie at the heart of the Group's operating philosophy. The benefits that their employment brings to the local communities, in which KazakhGold operates, are augmented by direct investment in community outreach. The Group invested over US\$2.0 million in such outreach in 2008, with educational foundations, veterans, past and present employees benefiting.

PRINCIPAL RISKS AND UNCERTAINTIES

(a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group.

During the year a dispute arose with MAED Limited regarding the completion of construction work involving various plants at the Group's operations in Kazakhstan. The matter was resolved on 14 March 2009 and further details are provided in Note 35. During and following the year end two former employees, whilst in the employ of the Company, committed fraudulent acts against the Company and misappropriated approximately US\$7,000,000 of Company funds. Further details are provided in Note 22 and Note 34. Otherwise, the Group was not involved in any significant legal proceedings, including arbitration as at 31 December 2008 and 2007.

(b) Taxation contingencies

The Group is subject to uncertainties relating to the determination of its tax liabilities. The tax system and tax legislation in Kazakhstan have been in force for only a relatively short time and are subject to frequent changes and varying interpretations. Management's interpretations of such legislation in applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may in particular relate to the valuation of the taxable base for excess profits tax purposes.

(c) Insurance

The insurance industry in 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 Group does not have third party liability coverage in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(d) Environmental contingencies

Environmental regulations in Kazakhstan are continually evolving. The outcome of the environmental regulations under proposed or future environmental legislation cannot be estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements. A provision has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see Note 29).

(e) Use of sub-soil rights

In Kazakhstan, all sub-soil reserves belong to the State, with the Ministry of Energy and Mineral Resources (the 'Ministry') granting exploration and production rights to third party bodies. Sub-soil rights are not granted in perpetuity and any renewal must be agreed before the expiration of the relevant current contract or license. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations in respect of the individual contract or license granted. The Group believes that it is in substantial compliance with the terms of its sub-soil agreements.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's multi-national operations expose it to a variety of financial risks: foreign currency risk, fair value and cash flow interest rate risk, other price risk, liquidity risk and credit risk. The policy for managing these risks is set by the Board and all such risks are managed at a Group level within the organisation. The policies for managing these risks are detailed in Note 33. The Group also faces a shortage of working capital, if it is to continue operating in 2009 in its current form. Further detail is provided under the section entitled Going Concern in the Financial Review and elsewhere in this Directors' Report.

(a) *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

As an 'unhedged gold producer', the Group is exposed to market price risk from its current activities. The Group manages this risk centrally, with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and gold market prices

(b) *Liquidity risk*

The liquidity risk of the Group is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and bonds. The bulk of the Group's cash balances are held in US\$ denominated floating rate deposits as required to fund its short-term requirements.

(c) *Credit risk*

The Group is exposed to credit risk arising from credit sales of its products to customers. It is the Board's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

ACCOUNTING POLICIES

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations), as adopted by the European Union and also in accordance with the Companies (Jersey) Law 1991.

SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital as at 31 December 2008 are contained in Notes 25 and 26 of the accounts.

DIRECTORS AND THEIR INTERESTS

Details of Directors' remuneration are contained within Note 11 of the accounts.

The following table sets out the interests (both in ordinary shares and global depository receipts) of the Directors in KazakhGold Group's issued share capital as at 31 December 2008 and 12 June 2009.

Director	Number of ordinary shares	% of issued share capital
Kanat Assaubayev ¹	22,100,000	41.7
Baurzhan Assaubayev ¹	22,100,000	41.7
Aidar Assaubayev ¹	22,100,000	41.7
Sanzhar Assaubayev ¹	22,100,000	41.7
Marussya Assaubayeva ¹	22,100,000	41.7
Toktarkhan Kozhagapanov	-	-
David Netherway ²	3,325	-
Darryl Norton ²	37,711	-
William Trew	-	-

¹ These interests include those of Kanat Assaubayev, Baurzhan Assaubayev, Aidar Assaubayev, Sanzhar Assaubayev, Marussya Assaubayeva as discretionary beneficiaries under the ABM SK Trust, held by Gold Lion Holdings Limited, whose only named discretionary beneficiaries are members of the Assaubayev family. No members of the Assaubayev family have a direct interest in the Group. Gold Lion Holdings Limited holds the shareholding interests of the ABM SK Trust.

² The interests of David Netherway and Darryl Norton are held in the form of Global Depository Receipts.

The following options to purchase the Group's ordinary shares were granted in 2005 and were outstanding at 31 December 2008.

	David Netherway
Number of options granted on 1 December 2005	26,667
Exercise price	US\$15

SUBSTANTIAL SHAREHOLDINGS

The Group is aware of the following beneficial shareholdings, representing 10 per cent or more of the issued ordinary share capital of the Group, as at 31 December 2008.

	Number of ordinary shares	% of issued share capital
Gold Lion Holdings Limited	22,100,000	41.7
BNY (Nominees) Limited ¹	30,841,666	58.3

¹ BNY (Nominees) Limited holds these shares as depository, against which 30.8 million Global Depository Receipts have been issued, each representing one ordinary share with a nominal value of £0.0001.

CORPORATE GOVERNANCE

There are no corporate governance recommendations applicable to companies incorporated in Jersey, but the Group intends as far as it is able, taking into account its size and stage of development, to comply with the recommendations of the Combined Code on Corporate Governance for UK registered and listed companies.

Board

The Board of Directors is composed of nine members: six Executive Directors, including the Executive Chairman and three Non-Executive Directors. The Board has established: Audit, Health, Safety and Environment and Remuneration Committees with formally delegated duties, responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues as and when the need arises.

Audit Committee

The Audit Committee helps the Board discharge its responsibilities regarding financial reporting, external and internal audits and controls as well as reviewing the Group's annual financial statements. It also assists by reviewing and monitoring the extent of non audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Audit Committee comprises two independent Non-Executive Directors (Toktarkhan Kozhagapanov, David Netherway). The committee aims to meet at least three times a year and otherwise as required. The Group is currently seeking a Chairman for the Audit Committee.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration. This includes making recommendations to the Board on the Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

The Remuneration Committee comprises two independent Non-Executive Directors (Toktarkhan Kozhagapanov and David Netherway) and is chaired by David Netherway. The committee aims to meet at least twice a year and otherwise as required.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee helps the Board in formulating the Group's health, safety and environment policies as they affect the Group's operations. The committee also monitors compliance with national and international standards and reviews management's investigations of any incidents or accidents that may occur, in order to assess whether policy improvements are required.

The Health, Safety and Environment Committee is composed of four members, and is chaired by an independent Non-Executive Director (David Netherway). The other members of the committee are Executive Directors (Kanat Assaubayev, Aidar Assaubayev and Marussya Assaubayeva). The committee aims to meet at least once a year and otherwise as required.

RELATIONS WITH SHAREHOLDERS

The Directors attach importance to the provision of clear and timely information to shareholders, including holders of GDRs and the broader investment community. Information about the company is available on its website (www.kazakhgold.com). The Group's annual and half year reports are also sent to shareholders and made available to GDR holders, through the Group's website.

The Group has an ongoing programme of contact with its principal and institutional shareholders, in addition to sell-side financial analysts. The Board is provided with feedback from these meetings. Shareholders are also encouraged to attend the 2008 Annual General Meeting at which members of the Board will be available to answer questions.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Group has in place a Directors and Officers insurance policy to cover relevant individuals against claims arising from their work on behalf of the company. The Board intends to keep the level of cover provided under annual or more frequent review, as appropriate.

GOING CONCERN

As disclosed in Note 2, the Group's production levels and working capital levels have deteriorated in the last year such that the Group currently does not have sufficient funds to finance the work programmes to develop its three principal mines. The Group's ability to continue as a going concern is dependent upon the successful completion of the partial offer for the Company and the subsequent proposed equity capital raising.

ANNUAL GENERAL MEETING

Details of the Annual General Meeting, the Notice of Meeting, together with an explanation of the items of special business, will be provided separately to shareholders.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

AUDITORS

A resolution to re-appoint BDO Stoy Hayward LLP as the Company's auditors will be proposed at the Annual General Meeting.

On behalf of the Board
Sanzhar Assaubayev
Executive Director
12 June 2009

Statement of Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies (Jersey) Law 1991.

The Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein.

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

Kanat Assaubayev
Executive Chairman
KazakhGold Group Limited
12 June 2009

KazakhGold Group Limited

Independent Auditors' Report to the Shareholders of KazakhGold Group Limited

We have audited the Group and Company financial statements (the "financial statements") of KazakhGold Group Limited for the year ended 31 December 2008 which comprise the Consolidated and Company Income Statements, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Shareholders' Equity and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement, Board of Directors, Statement of Directors' Responsibilities, Highlights, Operational Review and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies (Jersey) Law 1991 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies (Jersey) Law 1991 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

KazakhGold Group Limited

Independent Auditors' Report to the Shareholders of KazakhGold Group Limited - continued

Opinion

In our opinion:

- the Consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the Company financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Fundamental uncertainty - Negotiation rights

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the negotiation rights in respect of the Jerooy mining licence. The realisation of these assets included in the Consolidated and Company financial statements are dependent on the outcome of the negotiations relating to the granting of the licence by the relevant government authorities. We draw your attention to the further details given in Note 32. Our opinion is not qualified in this respect.

Emphasis of Matter - Going Concern

In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Group's failure to make the scheduled interest payment in respect of the Senior Loan Notes and the Group's ability to continue as a going concern, which is dependent upon the successful completion of the partial offer for the Company. Under the terms of the offer, management expect Polyus Gold will provide US\$100m of financing to fund the current work programme and to extinguish a number of current liabilities. The partial offer is dependent upon certain pre-conditions being resolved which include inter alia shareholder approval. The Directors are confident that these pre-conditions will be cleared and funds associated with this transaction will be sufficient to fund the Group for the next 12 months.

These conditions together with the Group other matters referred to in Note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would arise if the Group was unable to continue as a going concern.

*BDO Stoy Hayward LLP
Chartered Accountants
London
12 June 2009*

KazakhGold Group Limited

Consolidated Income Statement for the year ended 31 December 2008

	Not e	2008 US\$000	2007 US\$000
Revenue	4	91,001	176,996
Cost of sales		(55,852)	(88,236)
Gross profit		35,149	88,760
Other operating income	6	2,496	571
Distribution expenses		(466)	(3,509)
Abnormal production expenses		(19,869)	-
Other administrative expenses		(54,552)	(23,004)
Administrative expenses		(74,421)	(23,004)
Other operating expenses	7	(10,540)	(5,981)
(Loss)/profit from operations	8	(47,782)	56,837
Finance income	12	7,509	11,599
Finance expense	13	(16,531)	(17,204)
Net financing costs		(9,022)	(5,605)
(Loss)/profit before tax		(56,804)	51,232
Tax credit/(expense)	14	175,615	(31,826)
Profit for the year attributable to equity shareholders		118,811	19,406
Basic and diluted earnings per share attributable to the equity shareholders of the parent during the year	15	\$2.26	\$0.39

All amounts relate to continuing operations.

KazakhGold Group Limited

Company Income Statement for the year ended 31 December 2008

	Note	2008 US\$000	2007 US\$000
Revenue		133	90
Cost of sales		-	-
Gross profit		133	90
Administrative expenses		(18,549)	(4,847)
Operating loss	38	(18,416)	(4,757)
Finance income	39	21,584	22,448
Finance expense	40	(19,446)	(19,473)
Net financing income		2,138	2,975
Loss before tax		(16,278)	(1,782)
Taxation	41	-	(1,840)
Loss for the year attributable to equity shareholders		(16,278)	(3,622)

All amounts relate to continuing operations.

KazakhGold Group Limited

Consolidated Balance Sheet for the year ended 31 December 2008

	Note	2008 US\$000	2007 US\$000
Non-current assets			
Property, plant and equipment	16	1,215,229	1,055,840
Intangible assets	17	74,518	54,777
Available for sale investments	19	-	164
Other financial assets		-	2
		1,289,747	1,110,783
Current assets			
Inventories	21	22,390	24,458
Trade and other receivables	22	63,114	85,275
Investments at fair value through profit or loss	23	-	31,760
Cash and cash equivalents	24	13,966	160,285
		99,470	301,778
Total assets		1,389,217	1,412,561
Equity and liabilities			
Share capital	25	9	9
Share premium	26	220,950	170,544
Capital contributions	26	510,000	510,000
Translation reserve	26	64,780	62,727
Retained earnings	26	158,102	39,198
Total equity		953,841	782,478
Non-current liabilities			
Interest-bearing loans and borrowings	28	204,642	231,776
Provisions	29	10,189	7,910
Deferred tax liabilities	31	137,054	312,499
		351,885	552,185
Current liabilities			
Interest-bearing loans and borrowings	28	41,874	6,228
Trade and other payables	30	32,645	43,207
Current tax payable		8,972	28,463
		83,491	77,898
Total liabilities		435,376	630,083
Total equity and liabilities		1,389,217	1,412,561

These financial statements were approved and authorised for issue by the Board on 12 June 2009 and were signed on its behalf by:

Sanzhar Assaubayev
Executive Director

KazakhGold Group Limited

Company Balance Sheet for the year ended 31 December 2008

	Note	2008 US\$000	2007 US\$000
Non-current assets			
Property, plant and equipment	42	223	125
Investment in subsidiaries	18	579,996	579,996
Amounts due from group undertakings	43	200,000	200,000
		780,219	780,121
Current assets			
Amounts due from group undertakings	44	119,248	82,525
Other receivables	44	1,183	3,425
Cash and cash equivalents	45	11,783	8,816
		132,214	94,766
Total assets		912,433	874,887
Equity and liabilities			
Share capital	25	9	9
Share premium	49	220,950	170,544
Capital contributions	49	510,000	510,000
Retained earnings	49	(22,178)	(5,993)
Total equity		708,781	674,560
Non-current liabilities			
Interest-bearing loans and borrowings	46	197,308	196,611
Current liabilities			
Other payables	47	6,344	3,716
Total liabilities		203,652	200,327
Total equity and liabilities		912,433	874,887

These financial statements were approved and authorised for issue by the Board on 12 June 2009 and were signed on its behalf by:

Sanzhar Assaubayev
Executive Director

KazakhGold Group Limited

Consolidated Cash Flow Statement for the year ended 31 December 2008

	Note	2008 US\$000	2007 US\$000
Cash flows from operating activities			
(Loss)/profit before tax for the year		(56,804)	51,232
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	8	20,966	12,558
Provision for impairment		549	-
Foreign exchange gain/(loss)		2,841	(167)
Finance expense		15,798	16,452
Finance income	12	(7,509)	(11,599)
Amortisation of bond issue costs		857	2,182
Loss on disposal of other financial assets		164	-
Loss on disposal of property, plant and equipment		8,957	363
Equity-settled share-based payment expenses	26	93	105
Cash flows from operating activities before changes in working capital and provisions		(14,088)	71,126
Decrease in trade and other receivables	22	22,158	9,532
Decrease in inventories	21	2,068	4,662
Decrease in trade and other payables	30	(10,704)	(11,279)
Increase in provisions	29	1,420	54
Taxation paid		(19,489)	(2,753)
Cash (absorbed by)/generated from operating activities		(18,635)	71,342
Cash flows from investing activities			
Transaction costs of acquisitions	32	-	(609)
Proceeds of share issue net of transaction costs	26	50,406	-
Additions of property, plant and equipment	16	(192,474)	(80,577)
Additions of intangible assets	17	(20,315)	-
Proceeds from the disposal of property, plant and equipment		3,414	679
Acquisition of fair value through profit or loss investments		-	(29,117)
Proceeds on disposal of fair value through profit or loss investment	23	31,760	-
Finance income received		7,509	10,508
Net cash from investing activities		(119,700)	(99,116)
Cash flows from financing activities			
Proceeds from borrowings		23,000	6,800
Repayment of borrowings		(4,960)	(570)
Finance expense paid		(15,735)	(16,452)
Repayment of finance lease liabilities		(10,289)	(6,471)
Net cash from financing activities		(7,984)	(16,693)
Net decrease in cash and cash equivalents		(146,319)	(44,467)
Cash and cash equivalents at 1 January		160,285	204,752
Cash and cash equivalents at 31 December	24	13,966	160,285

KazakhGold Group Limited

Company Cash Flow Statement for the year ended 31 December 2008

	Note	2008 US\$000	2007 US\$000
Cash flows from operating activities			
Loss before tax for the year		(16,278)	(1,782)
<i>Adjustments for:</i>			
Depreciation	38	62	50
Amortisation of bond issue costs		697	723
Finance income		(21,584)	(22,448)
Finance expense		18,750	18,750
Equity-settled share-based payment expenses	49	93	105
Cash flow from operating activities before changes in working capital and provisions		(18,260)	(4,602)
Increase in other receivables		(790)	(2,470)
Increase/(decrease) in other payables	47	2,628	(1,375)
Cash absorbed from operating activities		(16,422)	(8,447)
Cash flows from investing activities			
Transaction costs of acquisitions	32	-	(609)
Increase in amounts due from group undertakings		(12,659)	(153,555)
Acquisition of property, plant and equipment	42	(160)	-
Finance income received		552	3,764
Net cash from investing activities		(12,267)	(150,400)
Cash flows from financing activities			
Proceeds from the issue of shares - net of costs		50,406	-
Finance expense paid		(18,750)	(18,750)
Net cash from financing activities		31,656	(18,750)
Net increase/(decrease) in cash and cash equivalents		2,967	(177,597)
Cash and cash equivalents at 1 January		8,816	186,413
Cash and cash equivalents at 31 December	45	11,783	8,816

KazakhGold Group Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Translation Reserve US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2007	8	97,658	510,000	27,408	19,687	654,761
Foreign exchange on translation of foreign operations	-	-	-	35,319	-	35,319
Net income recognised directly in equity	-	-	-	35,319	-	35,319
Profit for the year	-	-	-	-	19,406	19,406
Total recognised income and expense for the year	-	-	-	35,319	19,406	54,725
Equity-settled share-based payments	-	-	-	-	105	105
Issue of shares net of issue costs (Note 32)	1	72,886	-	-	-	72,887
Balance at 31 December 2007	9	170,544	510,000	62,727	39,198	782,478
Balance at 1 January 2008	9	170,544	510,000	62,727	39,198	782,478
Foreign exchange on translation of foreign operations	-	-	-	2,053	-	2,053
Net income recognised directly in equity	-	-	-	2,053	-	2,053
Profit for the year	-	-	-	-	118,811	118,811
Total recognised income and expense for the year	-	-	-	2,053	118,811	120,864
Equity-settled share-based payment	-	-	-	-	93	93
Issue of shares net of issue costs (Note 26)	-	50,406	-	-	-	50,406
Balance at 31 December 2008	9	220,950	510,000	64,780	158,102	953,841

KazakhGold Group Limited

Company Statement of Changes in Equity for the year ended 31 December 2008

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2007	8	97,658	510,000	(2,476)	605,190
Loss for the year	-	-	-	(3,622)	(3,622)
Total recognised income and expense for the year	-	-	-	(3,622)	(3,622)
Issue of shares net of issue costs (Note 32)	1	72,886			72,887
Equity-settled share-based payments	-	-	-	105	105
Balance at 31 December 2007	9	170,544	510,000	(5,993)	674,560
Balance at 1 January 2008	9	170,544	510,000	(5,993)	674,560
Loss for the year	-	-	-	(16,278)	(16,278)
Total recognised income and expense for the year	-	-	-	(16,278)	(16,278)
Issue of shares net of issue costs (Note 49)	-	50,406	-	-	50,406
Equity-settled share-based payments	-	-	-	93	93
Balance at 31 December 2008	9	20,950	510,000	(22,178)	708,781

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

1 Corporate information

KazakhGold Group Limited (“the Company”) is a company incorporated in Jersey. The Company is centrally managed and controlled in the United Kingdom and is therefore resident in the United Kingdom for the purposes of United Kingdom taxation liabilities.

2 Basis of preparation and accounting policies

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as “the Group”). The parent company financial statements present information about the Company as a separate entity and not about its Group.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and also in accordance with the Companies (Jersey) Law 1991.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The Group’s production levels and working capital levels have deteriorated in the last year such that the Group currently does not have sufficient funds to finance the work programmes to develop its three principal mines. In the absence of these work programmes, the Group will not be able to generate sufficient production to finance its activities. The Group failed to make the interest payment on its Senior Loan Notes of US\$9.3m on the due date of 5th May 2009.

On 3 June and 11 June 2009 Gold Lion Holdings Ltd, the Company’s principal shareholder, entered into two subordinated loan facilities to provide an aggregate of US\$31.025 million to finance the Group’s immediate working capital needs, to make the interest payment due under the Senior Notes and the redemption payment in respect of local Kazakh Bonds.

On 12 June 2009 Jenington International Inc, an indirect wholly owned subsidiary of Polyus Gold made an announcement in accordance with Rule 2.5 of the Takeover Code to acquire 50.1% of the issued share capital of the Company. Under the terms of the proposed offer, management expect Polyus Gold will underwrite a US\$100 million equity capital raising. The Partial Offer is dependent upon a number of conditions including but not limited to there being no acts of default on any of the Group’s existing debt and shareholder approval. The Directors, having received an irrevocable undertaking to accept and vote in favour of the partial offer from Gold Lion Holdings Limited, representing 41.7% of the existing share capital, are confident that these conditions will be met and that the transaction will complete.

The Directors are confident based upon financial projections that the US\$100 million provided under the terms of the offer will provide funding for the Group to continue as a going concern for twelve months from the date of this report.

These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern. The financial statements do not include the adjustments that would result if the partial offer is unsuccessful or if the Group were unable to agree payment terms with its principal creditors.

Notes forming part of the financial statements for the year ended 31 December 2008

a. Amendments to published standards and interpretations to existing standards effective in 2008 adopted by the Group

- *IFRS 7* (effective from 1 July 2008), and *IAS 39 amendment - reclassification of financial instruments*. The impact of the adoption of IFRS 7 and the changes to IAS 39 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see Note 33).

- *IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments)* (effective for periods beginning on or after 1 July 2008). This amendment allows entities to reclassify held for trading assets out of this category if the assets are no longer held for the purpose of trading. This amendment is not applicable to the Group's operations as it is not applicable to instruments designated at fair value through profit or loss at initial recognition.

- *IFRIC 11, (IFRS 2) - Group and Treasury Share Transactions* (effective from 1 March 2007). IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholders; or (b) the share-based payment arrangement was settled by the entity itself or by its shareholders. As the Group has not entered into any such share based payment transactions, adoption of this standard is not expected to have any impact on the Group's financial statements.

- *IFRIC 16, Hedges of a net investment in a foreign operation* (effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 applies to an entity that hedges its foreign currency risk arising from its net investment in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. IFRIC 16 is effective for accounting periods commencing on or after 1 October 2008. The IFRIC has not been endorsed by the EU.

b. Standards, interpretations and amendments to published standards effective in 2008 but which are not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- *IFRIC 12, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to the absence of such arrangements. The IFRIC has not been endorsed by the EU.

- *IFRIC 13, Customer Loyalty Programmes on Arrangements* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 addresses sales transactions in which entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to the absence of such arrangements.

Notes forming part of the financial statements for the year ended 31 December 2008

- *IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. Management is currently assessing the impact of IFRIC 14 on the accounts. IFRIC 14 is not relevant to the Group's operations due to the absence of such arrangements.

c. Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but the Group has decided not to adopt early. The standards have been endorsed by the EU unless stated otherwise:

- *IAS 23, Borrowing Cost (revised)* (effective for accounting periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. As the Group already chooses to capitalise borrowing costs in respect of qualifying assets, the adoption of this standard is not expected to have any impact on the Group's financial statements.

- *IAS 23, Borrowing Cost (revised)* (effective for accounting periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. As the Group already chooses to capitalise borrowing costs in respect of qualifying assets, the adoption of this standard is not expected to have any impact on the Group's financial statements.

- *Amendments to IFRIC 9 and IAS 39, Embedded Derivatives* (effective for accounting periods ending on or after 30 June 2009). This Amendment clarifies the treatment of embedded derivatives in host contracts that are reclassified out of fair value through profit or loss following the changes introduced by the Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments. The adoption of this standard is not expected to have any impact on the Group's financial statements. This amendment has not yet been endorsed.

- *Amendments to IFRS 7, Improving Disclosures about Financial Instruments* (effective for accounting periods beginning on or after 1 January 2009). This Amendment requires the analysis of each class of financial asset and financial liability, into a three level fair value measurement hierarchy. It requires additional disclosures in respect of those financial instruments classified as Level Three (namely those that are measured using a valuation technique which uses inputs that are not based on observable market data). It also implements some changes to the definition of and disclosures associated with liquidity risk. Management is currently assessing the impact of the amendment on the financial statements. This amendment has not yet been endorsed.

Notes forming part of the financial statements for the year ended 31 December 2008

- *Improvements to IFRSs (2009)*, (effective for accounting periods beginning on or after 1 January 2009). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies between Standards. The most significant changes cover the following issues: The classification of assets and liabilities as held for sale where a non-controlling interest is retained; accounting by companies that routinely sells assets previously held for rental to others; accounting for loans given at a nil or below market rate of interest; the reversal of impairments against investments in associates accounted for using the equity method; the timing of expense recognition for costs incurred on advertising and other promotional activity; and, accounting for properties in the course of construction. Management is currently assessing the impact of the amendment on the financial statements.

- *Improvements to IFRSs (2010)*, (generally effective for accounting periods beginning on or after 1 January 2010). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. Management is currently assessing the impact of the amendment on the financial statements. This amendment has not yet been endorsed.

- *Revised IFRS 3, Business Combinations and Complementary Amendments to IAS 27, Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments to is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of the IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the financial statements.

- *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009). The amendment to IFRS 2 is of particular relevance to companies that operate employee share save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the award granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the amendment on the financial statements.

- *International Accounting Standard 1 Presentation of Financial Statements (IAS 1)* (effective for accounting periods beginning on or after 1 January 2009), replaces IAS 1 Presentation of Financial Statements (Revised in 2003) as amended in 2005.

- *Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation* (effective for accounting periods beginning on or after 1 January 2009). The Amendment to IAS 1 affects the presentation of owner changes in equity and of comprehensive income. An entity will be required to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). In addition, the new requirements would require the presentation of an opening comparative balance sheet when there is a change in accounting policy. The standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. Management is currently assessing the impact of the amendment on the financial statements.

Notes forming part of the financial statements for the year ended 31 December 2008

- *Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*. (effective for accounting periods beginning on or after 1 January 2009). This Amendment results in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. The Amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: (a) Puttable financial instruments; and, (b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Management is currently assessing the impact of the amendment on the financial statements.

- IFRS1, & IAS27 Amendments to cost of an investment in a subsidiary, jointly controlled entity or associate allows first time adopters to account for the investment at either 'deemed cost' or fair value in the financial statements. The dividends derived from the investment must now also be recorded as income in the investors financial statements. This amendment is effective from accounting periods beginning on or after 1 January 2009. These have not been endorsed by the EU.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective for accounting periods beginning on or after 1 July 2009). This Amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in the designation of a one-sided risk in a hedged item, and inflation in a financial hedged item. Management is currently assessing the impact of the amendment on the financial statements. This amendment has not yet been endorsed.

- IFRIC 15 (effective for accounting periods beginning on or after 1 January 2009) gives guidance on the construction of real estate or when revenue from construction should be recognised. IFRIC 15 applies to the accounting for revenue and associated expenses by entities that undertake such contracts. IFRIC 15 is not relevant to the Groups' operations due to the absence of such arrangements. The IFRIC has not been endorsed by the EU.

- IFRIC 17 (effective for accounting periods beginning on or after 1 July 2009) distributions of non-cash assets to owners applies to the entity making the distribution when the owners are provided with non cash assets. IFRIC 17 is not relevant to the Group due to the absence of such arrangements. The IFRIC has not been endorsed by the EU.

- IFRIC 18 Transfer of assets from customers (applies prospectively for transfers of assets on or after 1 July 2009. Limited retrospective application is permitted) IFRIC 18 is still to be endorsed by the EU. IFRIC 18 clarifies the treatment of IFRS, particularly IAS 18 'Revenue' for agreements in which an entity receives an item of property, plant and equipment from a customer to connect to an ongoing supply of goods and services. The interpretation clarifies: the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue; the accounting for transfers of cash from customers. IFRIC 18 is not expected to be relevant to the Group's operations due to the absence of such arrangements

d. Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

e. Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

f. Revenue

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. As sales from gold contracts are subject to customer survey adjustment, sales are initially recorded on a provisional basis using the Group's best estimate of the contained metal. Subsequent adjustments are recorded in revenue to take into account final assay and weight certificates from the refinery, if different from the initial certificates. The differences between the estimated and actual contained gold have not been significant historically.

g. Foreign currency

In accordance with IAS21, transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. Non monetary assets are translated using the exchange rate at the date of the transaction that resulted in their recognition. The presentational currency for the Group consolidated financial statements is the US dollar. This is also the functional currency of the Company and is considered by the Board also to be appropriate for the purposes of preparing the Group financial statements.

On consolidation, the results of overseas operations are translated into US dollars, the presentational currency of the Group, at rates approximating to those ruling when the transaction took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Fair value adjustments arising on the acquisition of an overseas entity are treated as assets and liabilities of the overseas entity and translated at the rate ruling at the balance sheet date. The functional currency of JSC Kazakhaltyn MMC (the main operating company of the Group) is Kazakh tenge. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in equity (the "translation reserve").

h. Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

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Notes forming part of the financial statements for the year ended 31 December 2008

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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.

Depreciation is charged to the income statement within cost of sales and administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	11 - 50 years
Machinery, equipment and vehicles	2 - 35 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishment and improvement expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

Assets under construction are carried at cost less any recognised impairment loss.

Cost includes capitalised borrowing costs.

i. Mining properties

Once a decision is made to proceed with the development of a mining project, exploration and evaluation expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets, within property, plant and equipment as mining properties, together with any amount transferred from exploration and development. Mining properties are amortised over the estimated life of the reserves on a 'unit of production' basis.

Commercial reserves are proven and probable reserves. Changes in commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

j. Impairment

The Group conducts annual internal assessments of the values of goodwill, other intangible assets including negotiation rights, and capitalised exploration and evaluation costs. The carrying amount of the non-current assets of the Group is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less costs to sell. In assessing the value in use, the expected future cash flows from the assets are determined by applying a discount rate to the anticipated pre-tax future cash flows. Impairment is recognised in the income statement to the extent that the carrying amount exceeds the assets' recoverable amount. The revised carrying amounts are amortised in line with the Group's accounting policies.

Assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other Groups of assets. This results in the Group evaluating its non-financial assets on a geographical basis. The estimates of future discounted cash flows are subject to risks and uncertainties including the future gold price. It is therefore reasonably possible that changes could occur which may affect the recoverability of assets.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

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Notes forming part of the financial statements for the year ended 31 December 2008

k. Stripping costs

All stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of inventory produced during the period that the stripping costs are incurred.

l. Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Negotiation rights

Included within intangible assets is an amount for negotiation rights in relation to the Jerooy project in the Kyrgyz Republic. The negotiation rights arise in respect of the strong position gained by the Group for negotiating the grant of the relevant licences at Jerooy. The Group currently owns the plant and geological data at Jerooy. The Directors are confident that the Group will eventually be granted a mining licence. Negotiation rights are initially recognised at cost and assessed for any impairment on an annual basis. No amortisation has been provided on this amount. Should the licence be granted to the Group, the carrying value of the negotiation rights will be transferred to mining licences and/or mining properties as appropriate. Should it become apparent that the licence is unlikely to be granted, the negotiation rights will be written down to their net realisable value.

Exploration and evaluation

Exploration and evaluation costs include costs incurred on projects where insufficient work has been performed to confirm whether significant mineralization exists or whether the project is economically feasible. Costs are capitalised as intangible assets until the decision is made to proceed to development, whereupon the related expenditures are transferred to non-current assets as mining properties, or until the projects are determined not to be commercially viable, whereupon the related costs are written off to the income statement. A test for impairment is carried out on an annual basis when costs are transferred to mining properties. Pre-licensed costs are recognised as an expense in the income statement as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to cost of sales over the following periods:

Mining and other licenses	3 - 4 years
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m. Financial instruments

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

Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending on the purpose for which the asset was acquired, and is determined at the time of initial recognition. The Group does not hold any held to maturity financial assets. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Fair value through profit or loss

Financial assets at fair value through profit or loss consists of financial assets designated upon initial recognition if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (b) the assets are part of a Group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy. The Group's holdings of these assets is shown in Note 23.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Loans and receivables

Trade receivables, loans and other receivables, which comprise non-derivative financial assets with fixed and determinable payments, that are not quoted on an active market and arise principally through the provision of goods and services to customers (trade receivables) and company loans to subsidiary undertakings, are stated at amortised cost less any provision for impairment.

Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents comprise cash balances, call deposits, and other short term highly liquid investments with original maturities of three months or less.

Available for sale

Non-derivative financial assets not included in the above categories are classified as available for sale. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement. Interest on corporate bonds classified as available for sale is calculated using the effective interest method and is recognised in finance income in the income statement.

Impairment of financial assets

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted. For financial assets the amount of the impairment is the difference between the asset's net carrying amount and the present value of the future expected cash flows associated with the impaired asset, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement within administrative expenses.

Financial liabilities

There is only one category of financial liabilities in the Group that being financial liabilities held at amortised cost.

Financial liabilities held at amortised cost

Trade and other payables

Trade payables and other short-term monetary liabilities, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Interest bearing loans and borrowings

Bank borrowings are recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Other interest-bearing borrowings including bonds and loan Notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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Notes forming part of the financial statements for the year ended 31 December 2008

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

The Group considers its capital to comprise its ordinary share capital, share premium, accumulated retained earnings and capital contributions. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements.

n. Inventories

Raw materials which consist of tools for development activities, spare parts, diesel fuel and various materials used in mining operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a weighted average cost formula.

Finished goods and work in progress (comprising cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and doré bars) are stated at the lower of weighted average cost or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property, plant and equipment and mining properties). Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Long-term inventories comprise ore stockpiles being treated on heap leach pads. These stockpiles are depleted based upon expected grades and recovery rates. As product is extracted a charge is made to cost of production of finished goods for the relevant proportion of costs.

o. Pensions

The Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the income statement on an accruals basis.

p. Share-based payment transactions

The Company has awarded share options to certain Company Directors to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

q. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability. Unwinding of the discount is recognised as a finance cost in the income statement as it occurs.

Provisions are made for the estimated rehabilitation costs relating to areas disturbed during the mines' operation up to the reporting date but not yet rehabilitated. Provision has been made in accordance with local legislation.

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Notes forming part of the financial statements for the year ended 31 December 2008

The estimated cost of rehabilitation includes the current cost of re-contouring, top-soiling and re-vegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which may be incurred due to the impact of possible changes in environmental legislation.

The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a liability with a corresponding asset included in mining property and development assets.

r. Borrowing costs

Borrowing costs comprise interest payable on bank loans, bonds and finance leases. Interest payable is recognised in the income statement as it accrues, using the effective interest method unless such interest is directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for its intended use or sale.

s. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax 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 balance sheet date together with any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax asset and liabilities related to taxes levied by the same tax authority on either, the same taxable Group company; or different Group entities which intend either to settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3 Accounting estimates and judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

De-commissioning and rehabilitation

As explained in the accounting policy Note, costs arising from site restoration works and the de-commissioning of plant, discounted to their net present value are provided for and capitalised at the start of each project. Management uses its judgement and experience to provide for these costs.

The ultimate de-commissioning and site restoration costs are uncertain and can be impacted by changes to legislation, restoration techniques and changes to the expected timing of closure resulting from changes to ore reserves. As a result there could be significant adjustments to the provisions established which would affect future results.

Capitalised mining costs and mining resources

The Group's reserves of precious metals ("mining properties") are estimates based upon geological studies. Over the longer term the actual mineable resources achieved may vary significantly from the current estimates. The Group periodically updates estimates of reserves and assesses those for indicators of impairment relating to its capitalised mining costs.

Base of mining operations

The Group's primary base of operations is in Kazakhstan. The laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial statements have been prepared taking into account the current adverse economic conditions prevailing, with particular attention being paid to any provisions being required for the impairment of assets.

Carrying values of inventory

The Group monitors internal and external indicators of impairment relating to its inventory. Management has considered whether any indicators of impairment have arisen over certain spares, materials, tools and equipment held in inventory. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequently to 31 December 2008.

Carrying values of property, plant and equipment

The Group monitors internal and external indicators of impairment relating to its property, plant and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to the Group's mining operations. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequently to 31 December 2008. See Note 20 in relation to the impairment review carried out in the year.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used could result in significant variations in the carrying value.

Fair value of financial instruments

The Group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

Income taxes

The Group is subject to income tax in the Republic of Kazakhstan and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made, see Note 31.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in Note 27.

Misappropriation of funds

An amount of US\$4,652,000 gross (net - US\$nil) relating to the recovery of amounts fraudulently misappropriated from the Company's bank accounts is included within other receivables, as set out in Note 22. The Company has filed legal claims and continues to pursue full recovery however the Directors have made full provision against this balance until such time that any recovery can be estimated with certainty.

Further amounts were taken after the year end amounting to approximately \$7,000,000, as set out in Note 34, the Directors have made a full provision for these amounts in assessing future cash flows until such time that any recovery can be estimated with certainty.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

4 Revenue

An analysis of the Group's revenue is as follows:

	Group 2008 US\$000	Group 2007 US\$000
By product		
Cathodic products	70,455	142,544
Free gold	8,334	24,429
Other	12,212	10,023
	91,001	176,996
By destination market		
United Arab Emirates	42,208	138,231
Russia	36,583	-
Switzerland	12,210	28,793
Other	-	9,972
	91,001	176,996

5 Segmental Information

For management purposes, during the year, the Group was organised into two operating divisions, Mining and Corporate. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Mining - The mining, production and exploration of gold and other precious metals in Kazakhstan, Romania, and Kyrgyzstan.

Corporate - The head office activities of the Group are based in the United Kingdom.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

5 Segmental Information - continued

Segment information about these segments is presented below

	Mining US\$000	Corporate US\$000	Unallocated US\$000	Eliminations US\$000	Consolidation US\$000
2008					
Revenue					
External sales	91,001	-	-	-	91,001
Intra-group sales	-	133	-	(133)	-
Total revenue	91,001	133	-	(133)	91,001
Results					
Operating (loss)/profit	(29,366)	(18,416)	-	-	(47,782)
Finance income	6,958	21,584	-	(21,033)	7,509
Finance expense	(7,205)	(19,446)	-	10,120	(16,531)
Loss before tax					(56,804)
Tax credit			175,615		175,615
Profit after tax					118,811

	Mining US\$000	Corporate US\$000	Unallocated US\$000	Eliminations US\$000	Consolidation US\$000
2007					
Revenue					
External sales	176,996	-	-	-	176,996
Intra-group sales	-	90	-	(90)	-
Total revenue	176,996	90	-	(90)	176,996
Results					
Operating profit/(loss)	61,594	(4,757)	-	-	56,837
Finance income	7,835	22,448	-	(18,684)	11,599
Finance expense	(4,839)	(19,473)	-	7,108	(17,204)
Profit before tax					51,232
Tax expense			(31,826)		(31,826)
Profit after tax					19,406

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

5 Segmental information - continued

	Mining US\$000	Corporate US\$000	Unallocated US\$000	Eliminations US\$000	Consolidation US\$000
2008					
Capital additions	192,314	160	-	-	192,474
Depreciation	(12,468)	(62)	-	-	(12,530)
Amortisation	(5)	-	-	-	(5)
Balance sheet					
Assets					
Segment assets	1,376,028	912,433		(899,244)	1,389,217
Consolidated total assets	1,376,028	912,433		(899,244)	1,389,217
Liabilities					
Segment liabilities	92,043	197,307	-	-	289,350
Deferred tax liabilities	-	-	137,054	-	137,054
Current tax payable	-	-	8,972	-	8,972
Consolidated total liabilities	92,043	197,307	146,026	-	435,376
2007					
Capital additions	91,462	-	-	-	91,462
Subsidiary assets required	35,915	-	-	-	35,915
Depreciation	(12,480)	(50)	-	-	(12,530)
Amortisation	(28)	-	-	-	(28)
Balance sheet					
Assets					
Segment assets	1,235,145	874,887	-	(697,471)	1,412,561
Consolidated total assets	1,235,145	874,887	-	(697,471)	1,412,561
Liabilities					
Segment liabilities	371,319	200,327	-	(282,525)	289,121
Deferred tax liabilities	-	-	312,499	-	312,499
Current tax payable	-	-	28,463	-	28,463
Consolidated total liabilities	371,319	200,327	340,962	(282,525)	630,083

Geographical Segments

The Group has two geographic segments being the Former Soviet Union and bordering region, and the United Kingdom.

The Group's mining segments are located in the Former Soviet Union and bordering region, (Kyrgyzstan, Kazakhstan and Romania). The Group's corporate activities are carried out in the United Kingdom.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

6 Other operating income

	Group 2008 US\$000	Group 2007 US\$000
Sales of materials	2,044	464
Foreign exchange gains	452	107
	2,496	571

7 Other operating expenses

	Group 2008 US\$000	Group 2007 US\$000
Loss arising from the disposal of non-current assets	8,957	363
Foreign exchange losses	-	4,750
Other expenses	1,583	868
	10,540	5,981

8 Operating (loss)/profit

This has been stated after charging:

	Group 2008 US\$000	Group 2007 US\$000
Depreciation of property, plant and equipment	20,961	12,530
Amortisation	5	28
Loss arising from the disposal of non-current assets	8,957	363
Abnormal production expenses	19,869	-
Provision for impairment of intangible assets	549	-
Provision for impairment of other receivables (see note 22)	6,002	2,129
Equity-settled share-based payment expense	93	105
Auditors' remuneration (see note 9)	1,103	450
Staff costs (see note 10)	21,838	17,178
Net foreign exchange (gain)/loss	(452)	4,643

Abnormal production expenses relate to wages and other costs not utilised in a productive capacity during the period of mine refurbishment, as a consequence these costs are shown under administrative expenses.

9 Auditors' remuneration

	Group and Company 2008 US\$000	Group and Company 2007 US\$000
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of the Group	500	450
Other services	603	-
	1,103	450

Other services relate to taxation and corporate finance advice given during the year.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

10 Staff numbers and costs

	Group 2008 Number	Group 2007 Number
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The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

Management and administration	227	444
Supply	47	57
Construction and maintenance	198	61
Research and exploration	123	189
Security	131	98
Mining activities	3,160	3,071
	3,886	3,920

For the year ended 31 December 2008 the Company had 11 employees including six executive directors and three non-executive directors (2007: 14 employees including six executive directors and four non-executive directors).

	Group 2008 US\$000	Group 2007 US\$000
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The aggregate group payroll costs of these persons were as follows:

Wages and salaries (including Directors' emoluments)	19,338	14,486
Social security and other pension costs	2,407	2,587
Share based payments	93	105
	21,838	17,178

	Company 2008 US\$000	Company 2007 US\$000
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The aggregate company payroll costs of these persons were as follows:

Wages and salaries (including Directors' emoluments)	932	1,884
Social security and other pension costs	24	244
Share based payments	93	105
	1,049	2,233

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

11 Directors' remuneration

	Group 2008 US\$000	Group 2007 US\$000
Directors' emoluments:		
Salary and bonuses	4,936	2,452
Compensations for loss of office	-	248
Social security costs	38	44
Share based payments	93	105
	5,067	2,849
The emoluments of the Chairman were:	885	530

The IFRS2 charge in respect of equity-settled share-based payment expense disclosed in note 8 relates entirely to options awarded to Directors and is an expense of the Company. There were no options exercised in the year (2007:Nil).

The directors' in the Group have the responsibility for planning, directing and controlling the activities of the Group, there are no other key management personnel with this responsibility.

12 Finance income

	Group 2008 US\$000	Group 2007 US\$000
Finance income	7,509	11,599
	7,509	11,599

There were no significant amounts included above in relation to finance income earned on available-for-sale financial assets, or changes in market value of fair value through profit or loss investments (2007: US\$1,091,000)

13 Finance expense

	Group 2008 US\$000	Group 2007 US\$000
Interest on senior loan notes	14,550	13,750
Bank interest	-	1,113
Interest on finance leases	1,074	1,212
Other interest	173	373
Unwinding of discount on provisions	37	33
Unwinding of discount on senior loan notes	697	723
	16,531	17,204

An amount of US\$10,140,000 in relation to borrowing costs at a capitalisation rate of 10.03% is included in plant, property and equipment, see note 16, (2007: US\$7,108,000).

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

14 Taxation

	Note	Group 2008 US\$000	Group 2007 US\$000
Recognised in the income statement			
Current tax expense		-	(27,368)
Deferred tax credit/(expense)	31	175,615	(4,458)
Total tax charge		175,615	(31,826)
<i>Reconciliation of effective tax rates</i>			
(Loss)/profit before tax		(56,804)	51,232
Tax using domestic rates of corporation tax of 28.5%,(2007:30%)		16,189	(15,370)
<i>Effect of:</i>			
Effect of expenses not deductible for tax purposes		(16,521)	(7,893)
Release of deferred tax liability due to change in future tax rates		177,695	-
Foreign tax credits		-	(1,840)
Tax losses carried forward		(2,286)	(3,659)
Effect of higher tax rates in Kazakhstan		538	(3,064)
Total tax charge for the period		175,615	(31,826)

The deferred tax credit for the year primarily relates to revenue recognised in the income statement during the current year which will be assessed for corporation tax in 2009. The deferred tax liabilities have been recalculated taking into account the lower corporation tax rates resulting from the new Kazakh tax legislation effective from 1 January 2009, there is a phased reduction from 30% in 2008 to 15% in 2011.

Corporation tax in 2008 is calculated at 28.5% being a weighted average of the UK corporation tax rate that was applicable in the year.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

15 Earnings per share

	2008 Group	2007 Group
Basic earnings per share	\$2.26	\$0.39
	US\$000	US\$000
Profit attributable to ordinary shareholders	118,811	19,406
	Number	Number
Weighted average number of shares in issue	52,532,077	49,389,954
Weighted average number of ordinary shares	Number	Number
In issue at 1 January	50,641,666	47,100,000
Issued in the year	1,890,411	2,289,954
In issue at 31 December	52,532,077	49,389,954

The numerator for the calculation of the basic earnings per share is the profit after tax of US\$118,811,000 (2007: US\$19,406,000). The denominator for the calculation of the basic earnings per share is 52,532,077 (2007: 49,389,954).

Diluted earnings per share

In 2008, due to the share price being lower than the exercise price at 31 December 2008, the potential ordinary shares are anti-dilutive and therefore diluted earnings per share has not been calculated. Diluted profit per share for 2007 is based upon the net profit after tax attributable to the ordinary shareholders of US\$19,406,000 and a weighted average number of shares in issue, for the year to 31 December 2007 of 49,404,263.

	2008 Group	2007 Group
Diluted earnings per share	\$2.26	\$0.39
	US\$000	US\$000
Profit attributable to ordinary shareholders	118,811	19,406
Weighted average number of shares in issue	52,533,446	49,404,263

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

16 Property, plant and equipment

Group	Freehold Land & Buildings US\$000	Mining Properties US\$000	Assets Under Construction US\$000	Machinery, Equipment & Vehicles US\$000	Total US\$000
Cost					
Balance at 1 January 2007	56,167	814,832	11,663	25,298	907,960
Additions	2,067	64,027	15,055	10,313	91,462
Acquisition of subsidiary	-	6,500	29,415	-	35,915
Transfers from assets under construction	14,044	-	(20,580)	6,536	-
Reclassifications	660	-	-	1,397	2,057
Disposals	(304)	-	(291)	(664)	(1,259)
Effect of movements in foreign exchange	3,226	40,791	878	848	45,743
Balance at 31 December 2007	75,860	926,150	36,140	43,728	1,081,878
Additions	4,564	46,026	140,459	1,425	192,474
Reclassifications and transfers	89,812	9,062	(101,085)	2,211	-
Disposals	(6,884)	(75)	(71)	(7,280)	(14,310)
Effect of movements in foreign exchange	(260)	539	(76)	29	232
Balance at 31 December 2008	163,092	981,702	75,367	40,113	1,260,274
Depreciation and impairment					
Balance at 1 January 2007	3,429	5,240	-	4,383	13,052
Depreciation charge for the year	2,628	5,890	-	4,012	12,530
Reclassifications	(222)	-	-	77	(145)
Disposals	(103)	-	-	(126)	(229)
Effect of movements in foreign exchange	123	407	-	300	830
Balance at 31 December 2007	5,855	11,537	-	8,646	26,038
Depreciation charge for the year	7,238	7,745	-	5,978	20,961
Disposals	(899)	-	-	(1,055)	(1,954)
Effect of movements in foreign exchange	(16)	25	-	(9)	-
Balance at 31 December 2008	12,178	19,307	-	13,560	45,045
Net book value					
At 31 December 2008	150,914	962,395	75,367	26,553	1,215,229
At 31 December 2007	70,005	914,613	36,140	35,082	1,055,840
At 31 December 2006	52,738	809,592	11,663	20,915	894,908

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

16 Property, plant and equipment – continued

Included within assets under construction and land and buildings is an amount of US\$8,860,000 (2007: US\$1,408,000), which represents capitalised interest. Included within mining properties is an amount of US\$1,280,000 (2007: US\$5,700,000), which represents capitalised interest, see Note 13.

The net book value of non-current assets held under finance leases was:

	2008	2007
	Group	Group
	US\$000	US\$000
Cost	828	14,016
Depreciation	(464)	(1,619)
Net book value	364	12,397

17 Intangible assets

Group	Mining & Other licenses US\$000	Exploration & Evaluation costs US\$000	Negotiation Rights US\$000	Total US\$000
Cost				
Balance at 1 January 2007	1,184	950	-	2,134
Additions	308	4,243	-	4,551
Acquisition of subsidiary	-	-	48,457	48,457
Disposals	(29)	-	-	(29)
Reclassifications	(178)	-	-	(178)
Effect of movements in foreign exchange	64	110	-	174
Balance at 31 December 2007	1,349	5,303	48,457	55,109
Additions	95	20,220	-	20,315
Disposals	(13)	-	-	(13)
Impairment charge for the year	(373)	(176)	-	(549)
Effect of movements in foreign exchange	-	2	-	2
Balance at 31 December 2008	1,058	25,349	48,457	74,864
Amortisation and impairment				
Balance at 1 January 2007	327	-	-	327
Amortisation for the year	28	-	-	28
Disposals	(17)	-	-	(17)
Reclassifications	(23)	-	-	(23)
Effect of movements in foreign exchange	17	-	-	17
Balance at 31 December 2007	332	-	-	332
Amortisation for the year	5	-	-	5
Impairment charge for the year	-	-	-	-
Effect of movements in foreign exchange	9	-	-	9
Balance at 31 December 2008	346	-	-	346
Net book value				
At 31 December 2008	712	25,349	48,457	74,518
At 31 December 2007	1,017	5,303	48,457	54,777
At 31 December 2006	857	950	-	1,807

The amount in relation to negotiation rights of US\$48,457,000 is in respect of the Jerooj project, see Note 32.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

18 Investments in subsidiaries

The Company has investments in the following subsidiaries:

	US\$000	Country of Incorporation	Class of Share	Ownership %
Romanshorn LC AG	510,000	United States	Units	100
<i>Subsidiaries of Romanshorn LC AG:</i>				
JSC Kazakhaltyn MMC	-	Kazakhstan	Ordinary	100
<i>Subsidiaries of JSC Kazakhaltyn MMC:</i>				
Visart LLP	-	Kazakhstan	Ordinary	100
Rudnik Vasilevskiyi LLP	-	Kazakhstan	Ordinary	100
Altyn City Group LLP	-	Kazakhstan	Ordinary	100
Gorniak LLP	-	Kazakhstan	Ordinary	100
Tagam Alakan LLP	-	Kazakhstan	Ordinary	100
Hotel Stepnogorsk LLP	-	Kazakhstan	Ordinary	100
Sino-Kazakh Mining Company Limited	-	Kazakhstan	Ordinary	100
Romalytn Limited	-	Isle of Man	Ordinary	100
<i>Subsidiaries of Romalytn Limited:</i>				
Romalytn Mining SRL	-	Romania	Ordinary	100
Romalytn Mining Exploration SRL	-	Romania	Ordinary	100
Norox Mining Company Limited	69,996	Kyrgyzstan	Ordinary	100
<i>Subsidiaries of Norox Mining Company Limited:</i>				
Talas Gold Mining Company	-	Kyrgyzstan	Ordinary	66.67
Norox Operating Company Limited	-	Kyrgyzstan	Ordinary	100
Kazakhstan Cyprus Limited	-	Cyprus	Ordinary	100
	<u>579,996</u>			

JSC Kazakhaltyn MMC, Visart LLP, Gorniak LLP and Rudnik Vasilevskiyi LLP, are engaged in mining operations, exploration, and development in Kazakhstan. Romalytn Limited provides administrative support to Romalytn Mining SRL and Romalytn Exploration SRL, these companies are engaged in mining operations, exploration, and development in Romania. Norox Mining Company Limited based in Kyrgyzstan, provides administrative support to Talas Gold Mining Company engaged in mining operations in Kyrgyzstan. Altyn City Group LLP provides construction and maintenance services to Group companies in Kazakhstan. Tagam Alakan LLP provides catering and supply services to Group companies in Kazakhstan. Hotel Stepnogorsk LLP provides accommodation principally for Group personnel. Kazakhstan Cyprus Limited provides management services to other Group companies. Romanshorn LC AG and Norox Operating Company Limited are dormant.

The Group recognises its investments in subsidiaries at cost less any impairment for permanent diminution in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

19 Available for sale investments

	Group 2008 US\$000	Group 2007 US\$000
<hr/>		
<i>Non-current</i>		
Available for sale financial asset	-	164

The available for sale financial asset related to an interest in Turkey, which the Group is no longer pursuing.

20 Impairment

An impairment review of the Group's assets resulted in an impairment charge of US\$549,000 (see Note 8) in relation to the carrying value of exploration and evaluation costs incurred by Rudnik Vasilevskiy LLP (2007: US\$Nil).

The Group has assessed whether an impairment is required by comparing the carrying value of the assets to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. This fair value of the assets has been assessed and compared to value in use, the Group estimates value in use using a discounted cash flow model.

The Group's CGUs are determined on a geographical basis, and have been allocated to Kazakhstan, Romania, and Kyrgyzstan

The carrying amount of the negotiation rights allocated to Kyrgyzstan has not been allocated to a CGU as the Group are in negotiations with the Kyrgyzstan government in obtaining a mining licence. Should a licence be granted, the value in use of the underlying project is assessed at being significantly higher than the carrying value of the negotiation rights, based on the project reserves and a gold price of US\$800 Oz.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

20 Impairment (continued)

The calculation of value in use is most sensitive to the following assumptions:

- Production volumes;
- Discount rates;
- Future capital expenditure;
- Gold prices; and
- Operating costs

Estimated production volumes are based on detailed plans in relation to the life of the mines, and incorporate planned capital expenditure in relation to ongoing production. It is based on the production being historically achieved as adjusted for the new production capabilities.

The Group generally estimates value in use using a discounted cash flow model. The future cash flows are adjusted for inflation and risks specific to the asset and discounted using a pre-tax discount rate based on the Groups weighted cost of capital. Management also believes that currently there is no reasonably possible change in the discount rate, which has been estimated at 10%.

Management has also made an assessment of the estimated future gold price prudently at US\$800 oz, and believes that there are no reasonably possible changes in these which would reduce the Group's projections as calculated.

Management has also made an assessment of the estimated future operating costs adjusted for inflation at 2.5% per annum, and believes that there are no reasonably possible changes in these which would reduce the Group's projections as calculated.

Based on the projections, and sensitivity analysis conducted on the projections, which did not cause the net present values to fall below the carrying values, it has been assessed that no provision for impairment is required against the carrying values of the individual CGU's. Accordingly no reduction has been made to the carrying values of the assets, other than a specific provision against costs incurred by Rudnik Vasilevskiy LLP in relation to exploration and evaluation costs.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

21 Inventories

	Group 2008 US\$000	Group 2007 US\$000
Long-term inventory and ore stockpile	1,950	2,692
Raw materials and consumables	11,781	11,782
Work in progress	5,441	3,614
Finished goods	3,218	6,370
	20,440	21,766

The Group consumed US\$57,718,000 of inventories during the year, which has been recognised as an expense and included in cost of sales, (2007: US\$42,965,000). An expense of US\$124,000 was recognised in the year to write inventories down to net realisable value (2007: US\$Nil).

22 Trade and other receivables

	Group 2008 US\$000	Group 2007 US\$000
Trade receivables (net)	957	35,122
Advances to contractors	47,793	5,252
Other receivables (net)	13,883	44,808
Trade and other receivables	62,633	85,182
Prepaid expenses	481	93
	63,114	85,275

Advances to contractors relate to payments made for plant and equipment to be delivered and for the completion of construction projects, see Note 35.

The Group records impairment losses on its trade and other receivables separately from the gross receivable. The movements on this allowance account during the year are summarised below:

	Group 2008 US\$000	Group 2007 US\$000
Opening balance	4,290	6,063
Increase in provisions	6,002	2,129
Written off against provisions	(3,243)	(4,192)
Foreign exchange movement	(685)	290
Closing balance	6,364	4,290

Included in other receivables is an amount of US\$4,652,000 gross (net - US\$nil) relating to the recovery of amounts fraudulently misappropriated from the Company's bank accounts. The Company has filed legal claims and continues to pursue full recovery however the Directors have made full provision against this balance until such time that any recovery can be estimated with certainty.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

23 Investments at fair value through profit or loss

	Group 2008 US\$000	Group 2007 US\$000
Quoted	-	30,842
Unquoted	-	456
Exchange differences	-	462
	-	31,760

The investments were sold in October 2008.

24 Cash and cash equivalents

	Group 2008 US\$000	Group 2007 US\$000
Cash available on demand	13,309	9,664
Short-term deposits	657	334
Short-term investments	-	150,287
Cash per balance sheet and per the cash flow statement	13,966	160,285

Cash available on demand and short-term deposits consist of cash.

25 Share capital

	2008 Number	2007 Number
<i>Number of ordinary shares</i>		
In issue at 1 January	50,641,666	47,100,000
Issued in the year	2,300,000	3,541,666
In issue at 31 December	52,941,666	50,641,666

	2008 US\$000	2007 US\$000
Ordinary shares of £0.0001 each	9	9

	2008 Number	2007 Number
<i>Authorised</i>		
Ordinary shares of £0.0001 each	100,000,000	100,000,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	52,941,666	50,641,666

On the 6 March 2008 the company issued 2,300,000 new ordinary shares of £0.0001 each at a price of US\$23.00 per share for a total consideration of US\$50,176,000 net of expenses. The amount raised was used to provide additional working capital for the Group.

Holders of 30,841,666 (2007:28,541,666) of the ordinary shares hold their shares through the Bank of New York, which acts as a depository for these shares. These 'deposited shares' are matched to 'Global Depository Receipts' ("GDRs") on a share for share basis. The GDRs are listed on the London Stock Exchange.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. Payments of cash dividends and other amounts (including cash distributions) will, in the case of the GDRs issued by the Company, be made by the Depository of the GDRs to the persons entitled to the receipt of the funds.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

26 Reserves

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Translation Reserve US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2007	8	97,658	510,000	27,408	19,687	654,761
Foreign exchange on translation of foreign operations	-	-	-	35,319	-	35,319
Profit for the year	-	-	-	-	19,406	19,406
Equity-settled share-based payments	-	-	-	-	105	105
Issue of shares (Note 32)	1	72,886	-	-	-	72,887
Balance at 31 December 2007	9	170,544	510,000	62,727	39,198	782,478
Balance at 1 January 2008	9	170,544	510,000	62,727	39,198	782,478
Foreign exchange on translation of foreign operations	-	-	-	2,053	-	2,053
Profit for the year	-	-	-	-	118,811	118,811
Equity-settled share-based payment	-	-	-	-	93	93
Issue of shares	-	50,406	-	-	-	50,406
Balance at 31 December 2008	9	220,950	510,000	64,780	158,102	953,841

The following describes the nature and purpose of each reserve within owners equity.

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses. On the 6 March 2008 the company issued 2,301,666 new ordinary shares of £0.0001 each at a price of US\$23.00 per share for a total consideration of \$50,176,000 net of expenses. The amount raised was used to provide additional working capital for the Group.

Capital contributions represent the value of Romanshorn LC AG and its subsidiaries, the beneficial ownership of which was acquired by the Company in 2005.

Exchange differences arising on translating the net assets and the results of overseas operations to US dollars are recognised directly in the translation reserve.

Retained earnings represent the cumulative profit/(loss) of the Group attributable to the equity shareholders.

KazakhGold Group Limited**Notes forming part of the financial statements for the year ended 31 December 2008****27 Equity-settled share-based payment transactions**

	2007 & 2008
	Number of options
Outstanding at 1 January	53,334
Granted in the period	-
Exercised in the period	-
Lapsed during the period	-
Outstanding at 31 December	53,334
Exercisable at 31 December	53,334

US\$93,000, (2007: US\$105,000) has been charged to the Group and Company income statements for the year to 31 December 2008 being the apportioned amount of the fair value of the outstanding options at the date of grant.

The following options to purchase the Company's ordinary shares were outstanding at 31 December 2008, no new options were granted in the year:

	Total
Number of options granted on 1 December 2005	53,334
Number of employees	2
Share price of options granted on 1 December 2005	US\$15
Exercise price	US\$15

The options vested on 1 December 2008 and are exercisable until 1 December 2011.

The outstanding options at 31 December 2008 were valued at the date of grant by the Directors based on advice from an independent valuer who assessed the valuation using a binomial option valuation model under the assumptions listed below. Under these assumptions, the total value of the charge arising from these options is US\$5.88 per share option or US\$313,000 in total.

The principal assumptions used within the stock option valuation model at the date of the grant, were as follows:

Fair value of the share price at date of grant issued (flotation price)	US\$15
Interest rate per annum (zero coupon gilt yield at option grant date)	4.20%
Dividend yield	2.50%
Volatility (two year average of volatility of close competitor companies)	39%
Vesting time in years	3
Employee exit rate	0%

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

28 Interest-bearing loans and borrowings

	Note	Group 2008 US\$000	Group 2007 US\$000
Non-current			
Bank loans	33	5,964	1,732
Finance leases	33	1,370	10,582
Bonds	33	-	22,851
Senior loan Notes (secured) ²	33	197,308	196,611
Total non-current loans and borrowings		204,642	231,776
Current			
Bank loans	33	18,296	4,504
Bonds	33	23,010	-
Finance leases	33	568	1,724
Total current loans and borrowings		41,874	6,228

² The fair value of the Group Senior loan Notes at the balance sheet date was US\$96,000,000, (2007: US\$172,940,000) based on the mid market price as quoted on the Luxembourg Stock Exchange. For the Groups other loans and borrowings the carrying amounts are a reasonable approximation of the financial instruments to fair value.

Leases

Finance leases

The Group leases vehicles and machinery with a net carrying value US\$364,000, (2007: US\$12,397,000). Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

	Minimum lease payment 2008 US\$000	Interest 2008 US\$000	Present value 2008 US\$000
Not later than one year	657	73	584
Later than one year and not later than five years	1,473	119	1,354
Later than five years	-	-	-
	2,130	192	1,938
	Minimum lease payment 2007 US\$000	Interest 2007 US\$000	Present value 2007 US\$000
Not later than one year	2,036	312	1,724
Later than one year and not later than five years	7,607	600	7,007
Later than five years	3,614	40	3,574
	13,257	952	12,305

KazakhGold Group Limited
Notes forming part of the financial statements for the year ended 31 December 2008

29 Provisions

	Group 2008 US\$000	Group 2007 US\$000
<i>Within non-current liabilities</i>		
Balance at 1 January	7,910	401
Additions	-	955
Acquisition of subsidiary	-	6,500
Foreign exchange adjustments	859	21
Charged to the income statement	1,420	33
Balance at 31 December	10,189	7,910

Limited environmental rehabilitation regulations currently exist in Kazakhstan and the provision represents the cost of meeting the statutory cost for potential future liabilities in respect of site closure and environmental 'clean up' costs. There are no current plans for the early closure of any of the Group's mines.

30 Current liabilities – trade and other payables

	Group 2008 US\$000	Group 2007 US\$000
Trade payables	21,829	17,599
Other taxes and social security payable	5,092	8,167
Interest payable	2,865	2,867
Other payables and accruals	2,859	14,574
Total trade and other payables	32,645	43,207

31 Deferred tax assets and liabilities

	Group 2008 US\$000	Group 2007 US\$000
<i>Recognised deferred tax assets and liabilities</i>		
Deferred tax assets and liabilities are attributable to the following:		
<i>Temporary differences relating to:</i>		
Non-current assets	134,053	315,290
Other	3,001	(2,791)
Net deferred tax liabilities	137,054	312,499
<i>The movement on the deferred tax account is as shown below:</i>		
At 1 January	312,499	293,155
Short term differences relating to revenue recognition	-	(5,546)
Tax losses available for relief	(7,208)	-
Release of deferred tax liability due to change in future tax rates	(177,695)	-
Temporary differences arising in respect of property, plant and equipment	10,143	11,793
Amount credited to income statement in respect of amortisation of mining property	(855)	(1,789)
Foreign exchange adjustments arising in respect of deferred taxation on mining property	142	14,206
Foreign exchange adjustments arising in respect of subsidiary companies	28	680
Net deferred tax liabilities	137,054	312,499

Release of deferred tax liability relates to changes in future tax rates, and represents the directors best estimate of the future movements in future tax rates, see Note 14.

The deferred tax liability recognised in respect of the temporary differences relating to non-current assets arose principally as a result of the fair value adjustment to mining properties, which arose on the acquisition of Romanshorn LC AG.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

No deferred tax asset has been recognised in respect of the carried forward tax losses of approximately US\$6,275,000 (2007: US\$5,879,000) arising in the Company as the recoverability of excess management expenses in future periods is uncertain.

32 Prior period acquisition

On 26 April 2007 the company announced that it had signed a "Sale and Purchase Agreement" with Oxus Gold Plc for the acquisition of Norox Mining Limited, the 50 per cent share of Romaltyn Limited joint venture Company in Romania not owned by the Group and certain other assets.

Norox Mining Limited owns 66.67 percent of Talas Gold Mining Company, which owns the Jerooy project in Kyrgyzstan. The Jerooy Project primarily consists of production plant and the ability to negotiate with the Kyrgyzstan government for the resumption of the project and the renewal of the lapsed mining licences. Should these negotiations prove successful, a further sum to be negotiated of up to US\$80m, will be payable to Oxus Gold Plc on the grant of the appropriate mining and operations licence to the Group by the Kyrgyz government.

The details of the fair values of the identifiable assets and liabilities acquired are as follows:

		Book Value US\$000	Fair value Adjustment US\$000	Fair Value US\$000
Property plant and equipment	(a)	39,918	(4,003)	35,915
Negotiation rights	(b)	-	48,457	48,457
Deferred mining property expenditure	(c)	34,084	(34,084)	-
Other financial assets		-	164	164
Net current liabilities	(d)	(308)	(732)	(1,040)
Non current liabilities	(e)	(3,500)	(6,500)	(10,000)
		70,194	3,302	73,496
Consideration				
Shares issue	(f)			72,887
Acquisition costs				609
				73,496

Deferred taxation has not been provided on the acquisition of the assets as the transaction was not deemed to be a business combination, in accordance with the IFRS3 "business combinations". The transaction has been accounted for as an asset purchase.

- The property, plant and equipment of the Jerooy project and Romaltyn were fair valued by the directors, having regard to reports by independent experts which resulted in a fair value adjustment.
- Negotiation rights are in relation to the Jerooy mining licence. These rights arise in respect of the strong position gained by the Group for negotiating the grant of the relevant licences at Jerooy. The Group currently owns the plant and geological data at Jerooy. The Directors are confident that the Group will eventually be granted a mining licence, however there is no guarantee that the licence will be granted. Should the licence be granted to the Group, the carrying value of the negotiation rights will be transferred to mining licences and/or mining properties as appropriate. Should it become apparent that the licence is unlikely to be granted, the negotiation rights will be written down to their net realisable value.
- Due to the circumstances relating to the Jerooy licence the directors have fair valued the deferred mining property expenditure in relation to the Jerooy licences as US\$nil.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

- d. The fair value adjustment of US\$732,000 to non-current liabilities relates to the additional potential liabilities identified during due diligence which relate to goods and services under contracts entered into prior to the acquisition.
- e. Included within the above non-current liabilities is an estimate for rehabilitation provisions of US\$6,500,000, in respect of Romaltyn Limited. In accordance with IFRS a corresponding asset has been recognised.
- f. On the 10 May 2007 the company issued 3,541,666 new ordinary shares of £0.0001 each at a price of US\$20.58 per share for a total consideration of US\$72,887,000.

33 Financial instruments

Categories of financial asset

	Note	2008 US\$000	2007 US\$000
Current financial assets			
Loans and receivables at amortised cost:			
Current net trade and other receivables	22	62,633	85,182
Cash and cash equivalents	24	13,966	160,285
Fair value through profit or loss investments	23	-	31,760
Total current financial assets		76,599	277,227
Non-current financial assets			
Available for sale financial assets	19	-	164
Total non-current financial assets		-	164
Total financial assets		76,599	277,391

Categories of financial liabilities

	Note	2008 US\$000	2007 US\$000
Current financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	30	27,553	35,040
Loans and borrowings	28	41,874	6,228
Total current financial liabilities		69,427	41,268
Non-current financial liabilities			
Financial liabilities held at amortised cost:			
Loans and borrowings	28	204,642	231,776
Total non-current financial liabilities		204,642	231,776
Total financial liabilities		274,069	273,044

Risk and sensitivity analysis

There have been no substantial changes in the Groups exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this Note.

The Group and Company are exposed through its operations to one or more of the following financial risks:

Foreign currency risk, fair value and cash flow interest rate risk, other price risk, liquidity risk and credit risk. The policy for managing these risks is set by the Board and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Foreign currency risk

Foreign exchange risk arises due to the Group's primary revenues being in US dollars, which is also the presentational currency whilst the Group's principal operating costs are denominated in Kazakhstan Tenge which is the principal functional currency of the Group's operating subsidiaries.

In February 2009 the Kazakh Tenge was devalued against the US dollar by approximately 25% for its year end rate of 120 Kazakh Tenge to one dollar. The effect of a 25% weakening of the Kazakh Tenge against the US dollar at the balance sheet date would, all other variables held constant, have resulted in an decrease in post-tax losses for the year and increased net assets by US\$12,300,000 (2007 - US\$8,040,000). A 25% strengthening in the exchange rate would, on the same basis, have increased post-tax losses and decreased net assets by US\$12,300,000 (2007 - US\$8,040,000).

	US\$		Kazakh Tenge KZT	Romanian Leu	Russian Rouble	Kyrgyz Som	Total US\$000
2008		GBP£					
Loans and receivables at amortised cost:							
Current net trade and other receivables	46,788	707	10,489	1,122	-	3,527	62,633
Cash and cash equivalents	11,602	181	2,057	86	-	40	13,966
Financial liabilities held at amortised cost							
Trade and other payables	-	(7,009)	(16,075)	(136)	-	(4,333)	(27,553)
Loans and borrowings	(220,308)	-	(26,192)	-	(16)	-	(246,516)
2007		GBP£					
Loans and receivables at amortised cost:							
Current net trade and other receivables	50,446	6	28,643	474	117	5,496	85,182
Cash and cash equivalents	-	-	31,760	-	-	-	31,760
Fair value through profit or loss investments	8,806	12	151,289	140	-	38	160,285
Financial liabilities held at amortised cost							
Trade and other payables	(3,156)	(684)	(27,094)	(864)	-	(3,242)	(35,040)
Loans and borrowings	(202,847)	-	(35,157)	-	-	-	(238,004)

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

The Group has a general policy of not hedging against foreign currency risk. In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange rates could have an impact on consolidated earnings.

Fair value and cash flow interest rate risk

The Group utilises fixed and rate loans and bonds. The Board sets a policy for each material borrowing dependent upon the prevailing market conditions and the terms available in respect of each particular financial instrument and the interest rates attaching thereto. The Board seeks to achieve an appropriate balance of exposure to these risks.

The directors believe that the exposure to interest rate risk from these activities is acceptable in the Group's circumstances.

The effect of a 0.5% decrease in interest rates during the year would, all other variables held constant, have resulted in a decrease in the post-tax loss for the year and increased the net assets by US\$44,900 (2007 - US\$31,220). A 0.5% increase would, on the same basis, have increased post-tax losses and decreased net assets by US\$44,900 (2007 - US\$31,220).

Fixed and floating rate analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their interest rates at the balance sheet date and the periods in which they mature or, if earlier, are re-priced.

2008	Fixed Interest Rate %	Floating Interest Rate %	Group Total US\$000	Group 0-1 Years US\$000	Group 1-5 Years US\$000	Group 5-10 Years US\$000
Cash and cash equivalents	-	4.5%	13,966	13,966	-	-
Bank loans	11.0%	-	(16,914)	(12,562)	(4,352)	-
Bank loans	16.0%	-	(7,346)	(5,734)	(1,612)	-
Senior loan notes ³	9.375%	-	(197,308)	-	(197,308)	-
Bonds ⁴	-	10.4%	(23,010)	(23,010)	-	-
Leases ⁵	17.0%	-	(1,938)	(568)	(1,370)	-
			(232,550)	(27,908)	(204,642)	-
2007	Fixed Interest Rate %	Floating Interest Rate %	Group Total US\$000	Group 0-1 Years US\$000	Group 1-5 Years US\$000	Group 5-10 Years US\$000
Cash and cash equivalents	-	4.5%	160,285	160,285	-	-
Bank loans	9.0%	-	(3,747)	(3,747)	-	-
Bank loans	14.0%	-	(2,489)	(757)	(1,732)	-
Senior loan notes ³	9.375%	-	(196,611)	-	(196,611)	-
Bonds ⁴	-	10.4%	(22,851)	-	(22,851)	-
Leases ⁵	10.5%	-	(12,306)	(1,724)	(6,583)	(3,999)
			(77,719)	154,057	(227,777)	(3,999)

³ The Senior loan Notes have been issued by the Company and are listed on the Luxembourg Stock Exchange. The loan Notes are repayable in full in 2013. The loan Notes are unconditionally and irrevocably guaranteed on a joint and several basis by JSC Kazakhaltyn MMC, and certain other wholly owned subsidiaries.

⁴ The bonds are capped at 10.4%, this was the effective rate paid in 2008 and the previous year.

⁵ The leases are finance leases contracted in Kazakhstan in respect of plant and equipment in use by the Group within that country. The holders of the finance leases have a lien over the plant and equipment specific to the item or Group of items being financed.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Other price risk

As an 'unhedged gold producer', the Group is exposed to market price risk from its current activities. The Group manages this risk centrally with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and gold market prices.

At 31 December 2008, if the gold spot price per ounce had been 10% higher with all other variables held constant, loss after tax would have decreased and the net assets would have increased by US\$9,100,000 (2007 - US\$12,180,000). A 10% drop in the gold spot price per ounce would, on the same basis, have increased the loss after tax and decreased net assets by US\$9,100,000 (2007 - US\$12,180,000).

Liquidity risk

The liquidity risk of the Group is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and bonds. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Due to the lower than expected levels of production in 2008 the Group are in the process of establishing further credit lines to maintain working capital requirements see Note 1.

Maturity analysis of financial liabilities

	> 5 years US\$000	1-5 years US\$000	6-12 months US\$000	3-6 months US\$000	< 3 months US\$000	Total US\$000
2008						
Trade and other payables	-	-	732	2,865	23,956	27,553
Loan and borrowings	-	204,625	3,669	3,685	34,537	246,516
2007						
	> 5 years US\$000	1-5 years US\$000	6-12 months US\$000	3-6 months US\$000	< 3 months US\$000	Total US\$000
Trade and other payables	525	12,631	-	-	21,884	35,040
Loan and borrowings	3,270	228,506	6,228	-	-	238,004

Credit risk

The Group is exposed to credit risk arising from credit sales of its product to customers. Due to the nature of the market, the Group's principal customers are concentrated on a small number of significant entities. It is the Board's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

The Group's maximum exposure to credit risk by class of financial instrument amounts to their carrying value of US\$82,269,000 (2008: US\$277,229,000).

Quantitative disclosures of the credit exposure in relation to trade and other receivables, which are neither past due nor impaired, are disclosed in the Note 22.

The Group generated the vast majority of revenue from a small number of customers. These customers are well established businesses with good credit ratings. On average trade receivables are settled within 60 days from the date the invoice is issued.

A maturity analysis of trade and other receivables is as follows:

	>120 Days US\$000	90-120 days US\$000	60-90 days US\$000	30-60 days US\$000	<30 days US\$000	Total US\$000
2008	52,259	-	-	-	10,374	62,633
2007	11,920	10,050	527	4,747	57,938	85,182

There are no amounts included above that are past due and impaired in this or the previous year.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Capital

The Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings as its capital reserves. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risk and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There have been no other significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

34 Post-balance sheet events

On 12 June 2009 Jenington International Inc, an indirect wholly owned subsidiary of Polyus Gold made an announcement in accordance with Rule 2.5 of the Takeover Code to acquire 50.1% of the issued share capital of the Company. Under the terms of the proposed offer, management expect Polyus Gold will underwrite a US\$100 million equity capital raising.

On 3 June and 11 June 2009 Gold Lion Holdings Ltd, the Company's principal shareholder, entered into two subordinated loan facilities to provide an aggregate of US\$31.025 million to finance the Group's immediate working capital needs, to make the interest payment due under the Senior Notes and the redemption payment in respect of local Kazakh Bonds.

Devaluation of Kazakh Tenge

In February 2009 the Kazakh Tenge was devalued by about 25 percent to a rate of approximately KZT 150 to US\$1. A substantial proportion of the Group's costs are payable in Tenge, the effect of the reduction of the Tenge is discussed in Note 33.

Misappropriation of funds

Following the year end two previous employees whilst in the employ of the Company committed fraudulent acts against the Company and misappropriated approximately US\$7,000,000 of Company funds.

The Company and its advisors are conducting a detailed investigation into these fraudulent acts and those disclosed in Note 22. Approximately US\$4,300,000 of the above US\$7,000,000 has been traced to recipient bank accounts in Cyprus which have been frozen pursuant to court orders in the UK and Cyprus. The Directors are confident that the US\$4,300,000 currently frozen will be recovered in due course from Cyprus in due course.

The Company is actively and aggressively pursuing the recovery of all misappropriated amounts. As a consequence of this the Company has commenced proceedings against the company's bankers in Jersey and against the two previous employees in London and in Cyprus.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

35 Commitments and contingencies

Construction projects - Kazakhstan

During the year the company entered into contracts for the completion of three processing plants and a central elution plant with MAED Limited (now known as Central Asian Capital Projects Limited - CACP), for an amount of US\$69,015,000. Prior to the year end a dispute arose in relation to completion of the plants, which was concluded on 14 March 2009, with the Group making a payment of US\$2,000,000. This resulted in CACP adopting a role of project management, with the majority of the construction responsibilities being transferred to other contractors. Under the settlement agreement with CACP, US\$4,500,000 will be paid to CACP 90 days from the contract resolution date, with further amounts totalling US\$5,200,000 to be paid on completion of agreed delivery targets.

Advance payments have been made in relation to future capital commitments amounting to US\$47,793,000, and are included within trade and other receivables see Note 22.

Construction projects - Kyrgyzstan

As explained in Note 32 the Group is committed to making an additional payment of up to US\$80,000,000 to Oxus Gold PLC, if the negotiations on the resumption of mining rights in respect of the Jerooy project are successful in Kyrgyzstan.

36 Immediate and ultimate parent company

There is no ultimate controlling party of KazakhGold Group Limited.

37 Related party transactions

The related party transactions arising in the Group and Company during the year were as follows:

- Transactions in which a non-executive director, William (Bill) Trew, had an interest are disclosed below:

- Transactions with Oxus Gold Plc are as detailed in Note 32. William (Bill) Trew was a director of that company in the period ended 31 December 2008.

William (Bill) Trew is beneficially interested in certain service agreements with Central Asian Capital Projects Limited, (CACP), in that MAED IOM Ltd has a contract to supply design, FIDIC contractual advice and other consultancy services to, CACP (formerly MAED Limited BVI). CACP has contractual agreements with the Group to construct processing plants as detailed in Note 35.

- Refer to Note 11 for details of transactions with key management personnel.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

Company only notes

38 Operating loss

	Company 2008 US\$000	Company 2007 US\$000
<i>This has been stated after charging:</i>		
Equity-settled share-based payment expense	93	105
Provision for impairment of other receivables (see note 22)	4,652	-
Depreciation	62	50
Staff costs (see note 10)	956	2,128
Auditors' remuneration (see note 9)	1,103	450

39 Finance income

	Company 2008 US\$000	Company 2007 US\$000
Bank interest receivable	551	3,764
Group interest receivable	21,033	18,684
	21,584	22,448

40 Finance expense

	Company 2008 US\$000	Company 2007 US\$000
Senior loan note interest	18,750	18,750
Amortisation of issue costs	696	723
	19,446	19,473

41 Taxation

	Company 2008 US\$000	Company 2007 US\$000
Recognised in the income statement		
Current tax expense	-	(1,840)
Deferred tax income	-	-
Total tax charge	-	(1,840)
Reconciliation of effective tax rates		
Loss before tax	(16,278)	(1,782)
Tax using domestic rates of corporation tax of 28.5%, (2007:30%)	(4,639)	(535)
<i>Effect of:</i>		
Effect of expenses/income not deductible for tax purposes	2,120	(218)
Tax effect of timing differences	587	-
Foreign tax credits	-	(1,840)
Unrelieved tax losses arising in the period	1,932	753
Total tax charge for the year	-	(1,840)

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

42 Property, plant and equipment

	US\$000
Company	
Cost	
Balance at 1 January 2007	200
Acquired in the year	-
Balance at 31 December 2007	200
Acquired in the year	160
Balance at 31 December 2008	360
Depreciation and impairment	
Balance at 1 January 2007	25
Depreciation charge for the year	50
Balance at 31 December 2007	75
Depreciation charge for the year	62
Balance at 31 December 2008	137
Net book value	
At 31 December 2008	223
At 31 December 2007	125
At 31 December 2006	175

43 Amounts due from group undertakings

	Company 2008 US\$000	Company 2007 US\$000
Non-current receivables	200,000	200,000

Amounts due from group undertakings comprises amounts due from JSC Kazakhaltyn MMC. The amount is due to be repaid by JSC Kazakhaltyn MMC on 5 November 2013 in accordance with a loan agreement dated 6 November 2006.

44 Trade and other receivables

	Company 2008 US\$000	Company 2007 US\$000
Amounts due from group undertakings	119,248	82,525
Other receivables	1,095	3,404
Prepaid expenses	88	21
	120,431	85,950

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

45 Cash and cash equivalents

	Company 2008 US\$000	Company 2007 US\$000
Cash available on demand	11,126	5
Short-term deposits	657	8,811
Cash per balance sheet and per the cash flow statement	11,783	8,816

Cash available on demand and short-term deposits consist of cash.

46 Interest-bearing loans and borrowings

	Note	Company 2008 US\$000	Company 2007 US\$000
Non-current			
Senior loan notes (secured) ⁶	33	197,308	196,611

⁶ The fair value of the Group Senior loan notes at the balance sheet date was US\$96,000,000 (2007:US\$172,940,000) based on the mid market price as quoted on the Luxembourg Stock Exchange.

47 Current liabilities

	Company 2008 US\$000	Company 2007 US\$000
Senior loan note interest	2,865	2,865
Other creditors and accruals	3,479	851
	6,344	3,716

48 Equity-settled share-based payment transactions

Refer to note 27 for details.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

49 Reserves

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2007	8	97,658	510,000	(2,476)	605,190
Loss for the year	-	-	-	(3,622)	(3,622)
Issue of shares	1	72,886	-	-	72,887
Equity-settled share-based payments	-	-	-	105	105
Balance at 31 December 2007	9	170,544	510,000	(5,993)	674,560
Balance at 1 January 2008	9	170,544	510,000	(5,993)	674,560
Loss for the year	-	-	-	(16,278)	(16,278)
Issue of shares	-	50,406	-	-	50,406
Equity-settled share-based payments	-	-	-	93	93
Balance at 31 December 2008	9	220,950	510,000	(22,178)	708,781

The following describes the nature and purpose of each reserve within owners equity.

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses. On the 6 March 2008 the company issued 2,300,000 new ordinary shares of £0.0001 each at a price of US\$23.00 per share for a total consideration of US\$50,176,000 net of expenses. The amount raised was used to provide additional working capital for the Group.

Capital contributions represent the value of Romanshorn LC AG and its subsidiaries, the beneficial ownership of which was acquired by the Company in 2005.

Retained earnings represent the cumulative profit/(loss) of the Company attributable to the equity shareholders.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

50 Financial instruments

Risk and sensitivity analysis

Details are provided in Note 33.

	US\$	GBP£	Total US\$000
2008			
Trade and other receivables	119,248	1,183	120,431
Cash and cash equivalents	11,111	672	11,783
Interest bearing loans and borrowings	(197,308)	-	(197,308)
Trade and other payables	(3,144)	(3,200)	(6,344)
<hr/>			
	US\$000	GBP£000	Total US\$000
2007			
Trade and other receivables	85,950	-	85,950
Cash and cash equivalents	7,591	1,225	8,816
Interest bearing loans and borrowings	(196,611)	-	(196,611)
Trade and other payables	(3,032)	(684)	(3,716)

Fair value and cash flow interest rate risk

2008	Fixed Interest Rate %	Floating Interest Rate %	Company US\$000	Company US\$000	Company US\$000	Company US\$000
	Cash and cash equivalents	-	4.5%	11,783	11,783	-
Senior loan Notes ⁷	9.375%	-	(197,308)	-	(197,308)	-
			(185,524)	11,783	(197,308)	-
<hr/>						
2007	Fixed Interest Rate %	Floating Interest Rate %	Company Total US\$000	Company 0-1 Years US\$000	Company 1-5 Years US\$000	Company 5-10 Years US\$000
	Cash and cash equivalents	-	4.5%	8,816	8,816	-
Senior loan Notes ⁷	9.375%	-	(196,611)	-	(196,611)	-
			(187,795)	8,816	(196,611)	-

⁷ The Senior loan Notes have been issued by the Company and are listed on the Luxembourg stock exchange. The loan Notes are repayable in full in 2013. The loan Notes are unconditionally and irrevocable guaranteed on a joint and several basis by JSC Kazakhaltyn MMC, and certain other wholly owned subsidiaries.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2008

A maturity analysis of trade and other receivables is as follows:

	>120 days US\$000	90-120 days US\$001	60-90 days US\$002	30-60 days US\$000	<30 Days US\$000	Total US\$000
2008	119,352		-	-	1,079	120,431
2007	82,525		-	-	3,425	85,950

There are no amounts included above that are past due and impaired in this or the previous year.

Maturity analysis of financial liabilities is as follows:

	5-10 years US\$000	1-5 years US\$000	3-12 months US\$000	< 3 months US\$000	Total US\$000
2008					
Trade and other payables	-	-	-	6,344	6,344
Loan and borrowings	-	197,308	-	-	197,308

	5-10 years US\$000	1-5 years US\$000	3-12 months US\$000	< 3 months US\$000	Total US\$000
2007					
Trade and other payables	-	-	-	3,716	3,716
Loan and borrowings	-	196,611	-	-	196,611

51 Related party transactions

Related party transactions with the subsidiary companies are as follows:

- Amounts received and included within the income statement from Group companies amounted to US\$21,033,000 (2007: US\$18,684,000) see Note 39.

- Loans amounting to US\$15,900,000 (2007: US\$9,967,000), were advanced to Group companies, of this amount US\$3,300,000 (2007: US\$1,068,000), was fully provided for by the parent company. Details of balances with subsidiary companies at the 31 December 2008 are provided in Notes 43 and 44.

Details of related party transactions with Directors are provided in Note 37.

52 Post balance sheet events

Details are provided in Note 34.

Directors, Company Secretary and Advisers

Directors

Kanat Shaikhanovich Assaubayev
Executive Chairman

Baurzhan Kanatovich Assaubayev
Managing Director, Internal Affairs &
Government Relations

Aidar Kanatovich Assaubayev
Executive Vice Chairman, Corporate
Development

Marussya Maralovna Assaubayeva
Director, Human Resources &
Corporate Affairs

Sanzhar Kanatovich Assaubayev
General Manager, London Office

Toktarkhan Kozhagapanov
Non-Executive Director

David Netherway
Non-Executive Director

Darryl Norton
Chief Operating Officer

William Trew
Non-Executive Director

Legal Advisers

As to English law
Withers LLP
16 Old Bailey
London EC2M 7EG
England

As to Jersey law
Bedell Cristin
26 New Street
St. Helier
Jersey JE2 3RA
Channel Islands

Registered Office
KazakhGold Group Limited
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St. Helier
Jersey JE1 1BJ
Channel Islands

Company Secretary
Abacus Secretaries (Jersey) Limited
La Motte Chambers
St. Helier
Jersey JE1 1BJ
Channel Islands

Principal Place of Business
KazakhGold Group Limited
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London W1S 4EL
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GDR Depositary
The Bank of New York
101 Barclay Street
22nd floor
New York, NY 10286
United States of America

Brokers

ING Bank N.V.
60 London Wall
London EC2M 5TQ
England

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
England

Bank of America Merrill Lynch
2 King Edward Street
London EC1A 1HQ
England

Auditors
BDO Stoy Hayward LLP
55 Baker Street
London W1U 7EU
England

Company Number
91264

Glossary

Ore reserves and resources estimation

Under the FSU Classification explored reserves are designated as either A, B, or C₁, evaluated reserves are designated as C₂ and prognostic resources are designated as either: P₁; P₂ or P₃.

Category A

The reserves in place are known in detail. Trenching, drilling, or underground workings have outlined the boundaries of the deposit. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

Category B

The reserves in place have been explored but are only known in fair detail. Trenching, drilling, or underground workings have outlined the boundaries of the deposit. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

Category C₁

The reserves in place have been estimated by a sparse grid of trenches, drill holes or underground workings. This category also includes reserves adjoining the boundaries of A and B reserves, as well as reserves of very complex deposits in which the distribution cannot be determined even by a very dense grid. The quality and properties of the deposit are known provisionally by analyses and by analogy with known deposits of the same type. The general conditions for exploitation are known tentatively.

Category C₂

The reserves have been extrapolated from limited data, probably from a single hole. This category includes reserves that are adjoining A, B, and C₁ reserves in the same deposit. Prognostic resources are estimated for mineralisation outside the limits of areas that have been explored in detail and are often based on data from trenches and from geochemical and geophysical surveys.

Category P₁

Resources under the P₁ category may extend outside the actual limits of the ore reserves defined in the C₂ category. The outer limits of P₁-type resources are determined indirectly by extrapolating from similar known mineral deposits in the area. P₁ is the main source from which C₂ reserves can be increased.

Category P₂

These resources represent possible mineral structures in known mineral deposits or ore-bearing regions. They are estimated based on geophysical and geochemical data. Morphology, mineral composition and the size of the ore body are estimated by analogy with similar mineralised geologic structures in the area.

Category P₃

Any potential ore-bearing deposits are classified as resources in the P₃ category. The presence of these resources relies on the theoretical definition of a "favourable geological environment". Resource figures are derived from figures of similar deposits in the region. Estimates of prognostic resources routinely depend on assumptions and projections regarding the probable dimensions (i.e. length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations.

Au

The chemical symbol for gold.

CIS

Confederation of Independent States, or Former Soviet Union.

Carbon-in-leach or CIL

Process in which carbon is added to the solution following leaching in order to extract gold.

Carbon-in-pulp or CIP

An established method of gold recovery using cyanide and activated carbon. It is the most efficient method to process both oxide and sulphide ores, with recovery rates of over 90 per cent.

Cathodic gold

The gold product that arises following the processing of mined ore by the CIP and HL methods, which ends with the gold bearing solution being treated by electrolysis. The gold is deposited on the cathodes of the cell, which are then washed to remove the deposited gold, which can be further smelted into doré bars.

Cathodic sludge

The gold residue in the electrolysis cell from that part of the solution that is not deposited on the cathodes.

Company

KazakhGold Group Limited.

FSU

Former Soviet Union.

FSU Classification

The former Soviet Union system of classification of geological reserves and resources.

Flotation concentrate

The product of a processing method used to separate gold sulphide particles in slurry, by causing them to selectively adhere to froth and float to the surface. The resultant gold concentrate is then filtered to form flotation concentrate.

Free gold

Gold uncombined with other substances; gold not found in chemical combination with other minerals; found largely in placer gold form.

g/t or g/tonne

Grammes per metric tonne.

GDR

Global Depository Receipt equivalent to one underlying ordinary share of the Group, with a nominal value £0.0001.

Gold doré

Unrefined gold bullion bars, which will be further refined to almost pure metal (99.9 per cent Au)
See also Doré bars.

Grade

Relative quantity or the percentage of ore mineral or metal content in an ore body, usually expressed in grammes per metric tonne.

Gravitation

Gold particles in slurry are separated based on their specific gravity.

Group

KazakhGold Group Limited and its subsidiaries.

Heap Leaching or HL

An ore processing technology used to process low-grade oxide ores. Although it is the lowest-cost method of processing, recovery rates are only approximately 60 per cent.

IFRS

International Financial Reporting Standards.

JORC

Joint Ore Reserves Committee.

JSC

Joint Stock Company.

KZT

Kazakhstan Tenge, the official currency of Kazakhstan.

Kazakhaltyn

JSC Kazakhaltyn MMC - a company registered in Kazakhstan and the Group's principal operating subsidiary.

LLP

Limited liability partnership.

MMC

Mining Metallurgical Concern.

Mineralisation

Process of formation and concentration of elements and their chemical compounds within a mass or body of rock.

Mtpa

Million tonnes per annum.

NAMR

Romanian National Agency for Mineral Resources classification code

Open-pit

A large scale hard rock surface mine.

Ore

Rock that can be mined and processed at a profit.

Ore body

A solid mass of mineralised rock, which can be mined profitably under current or immediately foreseeable economic conditions.

Ounce or oz

Troy ounce, equal to 31.1035 grammes.

Pounds sterling

The currency of the United Kingdom and '£'.

Quartzite ore

A mass of mineralised quartzite rock containing gold.

Recovery

Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present.

\$/t or \$/tonne

US dollars per metric tonne.

Shaft

Vertical or inclined excavation into mine workings.

Silicification

The introduction of silica into a rock, either filling pore spaces or replacing pre-existing minerals.

Tailings

Material that remains after all metals/minerals considered economic have been removed from the ore.

Tenge

The official currency of Kazakhstan.

Vein

A tabular deposit of mineralized rock.