



KazakhGold Group Limited
Report & Accounts 2007



KazakhGold Group Limited - 2007 Annual Report & Accounts

KazakhGold Group Limited is the leading specialist gold mining company in Kazakhstan with world-class gold reserves and resources, estimated to be the largest in the country. We are developing rapidly, supported by an international management team, with the aim of becoming the leading gold producer in Central Asia.

In 2007 we increased gold production by 6.4 per cent to 232,060 oz and announced a five-year production growth strategy, targeting annual gold production of 1.0 million ounces by 2011.

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 reserves
- A world class asset base confirmed, following preliminary work to re-classify certain reserves and resources, at the Group's three main operating mines in Northern Kazakhstan
- Five-year production plan to reach annual gold production of 1.0 million ounces by 2011
- Developing as a low cost producer, with improving economies of scale
- International growth opportunities in Romania, Kyrgyzstan, Turkey and elsewhere in Central Asia
- An experienced international management team, with extensive knowledge of the local geology, business and regulatory environment.

*Unaudited as at 1 January 2008 and based on internal estimates, using FSU classification

2007 Highlights

- 2007 gold production of 232,060 ounces (2006: 218,164 ounces)
- Average gold price received US\$700 per ounce, 25 per cent higher than 2006
- Preliminary JORC reclassification assessment confirms a world class asset base
- Drilling programmes carried out for resource and reserve estimation purposes
- Exploration of margins of known mineralised zones, definition of new mineralised zones
- Production expansion projects well under way at all three principal mines
- New secondary milling circuit started at Aksu
- Acquisition of assets from Oxus Gold plc - Jerooy plant equipment, balance of Romaltyn in Romania and Turkish gold-copper projects
- Plant refurbishment and modifications ongoing at Romaltyn
- JPMorgan Cazenove appointed as joint broker and financial advisor
- An experienced international senior management team recruited.

2008 Priorities

- Selective participation in the consolidation of Central Asia's gold assets, to expand production
- Further conversion of FSU classified reserves and resources to the JORC Code and upgrading of resources to reserves
- Consider financing options to accelerate the Group's production expansion programme
- Ongoing modernisation of mining methods and optimisation of processing technologies, to increase ore extraction
- Complete the 2.0 million tonnes per annum tailings re-treatment plants at Bestobe and Zholymbet and begin construction of a similar plant at Aksu
- Upgrade the Group's three main laboratories
- Resolve the future of the Jerooy project in Kyrgyzstan
- Consider a potential move of the company's GDR listing to the London Stock Exchange Main Market.

RESULTS HIGHLIGHTS

	2007 (year to 31 December)	2006 (year to 31 December)
	US\$ '000	US\$ '000
Revenue	176,996	109,433
Operating profit	56,837	33,078
Pre-tax profit	51,232	31,278
EBITDA	69,395	42,200
Earnings per share (US\$) - basic and fully diluted	0.39	0.40
Net assets	782,478	654,761
Gold production	232,060	218,164
Kazakhaltyn direct cash production cost (US\$ per contained oz)	262	228
Average achieved sales price (US\$ per contained oz)	700	560

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CHAIRMAN'S STATEMENT

KazakhGold Group is the leading gold producer in Kazakhstan, with long-life mines and what are estimated to be the country's largest gold reserves. The Group has an extensive expansion programme underway, which will help us raise gold production significantly, increase operational efficiency and reduce operating costs further, from a direct cash production cost of US\$ 262 per ounce in 2007 to a target average direct cash production cost of US\$ 210 per ounce over the next five years.

In 2007 the Group made further progress towards its vision of becoming Central Asia's leading gold mining company. This followed a year of intense corporate activity, investment in production expansion and the introduction of an experienced international management team, based at our operating headquarters in Stepnogorsk.

Results and dividend

Gold production was 232,060 ounces in the 12 months to 31 December 2007. This was slightly above our expectations, and 6.4 per cent ahead of the previous year's production. This result was achieved despite unusually severe weather conditions in Northern Kazakhstan during the early part of 2007.

Revenue for the period was US\$ 177.0 million, an increase of 61.7 per cent on the previous year. Profit before tax rose by 63.8 per cent in 2007, to US\$ 51.2 million. We achieved an average gold price of US\$ 700 per ounce on our sales for the year, a 25 per cent increase on 2006. As an un-hedged gold producer, KazakhGold benefited from the strong gold price environment over the year - something we expect to continue through 2008.

As we announced at the time of our IPO in 2005, the Board does not propose the payment of shareholder dividends until the Group's plant modernisation programme is completed, and production facilities reach their designed output capacity. Thereafter, and subject to KazakhGold's performance, we plan to begin paying dividends progressively.

Realising potential

In November 2007 we announced a five-year growth plan, designed to achieve a target annual gold production of 1.0 million ounces by 2011. We aim to achieve this through realising the full potential of our current resources, selective acquisitions in Kazakhstan and elsewhere in Central Asia and significantly increased extraction and processing at our existing mines.

Last year we took an important step towards raising our gold production. We awarded a contract to MAED Limited, an international engineering, construction and consultancy group, for the design and construction of new tailings re-treatment plants at Bestobe and Zholymbet. Each plant will be capable of treating 2.0 million tonnes of reclaimed tailings and recovering 100,000 ounces of gold annually. Both plants are due to be commissioned later this year. Construction of a similar re-treatment plant is due to start at Aksu later this year. The plants have been designed so that, with the subsequent addition of further equipment, they will form the nucleus of new, 4.0 million tonne per annum ore treatment plants, at each of our three principal mines in Northern Kazakhstan.

Achieving the full potential of our Kazakh assets is central to our business strategy, and this requires a thorough assessment of our asset base. In January 2007, Wardell Armstrong International (WAI) completed a preliminary reconciliation study of our FSU classified gold reserves and resources at Aksu, Bestobe and Zholymbet, to the widely respected Australian Joint Ore Reserves Committee (JORC) standard. The work confirmed a world-class asset base. In 2007 the main focus of our reserves and resources work was to replace resources of material mined in the year, and to improve the geological understanding of the resources adjacent to our current mining operations.

During the year we took the opportunity to acquire various assets from Oxus Gold plc that support our geographic presence in and around Central Asia. Investments included Oxus Gold's 50 per cent shareholding in Romalbyn Limited and 100 per cent of Norox Mining Company Limited, which owns 66.67 per cent of the Talas Gold Mining Company in Kyrgyzstan. We also acquired, from a subsidiary of Oxus Gold plc, a 25 per cent interest and an option to acquire a further interest in the Hatay joint venture project in Turkey.

These acquisitions complement our Kazakh assets, bring additional geographic diversification and strengthen our position further in Romania. Importantly, they give us a presence in two emerging gold countries, Turkey and Kyrgyzstan. The Group now owns 100 per cent of Romaltyn in Romania, which is the most advanced of these projects. In consideration for these assets, the Group issued 3.5 million new ordinary shares, which were distributed to shareholders of Oxus Gold plc in July 2007. As a result, we welcomed some 1,200 new shareholders in KazakhGold.

In 2007 the Group appointed JPMorgan Cazenove as joint broker and financial advisor, alongside ING Bank. JPMorgan Cazenove is currently advising us on a potential move of our GDR listing to the Main Market of the London Stock Exchange. Both firms are continuing to help us identify opportunities to participate in the consolidation of gold assets in Central Asia.

Governance and people

We have instituted a number of changes to the Board during the year. Darryl Norton and Sanzhar Assaubayev were appointed Executive Directors and William Trew joined us as a Non-Executive Director. In March 2007, I was appointed Executive Chairman, acknowledging the need for this role to include significant executive duties in Kazakhstan. As previously announced Peter Daresbury, previously Non-Executive Chairman of the Group and Stephen Oke, a Non-Executive Director, resigned from the Board. We are grateful to both for their invaluable support and guidance, especially during the Group's post-IPO development.

At a management level, Stephen Westhead, Geoff McLoughlin and Robert Hewitt were appointed as Group Chief Geologist, Group Chief Metallurgist and Chief Mining Engineer respectively. During 2007, we made eight further senior management appointments for different roles in operations, geology and capital projects. The Group now has a strong international management team, supported by the necessary local expertise.

Any period of change requires the support and understanding of employees and 2007 was no exception. Without the significant and ongoing contribution of all our people, the achievements of the year would not have been possible.

Outlook

In 2008 we will focus on expanding the Group's reserves through exploration; reclassification of our resource base into the JORC standard; modernising our mining methods to increase ore extraction; and optimising our processing technologies. In order to expedite our accelerated investment plan, the Group is considering various financing options available to it, to progress its capital expenditure programme. KazakhGold will also actively seek to participate in the consolidation of the Central Asia region's gold assets, with the ultimate goal of growing our production.

Looking ahead, demand for gold remains firm. In part this is due to the investment attraction of gold at a time of continued volatility in the global credit, equity and commodity markets. It also reflects sustained jewellery buying from the Middle East and India. Meanwhile, on the supply side, global production of gold remains flat. This imbalance between demand and supply has helped the gold price reach record levels, since the 2007 year-end. It rose to US\$ 850 per ounce in January 2008, its highest level since January 1980 and passed US\$ 1,000 per ounce in March 2008. Overall, however, we expect the price of gold to remain firm throughout 2008.

The combined impact of KazakhGold's investment and development plans, its strong management team and supportive macroeconomic conditions, means I am confident that your Group will make further significant progress in 2008.

OPERATIONAL REVIEW

Production Summary for 12 months ended 31 December 2007.			
Mining			
	Ore Mined	Grade	Gold Content
Aksu	2.034m tonnes	1.77g/t	116,153 ounces
Bestobe	2.135m tonnes	1.94g/t	133,513 ounces
Zholymbet	0.254m tonnes	5.19g/t	42,447 ounces
Totals	4.423m tonnes	2.05g/t	292,113 ounces
Processing			
	Ore Treated	Grade	Gold Produced*
Aksu	1.546m tonnes	1.73g/t	84,590 ounces
Bestobe	1.547m tonnes	1.81g/t	104,907 ounces
Zholymbet	0.391m tonnes	3.44g/t	42,563 ounces
Totals	3.484m tonnes	1.96g/t	232,060 ounces

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

Gold production for the year to 31 December 2007 was 232,060 ounces, a 6.4 per cent increase over the previous year. This result was achieved despite unusually severe winter conditions in Northern Kazakhstan.

During the year, 3.48 million tonnes of ore were treated (2006: 4.68 million tonnes). The average head grade of this ore was 1.96 g/t gold (2006: 1.92 g/t). The reduction in the overall recovery rate was largely due to a decline in recovery at the heap leach operations, which is addressed subsequently in this operational review.

Exploration and geology

The main focus of the Group's geological activity over the year was to update reserves and resources to reflect depletions of mined materials and also additional exploration. The latter being designed to improve the Group's geological understanding of the resources adjacent to its existing mining operations. Activity included an assessment of the available historical geological data and further entry into a database of both ongoing and historical FSU and Kazakh geological exploration data. Wardell Armstrong International (WAI) is currently reviewing the results of the work undertaken by the Group's in-house team.

The Group has decided to utilise the Surpac® computer programme in order to allow three-dimensional modelling of its gold deposits. The subsequent resource estimation and reserve calculation can then be carried out according to JORC requirements. The first phase of training on Surpac was completed in 2007 and the programme is now being implemented.

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

As at 1 January 2008	Ore (m 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

* Unaudited

Under the Former Soviet Union (FSU) classification code of reserves and resources, the Group had a total of 13.7 million ounces of Kazakh-based gold reserves (B + C₁) as at 1 January 2008. In addition, Kazakh-based gold resources amounted to 45.86 million ounces (C₂ + P₁). An additional 4.19 million ounces of resource potential has been estimated at the Group's assets in Romania. The resources exclude the exploration assets in Kazakhstan and Turkey as well as, subject to the granting of a production licence, the known resources at Jerooy in Kyrgyzstan.

Over 2007 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 undertaken during the mining process.

International accredited analytical companies undertook an assessment of the Group's three main laboratories, during the year. As a result, all three laboratories will be upgraded in 2008 and a new exploration assay facility will be built, to enable rapid analysis of samples. In January of 2008, the laboratory at the office complex in east Kazakhstan attained ISO 17025 accreditation.

Reflecting the scale and importance of the Group's ongoing geological work, a number of international specialists have been appointed during the year, including Chief Geologist Stephen Westhead. All have relevant experience in areas such as open pit and underground mining/exploration and resource analysis.

A world-class asset base

An important part of the Group's growth strategy is the ongoing estimation of its asset base at Aksu, Bestobe and Zholymbet. WAI has been participating in this work, which entails the reclassification of reserves and resources to the more internationally accepted JORC standard. The preliminary results of this reconciliation study were made available by WAI in January 2007. 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 show Aksu, Bestobe and Zholymbet with in excess of 7.0 million ounces of gold likely to be classified as either Measured or Indicated. WAI estimates 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 ounces of gold at Aksu, Bestobe and Zholymbet which WAI designates 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 standard.

Progress with exploration

Exploration continued throughout 2007, with a significant amount of drilling and trenching completed. Three exploration core-drilling rigs were acquired from Atlas Copco, for deep drilling underground, and four short-hole exploration-drilling rigs were procured from Russia. The latter will be used for underground stope definition and the exploration of mineralised zones, adjacent to the main mining zones. Ongoing discussions are taking place with international contract drilling companies, regarding both surface (reverse circulation and core) and underground (core) drilling.

KazakhGold will continue to pursue exploration and evaluation work, to convert FSU/Kazakh classified reserves and resources to JORC, and to upgrade resources to reserves. This is primarily to provide the necessary gold ounces for mining, to meet the Group's five-year production growth strategy.

Five-year production growth strategy

In November 2007 the Group outlined its five-year production growth strategy, to support the aim of becoming Central Asia's leading gold mining company. The strategy targets annual gold production of one million ounces by 2011 and has three distinct elements:

- Reclassification and growth of reserves: through conversion of reserves to the JORC code; upgrading existing resources to reserves and selective value adding acquisitions in Kazakhstan and elsewhere in Central Asia
- A significant increase in extraction: from accelerated exploitation of existing resources; expansion of ore feed to deliver a processing capacity of 19.0 Mtpa by 2011 and enhanced economies of scale
- A focus on efficient processing technologies: primarily through high grade ore but supplemented by use of abundant low grade ore; shifting the mix to production of higher margin gold, and reducing mining and processing costs per ounce.

Ore processing

Since May 2007 progress has been made upgrading all the metallurgical operations to enable increased production and improved efficiencies. The Aksu and Zholymbet secondary mill project is progressing to plan and the installation of the new mill at the Bestobe plant is currently at an advanced stage.

Equipment to improve efficiency and reduce operating costs, such as the oxygen plants and cyanide control units, is due to be delivered to site in 2008 and is essential to the future operational strategy. Changes to the process flow sheet on the Bestobe heap leach have allowed stacking to continue during the winter months, with more consistent gold production anticipated as a result.

The test work and design of the new tailings re-treatment plants at Aksu and Zholymbet is complete and a significant portion of the equipment has been ordered. Detailed design work, resulting from structured hazard and operability analysis work, remains ongoing in 2008 and is essential to the smooth start-up of the plants. The design of the Elution plant, to support the carbon output of the new plants, is also being detailed ready for starting construction later this year.

To improve the reliability of the Group's ore processing, especially through the winter months, KazakhGold plans to increase the proportion of ore treated by the CIP process. New 4.0 Mtpa CIP/flotation plants will be constructed at each of the principal mines, to process oxide and sulphide ore. The main treatment sections of the tailings re-treatment plants will be designed so that, with the addition of further equipment, they will form the nucleus of new 4.0 Mtpa oxide ore treatment plants at each mine.

During 2007 KazakhGold awarded MAED, an international engineering, construction and consultancy group, the contract to design and construct new tailings re-treatment plants at Bestobe and Zholymbet. Construction began in 2007 and the plants are due to be commissioned before the end of 2008. Each plant will be capable of treating 2.0 million tonnes per annum (Mtpa) of reclaimed tailings, and of recovering over 100,000 ounces of gold annually. Construction of the third tailings re-treatment plant at Aksu will start in the second half of 2008.

The re-treatment of tailings will enable a significant increase in gold production. The new plants are due to be expanded to treat ore from open pit sources by 2010. In general, the plants will greatly increase the Group's ore treatment capacity, improve overall gold recovery and will reduce unit operating costs significantly. At Bestobe, the plant will operate on tailings until mid-2010, when it is scheduled to switch to treating open pit ore. Conversion to open pit ore will take place approximately one year later at the Zholymbet plant.

Since the award of the contract in 2007, the immediate objective has been to fast track the construction. Each plant will consist of two sections at separate locations - the tailings dam and processing plant sites. The tailings dam section will include a re-mining plant, where the re-claimed tailings material can be screened and re-pulped, for transport to the main treatment plant. This will comprise milling, classification and thickening sections, followed by a leach, carbon-in-leach in the case of Bestobe and a carbon-in-pulp (CIP) circuit. The leaching section will utilise oxygen shear technology (accelerating the kinetics of the gold dissolution reaction) to pre-condition the pulp prior to cyanide addition. Adsorption of the gold will be based on CIP/CIL technology.

Overall, the Group is confident that the plans currently being implemented will enable it to increase the amount of ore processed from 3.48 million tonnes in 2007 to around 19.0 million tonnes in 2011. This is consistent with achieving 1.0 million ounces of gold production in the same year.

During the year KazakhGold has focused significant effort on collecting high-grade ore from historic stopes underground, and the rich vein ore from the open pits. Increased levels of security and the selected mining of the open pit veins have ensured that this material is better exploited.

Cost competitiveness

The direct cash cost of gold production, by the Group's subsidiary Kazakhaltyn, was US\$ 262 per ounce in 2007. This compares with US\$ 228 in the previous year and reflects an increase in labour costs, fuel and consumable prices.

Overall, however, KazakhGold benefits from a number of distinct cost advantages. These include the convenient location of its assets and the quality of its reserves, which are amenable to low-cost mining techniques. Costs are also contained through having on-site processing facilities, competitive labour and electricity pricing and modest royalty payments. Local currency stability is also an important factor in determining overall costs, especially as operating costs are largely denominated in Tenge.

OPERATING MINES

AKSU (Including Quartzite Hills)

Overview

The Aksu and adjacent Quartzite Hill mines are located in the Akmola region of Northern Kazakhstan, 18 kilometres north of the city of Stepnogorsk.

Exploration at Aksu began in 1929, when gold deposits of a quartz-vein mineralization type were discovered. There are currently eight operating shafts; four are dedicated to ventilation and as second outlets. One open pit is in operation near the Shaft 40 area. In addition, low-grade ore is processed from tailings in on-site tailings dams and waste dumps.

Until 2005, all ore at Aksu was processed using the flotation method. Then, after extensive testing, both heap leach and CIP processing were introduced in 2005. The CIP facility at Aksu has the capacity to treat 1.0 million tonnes of ore annually.

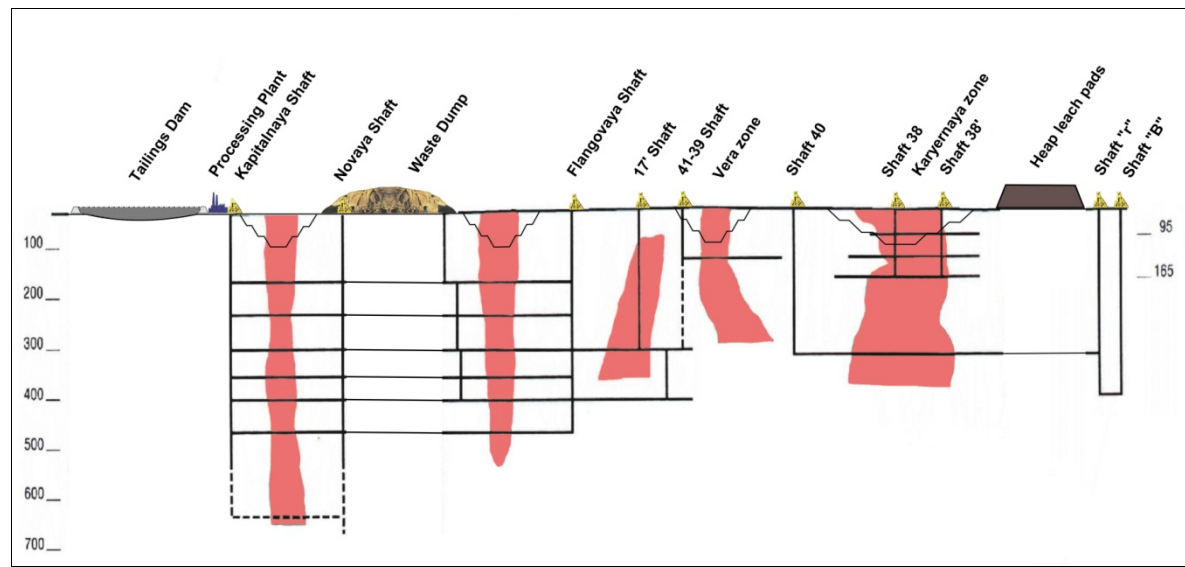
2007 Production highlights

In the year to 31 December 2007 2.03 million tonnes of ore were mined at Aksu, with an average grade of 1.77 grammes of gold per tonne and a gold content of 116,153 ounces. During 2007, 1.55 million tonnes of ore were treated at Aksu 2007, resulting in the production of 84,590 ounces of gold.

Exploration and geology

Over the year, open pit geological mapping and sampling were carried out to define ore zones and verify drilling profiles. 52 air drill holes, representing a total of 1,050 metres, and 86 core drill holes of a total of 29,740 metres were drilled in three locations. The Group's exploration department and a Kazakh contract drilling company undertook the core drilling work.

Additional exploration, including down-the-hole (DTH) drilling of 18,000 metres, was undertaken during 2007. 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 carried out and the resulting resource/reserve calculations. The drill programme to evaluate the Vera zone is ongoing. Contract metallurgical test work on samples from the tailings facility is also continuing.



Underground mining

Over the past year skip hoisting was installed and commissioned at the No. 40 shaft. This has allowed an increase in underground production with mining grades achieved as planned. Surface refurbishment of the shaft infrastructure has also been completed, including the installation of a shaft heating system. Work is progressing on upgrading the underground infrastructure and equipment.

Refurbishment of two further underground operations (Quartzite Hills and the Vera zone), due to come into production in 2008, is progressing according to plan. This will ultimately increase the quantity of higher-grade ore to be fed to the plant.

Open pit mining

Mining during the winter months has continued despite the extreme winter temperatures experienced. This contributed to a decline in the quantity of ore mined in 2007, compared with the previous year.

Processing

CIP

Ore treated	429,344 tonnes
Head grade	2.73 g/t gold
Recovery rate	69.0 per cent
Gold production*	58,252 oz (1,812 kilograms)

* Includes gold received for high grade ore sales

During the year the management focused on operations at the plant, so that the existing equipment can reach its full potential. By the end of 2007, construction of the new secondary grinding circuit was nearing completion. The incorporation of two new mills is now complete and the plant's management is currently in the process of optimizing the new milling units.

Construction of a new oxygen plant was delayed, due to issues with the granting of permits. These issues have now been resolved, allowing construction to progress towards anticipated completion by June 2008. The plant will not only facilitate increased gold recovery but will also allow consumption of cyanide to be optimised.

Heap Leach

Ore treated	1,116,410 tonnes
Head grade	1.35 g/t gold
Recovery rate	54.0 per cent
Gold production	26,338 oz (819 kilograms)

Underperformance in recovery at the heap leach facility was addressed during the year, with the result that the crush size of the ore stacked was reduced from 15mm to 6mm. The plant was also reconfigured to achieve the smaller sizing. During the last quarter of 2007 the recovery was improving and moving to the targeted 60 per cent. Due to the smaller crush size, a reduction in the throughput resulted and so it is planned to add additional crushing capacity in 2008.

BESTOBE

Overview

Located 80km northeast of Stepnogorsk, most of the exploration work at Bestobe was undertaken in the 1950s. Over 380 quartz veins have been identified at the mine of which some 285 are considered suitable for mining.

There are four underground mining locations; five shafts and one dedicated shaft is in operation, to comply with the second outlet legislation, in addition to various other small (dedicated) ventilation shafts. Currently, one open pit is operational. Low-grade ore is contained in on-site tailings dams and waste dumps. Until 2005, only underground mining and flotation processing were undertaken at Bestobe.

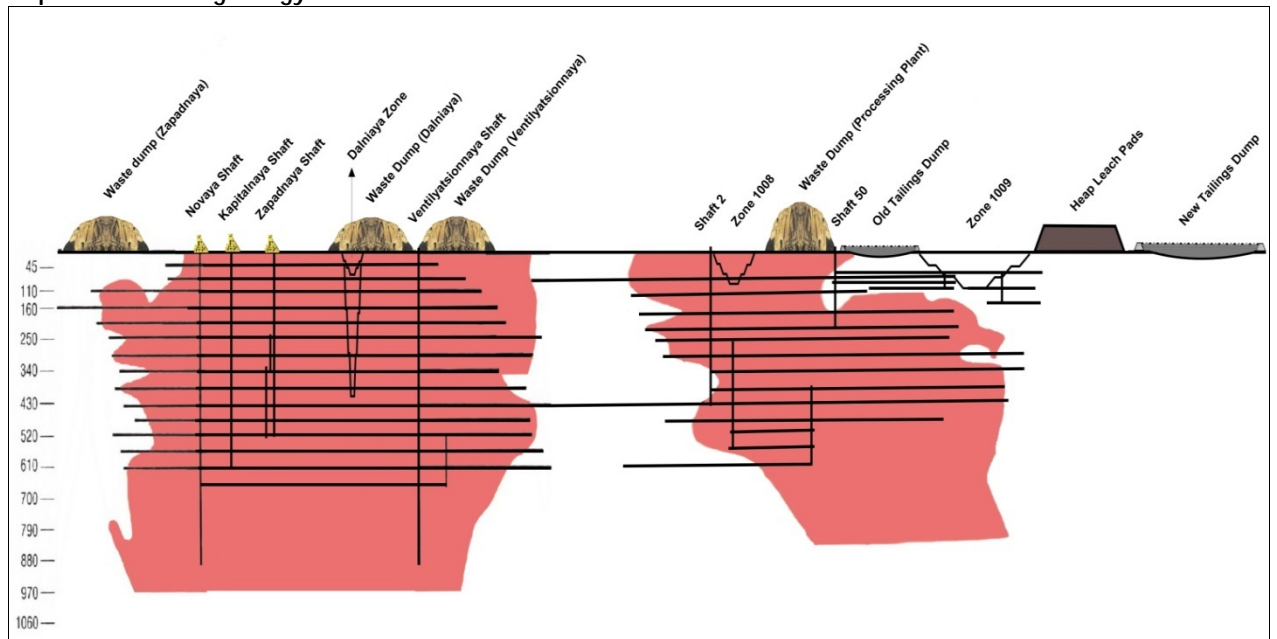
The original processing plant was constructed in 1932. Unlike the Aksu and Zholybet deposits, a significant proportion of the gold can be recovered using gravity concentration. The plant currently treats both underground ore and some oxidised material, using gravity and flotation technologies. Gold recovered from the gravity circuit is amalgamated to produce sponge gold, whilst gold bearing flotation concentrate is also produced.

During 2007, construction began on a new 2.0 Mtpa capacity plant to treat the tailings produced from the flotation plant. The facility is due to be commissioned by the end of 2008.

2007 Production highlights

In the 12 months to 31 December 2007, 2.14 million tonnes of ore were mined. The average grade was 1.94 grammes of gold per tonne with a gold content of 133,513 ounces. 1.55 million tonnes of ore were treated at Bestobe during the year, with a grade of 1.81 g/t, resulting in gold production of 104,908 ounces.

Exploration and geology



In 2007 surface drilling comprised 38 core drill holes, with a total of 5,098 metres completed at the Central Zone, utilising a Kazakh drilling contractor. This 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. In total, 9,218 metres of drilling were completed relating to this work.

On the recommendation of the State Committee of Reserves (GKZ), further drilling and trenching was carried out on the tailings area. Subsequently, a contractor completed metallurgical studies and the results were resubmitted to GKZ. During 2007, 113 metres of underground drilling and 4,719 cubic metres of trenching were completed.

Underground mining

As 2007 progressed, especially in the second half, the tonnage of ore from underground mining steadily increased, with the mining grades generally better than planned. Refurbishment of the surface infrastructure progressed well, with the majority of surface refurbishment at the West shaft having been completed. Vent shaft and heating refurbishment are currently in progress and will be finished by the end of summer 2008

Mining is due to commence on the Dalnaya ore body during the second half of the current year. Conversion to skip hoisting at the Novaya shaft will be investigated during 2008, with a view to increasing underground mining in 2009.

Open pit mining

Production began to improve in the third quarter, although volumes were then adversely impacted in the final quarter of 2007, by the extreme winter weather conditions that caused equipment failure.

Processing

Gravity/Flotation

Ore treated	94,224 tonnes
Head grade	6.01 g/t gold
Recovery rate	86.1 per cent
Gold production*	57,335 oz (1,783 kilograms)

* Includes gold received for high grade ore sales

Throughput at the processing plant improved over the second half of the year, although the operational availability was limited due to equipment breakdowns and delays in sourcing spare parts, caused by their lack of availability. A considerable quantity of gold can be recovered from the Bestobe ore via gravity concentration. Kazakhaltyn is anticipating the removal of this gold in the primary process, before flotation. This will enable improved recoveries from the circuit, with the effort to date already delivering efficiency enhancements.

Construction of a new mill and a high efficient gravity concentration circuit has started at Bestobe. The mill foundations were almost complete by the end of 2007. The mill was wet commissioned in April 2008 and the plant is expected to be fully commissioned in the first half of 2008. Detailed design work for the second new mill is in the process of completion, following which the necessary equipment will be ordered.

Work on a new carbon-in-leach (CIL) plant, to treat the tailings produced from the flotation plant, began in 2007. Site establishment and bulk earthworks have been completed, as has the equipping of a fabrication shop. This has enabled assembly works to continue throughout the winter period. The plant is scheduled for commissioning at the end of 2008.

Heap leach

Ore treated	1,452,945 tonnes
Head grade	1.81 g/t gold
Recovery rate	44.8 per cent
Gold production*	47,572 oz (1,479 kilograms)

* Includes gold received for high grade ore sales

The gold recovered from the heap leach facility was below target, and work is in hand to improve recovery to an achievable 60 per cent. The current crushing plant has been under pressure to increase the quantity of crushed ore. Due to this, the size of the stacked ore was not adequately controlled, resulting in reduced efficiency. It is planned to increase the processing capacity during 2008 by adding additional crushers and screens.

Stacking operations at the heap leach facility have been able to continue throughout the winter, due to operational modifications. The ore flow was modified to allow the screening out of the fine material and to enable a closely sized ore to be stacked, without requiring cement addition and agglomeration. The fine material produced was stockpiled, for subsequent processing in the spring of 2008.

A second crushing plant will be installed to further increase production. This is expected to arrive at Bestobe by the third quarter of 2008.

During 2007 improvements to the process and in particular the solution heating system have been introduced, to maximize gold recovery during the winter months.

ZHOLYMBET

Overview

Zholymbet is located 100km south of Stepnogorsk and saw most of the exploration work carried out in the 1930s. There are four underground mine operations and a dedicated ventilation shaft. Low-grade ore is contained in on-site tailings dams and waste dumps.

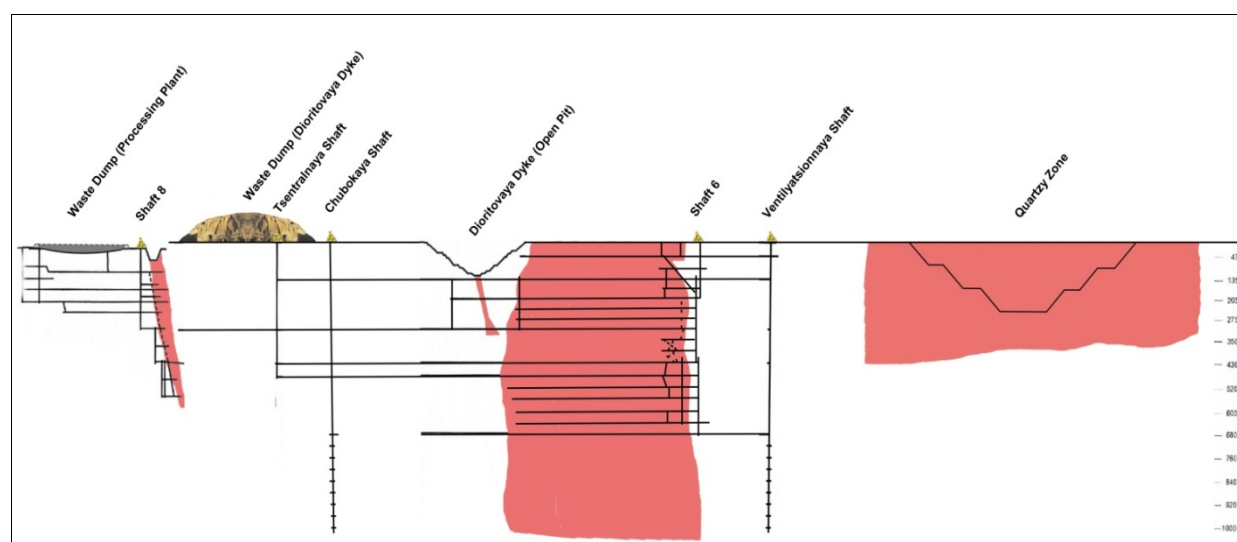
Until 2005 only underground mining and flotation processing were performed. The original processing plant was designed to treat sulphide ores using gravity and flotation technologies. As part of the Group's modernisation programme, the flotation sections were removed and the plant was modified to treat tailings. A newly constructed CIP plant began operations in 2005, with an annual throughput capacity of approximately 0.5 million tonnes of ore annually.

During 2007, construction began on a new 2.0 million tonnes per annum capacity plant to treat the tailings produced from the flotation plant. The facility is due to be commissioned by the end of 2008.

2007 Production highlights

In the 12 months to 31 December 2007, 0.254 million tonnes of ore were mined, with an average grade of 5.19 grammes of gold per tonne and a gold content of 42,447 ounces. 0.39 million tonnes of ore were treated at Zholymbet in 2007, with a grade of 3.44 g/t resulting in gold production of 42,561 ounces for the year.

Exploration and geology



A significant amount of trenching was carried out during 2007, to improve the definition of known zones of mineralisation and to extend the known zones along the strike of the mineralisation. A total of 13,470 cubic metres of trenching were completed during the year. This work will facilitate the planning of future drilling programmes. It was on this basis that the Group decided to investigate the utilisation of drill contractors, one with a reverse circulation (RC) capability and one with a core drilling ability, for the future drilling programme. The core drill contractor has been engaged and discussions are ongoing with the RC contractor. Core drilling is scheduled to start in mid 2008.

Underground mining

Zholymbet has achieved its mining production targets consistently throughout the year. While production was slightly lower than planned, the mined grades were generally above expectations.

Refurbishment of the surface and underground infrastructure and equipment has been ongoing, with new trackless equipment scheduled for deployment in 2008. This will allow the opening up of additional ore reserves in the Dioritovaya zone.

Open pit mining

Open pit mining operations have continued throughout the year, to improve utilisation of the plant's operational capability.

Processing

CIP plant

Ore treated	390,582 tonnes
Head grade	3.44 g/t gold
Recovery rate	70.2 per cent
Gold production*	42,563 oz (1,324 kilograms)

* Includes gold received for high grade ore sales

Construction of the new secondary grinding circuit will be completed by the third quarter of 2008. Oxygen generation equipment is now on site to introduce oxygen via the shear reactors into the leach/CIP circuit. The construction of the building to house this equipment was delayed due to permit issues and was finally completed in April 2008. The plant will be commissioned in the first half of 2008.

As with Bestobe, 2007 saw the start of construction of the new CIP plant. The plant will enable treatment of the tailings produced from the flotation facility. Site establishment and bulk earthworks have been completed, as has the equipping of a fabrication shop. This will allow assembly works to continue throughout the winter period. The plant is expected to be operational by the end of 2008.

EXPLORATION AND DEVELOPMENT PROPERTIES

Kazakhstan

KASKABULAKSKOE

Kaskabulakskoe (491 km²) is in Eastern Kazakhstan and was one of five licences awarded to Kazakhaltyn in December 2005. No gold was produced during 2007.

AKZHAL

A subsoil contract from the Kazakh Government has been awarded for this deposit. During 2007, 641 metres of air drilling and some 1,983 cubic metres of trenching were completed. Dry commissioning of a crusher plant was also concluded and stacking of ore started at the end of 2007. Due to severe winter conditions, irrigation of the stacked ore was delayed until 2008. Construction of an adsorption plant is progressing to plan and is due for completion during the third quarter of 2008.

BOLDYKOL & ZHANAN

The Boldykol and Zhanan mines are in Eastern Kazakhstan and were acquired in 2005. The Group also obtained the corresponding mineral rights and other assets in Semipalatinsk and Ust-Kamenogorsk, including the office complex, laboratory and resin desorption plant. The assets were previously owned by JSC Altyn Tobe and were acquired from JSC Kazkommertsbank, through a tender process, following a loan default by Altyn Tobe. The State Commission on Reserves and Resources has approved the reserves and resources at these deposits.

SOUTHERN KARAUKTUBE & KYZYLORSKOE

Southern Karaultube (9.3 km²) and Kyzylorskoe (60km²) are both located in the Akmola region of Northern Kazakhstan, near the Group's existing mining operations. They can both be explored and developed efficiently and were historically part of Kazakhaltyn, with the results of earlier exploration work from the 1980s still available.

Kyzylorskoe is located between the Group's Aksu and Bestobe deposits. Gold veins occur above copper-molybdenum mineralisation, in both the bedrock and weathered overburden. Preliminary geological investigation comprising trenching and possible drilling will be used to verify the historical geological data, and define the zones for further evaluation work. No significant work was undertaken here during 2007.

PRIDOROJNOE

Pridorojnoe (390 km²) is in Eastern Kazakhstan, close to the four deposits acquired by Kazakhaltyn in July 2005. Registration of the necessary legal documents was completed in 2006. No work was carried out in 2007, however it is planned to assess the deposit with a preliminary exploration programme that will be planned in 2008.

VASILEVSKYI

Rudnik Vasilevskiy LLP, a Kazakh company 100 per cent owned by Kazakhaltyn has the rights to the Vasilevskiy project in Eastern Kazakhstan, which is an exploration property with no current gold production. Resources have been explored to a depth of 150 metres in zones up to 20 metres wide, with the oxide zone extending to 20-25 metres in depth. Mineralisation is known to extend to a depth of 550 metres, based on previous exploration. There was no geological work undertaken during 2007.

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. While no geological work was carried out in 2007, zones have been sampled during field mapping and assays up to 10g/tonne have been previously determined. In general, Zones 1 & 2 has ore with a gold content of 1.5-3.1g/tonne, and from 5-10g/tonne in iron-stained quartz zones.

Romania

ROMALTYN - the Group's next mine

Overview

In 2006 the Group made a successful joint bid with Oxus Gold plc, in open auction, for the Transgold plant and deposits in Romania. Romaltn Limited, a 50-50 joint venture, was initially established to own and operate the assets with Oxus Gold plc. However, the Group subsequently had the opportunity to acquire Oxus Gold plc's share of the venture and completed this transaction in May 2007 (see the Financial Review of this report, for further details about the financing of this investment).

The Romaltn assets include a gold recovery plant able to treat 2.8 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 and a resource base of some 4.2 million ounces, according to the Romanian National Agency for Mineral Resources (NAMR).

In June 2007 NAMR approved the transfer of the exploration licences to Romaltn Exploration and Romaltn Mining, as well as the commencement of exploration work.

Exploration and geology



In 2007 exploration works were undertaken on both the Romaltyn Exploration tenements (75.11 km²) and the Romaltyn Mining tenements (78.52 km²), located North of Baia Mare, in Northern Romania.

Work on the Romaltyn Exploration tenements included 6.8km² of reconnaissance mapping, including 3km² of surveying. It also involved the collection of 30 reconnaissance samples for analysis and 485 further geochemical samples. Follow-up trenching amounted to 244 linear metres, from which 212 samples were taken. Technical geological reporting was made for each tenement.

The focus of activity at the Romaltyn Mining tenements, during 2007, included 2.0km² of reconnaissance mapping. It also involved the collection of 21 reconnaissance samples for analysis, and a further 424 geochemical samples. Trenching of 81 linear metres was completed, from which 56 samples were taken. Core drilling was carried out at the June 11 property, within a Romaltyn Mining tenement, to assess the potential for open pit mining. Some 2.2km of road access and 23 drill holes were also completed, with a total of 3,382 metres drilled. Technical, geological and environmental reports were made for each tenement.

The mineralisation at Romaltyn's tenements is generally formed of free gold grains 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.

Processing plant and future production

The design of the slurry and decant water cyanide detoxification plants is complete and approved by the authorities. Refurbishment of the plant is continuing.

Delays have been encountered with obtaining the integrated environment permit, necessary to start the plant. This has delayed reconstruction of the detoxification plants and production is not now expected to commence until early in 2009. In addition to resolving the permit issues, work in the current year will focus on the conversion of resources to reserves, to assist future mine planning.

Kyrgyzstan

In 2007, the Group acquired 100 per cent of Norox Mining Company Limited, which owns 66.67 per cent of the Talas Gold Mining Company. Oxus Gold plc had invested approximately US\$ 63 million on the Jerooy gold project at Talas. This included the near complete construction of a processing plant and associated mining equipment. The Jerooy project is estimated to contain some 3.2 million ounces of gold classified as either: Measured, Indicated or Inferred according to JORC. A further 250,000 ounces are unclassified exploration results.

The right to develop the project was the subject of a legal dispute between Oxus Gold plc and the Kyrgyz government. Oxus Gold plc had been seeking compensation from the Kyrgyz government for a loss of profits, arising from the cancellation of its mining license for the Jerooy project. The claim by Oxus Gold plc was withdrawn in May 2008.

KazakhGold owns the plant and geological data at Jerooy. Although there is currently no certainty of success, the Directors are confident that the Group will eventually be granted a mining licence. If successful, it is anticipated that annual gold production of 180,000 ounces could be achieved within a year of starting production at Jerooy. Construction at the project will start once the Group has been granted a mining licence. Further information is provided in Note 32.

Turkey

In 2007 the Group acquired a 25 per cent interest in the Hatay joint venture copper project, in Turkey, which was previously owned by Oxus Gold plc's subsidiary Marakand Minerals Limited. The Group also acquired an option to increase its interest in the project. A programme to evaluate the historical data and carry out check drilling and trenching at the site will be undertaken in 2008. A geologist has been recruited to manage the project. The outcome of this work will determine the future plan with regard to applications for further exploration and mining permitting.

SALES

During the year 253,056 ounces of gold were sold, reflecting a reduction in the Group's inventory that includes the 2007 gold production of 232,060 ounces. The average gold price received on sales in 2007 was US\$ 700 per ounce, 25 per cent higher than the previous year. The value of sales was US\$ 177.0 million, 62 per cent ahead of 2006 and reflecting both the stronger gold price and increased sales volume. The Group's sales during the year were primarily to customers in the United Arab Emirates and Switzerland.

As part of its strategic focus and investment plans, KazakhGold will increasingly look to produce and sell higher-margin gold products, such as cathodic gold and gold doré.

HEALTH, SAFETY & ENVIRONMENT

KazakhGold is committed to conducting its business activities in a manner that provides a safe and healthy workplace for all employees. Equally, the Group strives to limit the impact of its activities on the environment and the communities surrounding its operations. This commitment is backed by a policy designed to protect and develop employees, the community and the environment.

With large numbers of employees engaged at its facilities, KazakhGold regards their continuing health and safety as being of the utmost importance. All employees engaged in operations receive mandatory safety training, and are encouraged to pursue a healthy balanced lifestyle. Through its main operating subsidiary, Kazakhaltyn, the Group ensures compliance not only with Kazakh health and safety law but it also seeks to move towards best international practice.

COMMUNITY AND EMPLOYEE SUPPORT

Kazakhaltyn, the Group's main operating subsidiary, has been active in supporting a number of community and charitable activities in 2007. Direct charity and sponsor assistance payments of US\$ 189,951 were made during the year. The beneficiaries included: children's homes and the fund for disabled children in Stepnogorsk; the social fund for the disabled in Astana and the Second World War veterans' fund.

The Group also provided more than US\$ 3.0 million in other contributions, to various different programmes designed to provide social and welfare benefits to its employees and their families.

FINANCIAL REVIEW

Revenue

Revenue for the year to 31 December 2007 was US\$ 177.0 million (2006: US\$ 109.4 million), a 62 per cent increase on the previous year. This reflects both higher sales volume and gold prices. The average gold price achieved for sales in 2007 was US\$ 700 per ounce (2006: US\$ 560), 25 per cent above that achieved in 2006.

Over the year, the Group continued to benefit from its general policy of remaining an un-hedged gold producer. Further detail on the Group's financial risks is included in Note 33 of the financial statements.

Profit before tax for the year increased by 63.8 per cent to US\$ 51.2 million (2006: US\$ 31.3 million). Net profit for the year was US\$ 19.4 million (2006: US\$ 18.9 million) a 2.6 per cent increase on the previous year.

Earnings and dividends per share

Earnings per share for the year were US\$ 0.39 (2006: US\$ 0.40). Consistent with the statement made at the time of the Group's IPO in 2005, and as mentioned in the Chairman's Statement, the Group is not proposing the payment of any shareholder dividend for 2007.

Administrative expenses

Administrative expenses were US\$ 23.0 million (2006: US\$ 15.7 million). The increase in 2007 reflects the introduction of a new international management team; the opening of a new London office; and advisors' fees associated with various transactions during the year. It is anticipated that the higher rate of administrative expenses seen in 2007 will be more representative of future such expenses, given the ongoing development of the Group and its higher profile as a public company.

Tax expense

The Group incurred a tax expense of US\$ 31.8 million for 2007 (2006: US\$ 12.4 million). The increase in taxation reflects the higher level of profitability of the Group in 2007 and an increased level of expenses in 2007. These additional expenses were either accrued in a subsidiary with no taxable profits to offset, or were not allowable for tax purposes.

Share capital

In July 2007, KazakhGold issued 3,541,666 new ordinary shares to Oxus Gold plc in consideration for certain assets acquired from the company. This amounted to approximately 7.0 per cent of the enlarged share capital of KazakhGold, following the issue. Oxus Gold plc then converted these shares into KazakhGold Group Global Depositary Receipts (GDRs) and distributed them to its shareholders, in the form of a dividend. This further extended the Group's shareholder base.

Subsequently, in November 2007, Gold Lion Holdings Limited placed some 6.0 million secondary shares in KazakhGold, in the form of GDRs, at a price of US\$ 26.50 per GDR. The share sale represented approximately 11.9 per cent of the issued share capital of KazakhGold. As a result, the free float in the company's shares increased to approximately 56 per cent, with Gold Lion Holdings Limited retaining approximately 44 per cent of KazakhGold following the placing. Gold Lion Holdings Limited is wholly-owned by RBC Trustees (CI) Limited as trustee of the ABM SK Trust. The latter is a Jersey discretionary trust whose sole named beneficiaries are members of the Assaubayev family, members of which are on the Board of KazakhGold.

Debt

The Group had outstanding debt of US\$ 238.0 million as at 31 December 2007, compared with US\$222.1 million at the previous year-end. This rise in debt reflects increases utilisation of leases and bank loans.

Cash flow

The Group generated net cash of US\$ 71.3 million from operating activities, this compares with cash absorbed by operating activities of US\$ 57.5 million in 2006. The Group ended the year 2007 with net cash of US\$ 160.3 million (2006: 204.7 million).

Post balance sheet events

In February 2008, the Group announced it is in discussions regarding the potential acquisition of certain gold mining assets. To date no written agreement has been reached. The Group intends to finance the acquisition of assets from a private placement of 2.3 million new ordinary shares in the form of Global Depositary Receipts, placed with institutional investors on 28 February 2008, at a price of US\$ 23.0 per GDR.

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 (Production)**

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 24 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 accounts for the year ended 31 December 2007.

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 2007 and potential future developments is contained within the Chairman's Statement, Operational and Financial Reviews.

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 2007 are contained in Notes 25 and 26 of the accounts.

RESULTS AND DIVIDEND

An overview of the Group's results, covering the period 1 January to 31 December 2007, is provided in the Financial Review on page 19 of the accounts. Detailed financial information is included from page 38 to page 78 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, Operational and Financial Reviews.

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 2007.

Director	Number of ordinary shares	% of issued share capital
Kanat Assaubayev ¹	22,100,000	43.6
Baurzhan Assaubayev ¹	22,100,000	43.6
Aidar Assaubayev ¹	22,100,000	43.6
Sanzhar Assaubayev ¹	22,100,000	43.6
Marussya Assaubayeva ¹	22,100,000	43.6
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 Depositary Receipts.

The following options to purchase the Group's ordinary shares were granted in 2005 and were outstanding at 31 December 2007.

	David Netherway
Number of options granted on 1 December 2005	26,667
Exercise price	\$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 2007.

	Number of ordinary shares	% of issued share capital
Gold Lion Holdings Limited	22,100,000	43.6
BNY (Nominees) Limited ¹	28,541,666	56.4

¹ BNY (Nominees) Limited holds these shares as depository, against which 28.5 million Global Depositary 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 so far as it is able, having regard to 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 meets 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 meets 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 meets 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

Based on the Group's budgets and cash-flow projections for 2008, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting will be held at 8 Grafton Street (6th Floor), London W1S 4EL England on 16 June 2008. The Notice of Meeting, together with an explanation of the items of special business, is provided separately to shareholders with this report.

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

Aidar Assaubayev

Executive Vice Chairman, Corporate Development

22 May 2008

KazakhGold Group Limited

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.

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 2007 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 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.

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 financial statements and the associated cost of investment in the 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.

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 2007 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 2007 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.

BDO Stoy Hayward LLP
Chartered Accountants
London

22 May 2008

KazakhGold Group Limited

Consolidated Income Statement for the year ended 31 December 2007

	Note	2007 US\$000	2006 US\$000
Revenue	4	176,996	109,433
Cost of sales		(88,236)	(54,692)
Gross profit		88,760	54,741
Other operating income	6	571	2,877
Distribution expenses		(3,509)	(4,148)
Administrative expenses		(23,004)	(15,692)
Other operating expenses	7	(5,981)	(4,700)
Profit from operations	8	56,837	33,078
Finance income	12	11,599	3,860
Finance expense	13	(17,204)	(5,660)
Net financing costs		(5,605)	(1,800)
Profit before tax		51,232	31,278
Tax expense	14	(31,826)	(12,420)
Profit for the year attributable to equity shareholders		19,406	18,858
Basic and diluted earnings per share attributable to the equity shareholders of the parent during the year	15	\$0.39	\$0.40

All amounts relate to continuing operations.

KazakhGold Group Limited**Company Income Statement for the year ended 31 December 2007**

		2007	2006
	Note	US\$000	US\$000
Revenue		90	220
Cost of sales		-	-
Gross profit		90	220
Administrative expenses		(4,847)	(2,746)
Operating loss	38	(4,757)	(2,526)
Finance income	39	22,448	5,460
Finance expense	40	(19,473)	(2,945)
Net financing income		2,975	2,515
Loss before tax		(1,782)	(11)
Taxation	41	(1,840)	-
Loss for the year attributable to equity shareholders		(3,622)	(11)

All amounts relate to continuing operations.

KazakhGold Group Limited

Consolidated Balance Sheet for the year ended 31 December 2007

	Note	2007 US\$000	2006 US\$000
Non-current assets			
Property, plant and equipment	16	1,055,840	894,908
Intangible assets	17	54,777	1,807
Available for sale investments	19	164	-
Other financial assets	20	2	2
		1,110,783	896,717
Current assets			
Inventories	21	21,766	21,571
Long-term inventory and ore stockpile	21	2,692	7,549
		24,458	29,120
Trade and other receivables	22	85,275	93,716
Investments at fair value through profit or loss	23	31,760	-
Cash and cash equivalents	24	160,285	204,752
		301,778	327,588
Total assets		1,412,561	1,224,305
Equity and liabilities			
Share capital	25	9	8
Share premium	26	170,544	97,658
Capital contributions	26	510,000	510,000
Translation reserve	26	62,727	27,408
Retained earnings	26	39,198	19,687
Total equity		782,478	654,761
Non-current liabilities			
Interest-bearing loans and borrowings	28	231,776	220,525
Provisions	29	7,910	401
Deferred tax liabilities	31	312,499	293,155
		552,185	514,081
Current liabilities			
Interest-bearing loans and borrowings	28	6,228	1,564
Trade and other payables	30	43,207	48,211
Current tax payable		28,463	5,688
		77,898	55,463
Total liabilities		630,083	569,544
Total equity and liabilities		1,412,561	1,224,305

These financial statements were approved and authorised for issue by the Board on 22 May 2008 and were signed on its behalf by:

Kanat Assaubayev
Executive Chairman

Sanzhar Assaubayev
Executive Director

KazakhGold Group Limited

Company Balance Sheet for the year ended 31 December 2007

	Note	2007 US\$000	2006 US\$000
Non-current assets			
Property, plant and equipment	42	125	175
Investment in subsidiaries	18	579,996	510,000
Amounts due from group undertakings	43	200,000	35,000
		780,121	545,175
Current assets			
Amounts due from group undertakings	44	82,525	73,626
Other receivables	44	3,425	955
Cash and cash equivalents	45	8,816	186,413
		94,766	260,994
Total assets		874,887	806,169
Equity and liabilities			
Share capital	25	9	8
Share premium	49	170,544	97,658
Capital contributions	49	510,000	510,000
Retained earnings	49	(5,993)	(2,476)
Total equity		674,560	605,190
Non-current liabilities			
Interest-bearing loans and borrowings	46	196,611	195,888
Current liabilities			
Other payables	47	3,716	5,091
Total liabilities		200,327	200,979
Total equity and liabilities		874,887	806,169

These financial statements were approved and authorised for issue by the Board on 22 May 2008 and were signed on its behalf by:

Kanat Assaubayev
Executive Chairman

Sanzhar Assaubayev
Executive Director

KazakhGold Group Limited

Consolidated Cash Flow Statement for the year ended 31 December 2007

	Note	2007 US\$000	2006 US\$000
Cash flows from operating activities			
Profit before tax for the year		51,232	31,278
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	8	12,558	9,122
Foreign exchange gain		(167)	(296)
Finance expense		16,452	2,715
Finance income		(11,599)	(3,860)
Amortisation of bond issue costs		2,182	222
Provision against non-current financial asset		-	1,713
Loss on disposal of non-current assets		363	3,075
Equity-settled share-based payment expenses	8	105	115
Cash flows from operating activities before changes in working capital and provisions		71,126	44,084
Decrease/(increase) in trade and other receivables	22	9,532	(73,565)
Increase in inventories	21	(195)	(13,611)
Decrease/(increase) in long-term inventory	21	4,857	(5,567)
(Increase)/decrease in trade and other payables	30	(11,279)	37,363
Increase/(decrease) in provisions		54	(280)
Taxation paid		(2,753)	(1,810)
Cash (absorbed by)/generated from operating activities		71,342	(57,470)
Cash flows from investing activities			
Transaction costs of acquisitions	32	(609)	-
Additions of property, plant and equipment	16	(80,577)	(40,310)
Proceeds from the disposal of non-current assets		679	1,349
Acquisition of financial assets	23	(29,117)	-
Finance income received		10,508	3,860
Net cash from investing activities		(99,116)	(35,101)
Cash flows from financing activities			
Proceeds from the issue of senior loan notes and bonds	28	-	195,808
Proceeds from borrowings		6,800	-
Repayment of borrowings		(570)	(25,044)
Finance expense paid		(16,452)	(2,715)
Repayment of finance lease liabilities		(6,471)	(2,697)
Net cash from financing activities		(16,693)	165,352
Net (decrease)/increase in cash and cash equivalents		(44,467)	116,865
Cash and cash equivalents at 1 January		204,752	87,887
Cash and cash equivalents at 31 December	24	160,285	204,752

KazakhGold Group Limited

Company Cash Flow Statement for the year ended 31 December 2007

	Note	2007 US\$000	2006 US\$000
Cash flows from operating activities			
Loss before tax for the year		(1,782)	(11)
<i>Adjustments for:</i>			
Depreciation	38	50	25
Amortisation of bond issue costs	40	723	80
Finance income		(22,448)	(3,179)
Finance expense		18,750	-
Adjustment to share issue costs		-	229
Equity-settled share-based payment expenses	38	105	115
Cash flow from operating activities before changes in working capital and provisions		(4,602)	(2,741)
Increase in other receivables	44	(2,470)	(319)
(Decrease)/increase in other payables	47	(1,375)	2,424
Cash absorbed from operating activities		(8,447)	(636)
Cash flows from investing activities			
Transaction costs of acquisitions	32	(609)	-
Increase in amounts due from group undertakings	43/44	(153,555)	(81,941)
Acquisition of property, plant and equipment	42	-	(200)
Finance income received		3,764	3,179
Net cash from investing activities		(150,400)	(78,962)
Cash flows from financing activities			
Finance expense paid		(18,750)	-
Proceeds from the issue of loan notes	46	-	195,808
Net cash from financing activities		(18,750)	195,808
Net (decrease)/increase in cash and cash equivalents		(177,597)	116,210
Cash and cash equivalents at 1 January		186,413	70,203
Cash and cash equivalents at 31 December	45	8,816	186,413

KazakhGold Group Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

	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 2006	8	97,429	510,000	(41)	714	608,110
Foreign exchange on translation of foreign operations	-	-	-	27,449	-	27,449
Net income recognised directly in equity	-	-	-	27,449	-	27,449
Profit for the year	-	-	-	-	18,858	18,858
Total recognised income and expense for the year	-	-	-	27,449	18,858	46,307
Equity-settled share-based payments	-	-	-	-	115	115
Adjustment to share issue costs	-	229	-	-	-	229
Balance at 31 December 2006	8	97,658	510,000	27,408	19,687	654,761
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 payment	-	-	-	-	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

KazakhGold Group Limited

Company Statement of Changes in Equity for the year ended 31 December 2007

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2006	8	97,429	510,000	(2,580)	604,857
Loss for the year	-	-	-	(11)	(11)
Total recognised income and expense for the year	-	-	-	(11)	(11)
Equity-settled share-based payments	-	-	-	115	115
Adjustment to share issue costs	-	229	-	-	229
Balance at 31 December 2006	8	97,658	510,000	(2,476)	605,190
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 (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

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.

a. Amendments to published standards and interpretations to existing standards effective in 2007 adopted by the Group

- *IFRS 7 Financial instruments* (effective from 1 January 2007), and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 33).

- *IFRIC 8, Scope of IFRS 2* (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. There was no impact on the Group's accounts from its adoption.

- *IFRIC 10, Interim financial reporting and impairment* (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date. There was no impact on the Group's accounts from its adoption.

b. Standards, interpretations and amendments to published standards effective in 2007 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 2007 but are currently not relevant to the Group's operations:

- *IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group as none of the Group companies has a currency of a hyperinflationary economy as its functional currency.

- *IFRIC 9, Reassessment of embedded derivatives* (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. There was no impact on the Group's accounts from its adoption.

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 2008 or later periods but the Group has decided not to adopt early. The standards have been endorsed by the EU unless stated otherwise:

- *IFRS 8, Operating Segments* (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group will apply this standard in the accounting period beginning on 1 January 2009 and the application will not result in any impact on the results or net assets of the Group.

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 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 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.

- *IAS 23, Borrowing Cost (revised)* (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. 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.

- *IFRIC 13, Customer Loyalty Programmes on Arrangements* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU. 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.

- *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 is still to be endorsed by the EU. 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.

- *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 it 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). This amendment is still to be endorsed by the EU. 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, yet to be endorsed by the EU) replaces IAS 1 Presentation of Financial Statements (Revised in 2003) as amended in 2005.

IAS 1 amends some of the terminology in regard to primary statements. Furthermore it introduces a requirement to include a complete set of financial statements and a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. In addition the requirements in regard to the presentation of changes in equity and income and expenses are altered. Management is currently assessing the impact of the amendments on the accounts.

- *Amendments to IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1 January 2009, yet to be endorsed by the EU).

IAS 32 is amended by requiring some financial instruments that meet the definition of financial liability to be classified as equity. The amendment addresses the classification of some puttable financial instruments, and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rate share of the net assets of the entity only on liquidation. Management is currently assessing the impact of the amendments on the accounts.

Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The revised IFRS 1 will not affect the Group or Company.

Amendments IAS 27, Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. Management is currently assessing the impact of the amendments on the accounts.

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.

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.

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 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 is 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.

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.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment. 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.

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 is incurred.

Negotiation rights

Included within intangible assets is an amount for negotiation rights in relation to the Jerooy project in the Kyrgyz Republic (refer to note 32 for further details). 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 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 party to the contractual provisions of the instrument. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

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.

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.

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 debtors) and company loans to subsidiary undertakings, are stated at amortised cost less any provision for impairment.

Available for sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise the Group's investments in corporate bonds. 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.

Cash and cash equivalents

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

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 loans and receivables 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 uncollectable, 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

The Group classifies its financial liabilities into the following categories, depending on the purpose for which the asset was acquired.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

Other financial liabilities

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.

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.

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.

t. Joint ventures

Jointly controlled entities are included in the financial statements using proportionate consolidation. The share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the Group. Any premium paid for an interest in a jointly controlled entity above the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities is treated as goodwill.

Profits and losses arising on transactions between the Group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

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:

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.

De-commissioning and rehabilitation

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 on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise.

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 2007.

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 2007.

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 35.

Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position.

Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

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.

4 Revenue

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

	Group 2007 US\$000	Group 2006 US\$000
By product		
Cathodic products	142,544	101,827
Free gold	24,429	4,696
Other	10,023	2,910
	176,996	109,433
By destination market		
United Arab Emirates	138,231	64,090
Kyrgyzstan	-	17,856
Switzerland	28,793	15,893
Other	9,972	11,594
	176,996	109,433

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.

5 Segmental Information - continued

Segment information about these segments is presented below

	Mining US\$000	Corporate 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				11,599
Finance expense				(17,204)
Profit before tax				51,232
Profit after tax				19,406

	Mining US\$000	Corporate US\$000	Eliminations US\$000	Consolidation US\$000
2006				
Revenue				
External sales	109,433	-	-	109,433
Intra-group sales	-	220	(220)	-
Total revenue	109,433	220	(220)	109,433
Results				
Operating profit/(loss)	35,604	(2,526)	-	33,078
Finance income				3,860
Finance expense				(5,660)
Profit before tax				31,278
Profit after tax				18,858

5 Segmental information - continued

	Mining US\$000	Corporate US\$000	Eliminations US\$000	Consolidation US\$000
2007				
Capital additions	91,462			91,462
Subsidiary non-current assets acquired	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	712,281	200,327	(282,525)	630,083
Consolidated total liabilities	712,281	200,327	(282,525)	630,083

	Mining US\$000	Corporate US\$000	Eliminations US\$000	Consolidation US\$000
2006				
Capital additions	45,376	-	-	45,376
Depreciation	(8,777)	(25)	-	(8,802)
Amortisation	(321)	-	-	(321)
Balance sheet				
Assets				
Segment assets	1,036,762	806,169	(618,626)	1,224,305
Consolidated total assets	1,036,762	806,169	(618,626)	1,224,305
Liabilities				
Segment liabilities	673,079	5,091	(108,626)	569,544
Consolidated total liabilities	673,079	5,091	(108,626)	569,544

Geographical Segments

The Group's mining segments are located in Kyrgyzstan, Kazakhstan and Romania. The Group's corporate activities are carried out in the United Kingdom.

6 Other operating income

	Group 2007 US\$000	Group 2006 US\$000
Sales of materials	464	2,500
Foreign exchange gains	107	377
	571	2,877

7 Other operating expenses

	Group 2007 US\$000	Group 2006 US\$000
Loss arising from the disposal of non-current assets	363	3,075
Foreign exchange losses	4,750	1,193
Other expenses	868	432
	5,981	4,700

8 Operating profit

This has been stated after charging:

	Group 2007 US\$000	Group 2006 US\$000
Depreciation of property, plant and equipment	12,530	8,802
Amortisation	28	321
Loss arising from the disposal of non-current assets	363	3,075
Provision for diminution in value of non-current financial assets	-	1,713
Equity-settled share-based payment expense	105	115
Auditors' remuneration (see note 9)	450	385
Staff costs (see note 10)	17,073	14,096
Net foreign exchange loss	4,643	816

9 Auditors' remuneration

	Group and Company 2007 US\$000	Group and Company 2006 US\$000
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of the Group	450	385
Transaction advisory services	-	480
	450	865

¹ In 2006, a total of US\$ 480,000 was paid to the auditors and their associates in respect of Senior Loan Note issue costs. These costs have been set against the proceeds and are being amortised over the term of the loan notes

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2007

10 Staff numbers and costs

	Group 2007 Number	Group 2006 Number
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:		
Management and administration	444	165
Supply	57	56
Construction and maintenance	61	31
Research and exploration	189	100
Security	98	181
Mining activities	3,071	2,933
	3,920	3,466

For the year ended 31 December 2007 the Company had 14 employees including six executive directors and four non-executive directors (2006: four executive directors and three non executive directors).

	Group 2007 US\$000	Group 2006 US\$000
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The aggregate group payroll costs of these persons were as follows:

Wages and salaries (including Directors' emoluments)	14,486	12,367
Social security and other pension costs	2,587	1,729
	17,073	14,096

	Company 2007 US\$000	Company 2006 US\$000
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The aggregate company payroll costs of these persons were as follows:

Wages and salaries (including Directors' emoluments)	1,884	1,250
Social security and other pension costs	244	44
	2,128	1,294

11 Directors' remuneration

	Group 2007 US\$000	Group 2006 US\$000
Directors' emoluments:		
Salary and bonuses	2,452	2,214
Compensations for loss of office	248	-
Social security costs	44	49
Pension contributions	-	-
	2,744	2,263
The emoluments of the Chairman were:	530	160

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.

12 Finance income

	Group 2007 US\$000	Group 2006 US\$000
Finance income	11,599	3,860

Included within the above is an amount of US\$1,091,000 (2006: US\$Nil), in respect of fair value through profit or loss investments.

13 Finance expense

	Group 2007 US\$000	Group 2006 US\$000
Interest on senior loan notes	13,750	2,865
Bank interest	1,113	831
Interest on finance leases	1,212	1,324
Other interest	373	418
Unwinding of discount on provisions	33	147
Unwinding of discount on senior loan notes	723	75
	17,204	5,660

14 Taxation

	Group 2007 US\$000	Group 2006 US\$000
Recognised in the income statement		
Current tax expense	(27,368)	(5,275)
Deferred tax expense	(4,458)	(7,353)
Withholding taxes recoverable	-	208
Total tax charge	(31,826)	(12,420)
<i>Reconciliation of effective tax rates</i>		
Profit before tax	51,232	31,278
Tax using domestic rates of corporation tax of 30%	(15,370)	(9,383)
<i>Effect of:</i>		
Effect of expenses not deductible for tax purposes	(7,893)	(3,317)
Utilisation of brought forward losses	-	280
Foreign tax credits	(1,840)	-
Tax losses carried forward	(3,659)	-
Effect of higher tax rates in Kazakhstan	(3,064)	-
Total tax charge for the period	(31,826)	(12,420)

The deferred tax expense for the year primarily relates to temporary differences arising in respect of property plant and equipment.

15 Earnings per share

The calculation of basic earnings per share is based upon the net profit after tax attributable to the ordinary shareholders of US\$19,406,000 (2006: US\$18,858,000) and a weighted average number of shares in issue, for the year to 31 December 2007 of 49,389,954 (2006: 47,100,000).

	2007 Group	2006 Group
Basic earnings per share	\$0.39	\$0.40
	US\$000	US\$000
Profit attributable to ordinary shareholders	19,406	18,858
	Number	Number
Weighted average number of shares in issue	49,389,954	47,100,000
Weighted average number of ordinary shares	Number	Number
In issue at 1 January	47,100,000	47,100,000
Issued in the year	2,289,954	-
In issue at 31 December	49,389,954	47,100,000

The numerator for the calculation of the basic earnings per share is the profit after tax of US\$19,406,000 (2006: US\$18,858,000). The denominator for the calculation of the basic earnings per share is 49,389,954 (2006: 47,100,000).

Diluted earnings per share

The calculation of the 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. Diluted profit per share for 2006 is based upon the net profit after tax attributable to the ordinary shareholders of US\$18,858,000 and a weighted average number of shares in issue, for the year to 31 December 2006 of 47,114,309.

	2007 Group	2006 Group
Diluted earnings per share	\$0.39	\$0.40
	US\$000	US\$000
Profit attributable to ordinary shareholders	19,406	18,858
Weighted average number of shares in issue	49,404,263	47,114,309

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 2006	22,038	762,709	15,095	16,989	816,831
Additions	324	-	35,682	9,370	45,376
Transfers from assets under construction	34,532	3,633	(37,880)	(285)	-
Transfer from exploration and evaluation costs	-	8,627	-	-	8,627
Transfer to inventories	-	(1,982)	-	-	(1,982)
Disposals	(988)	-	(2,221)	(2,242)	(5,451)
Effect of movements in foreign exchange	261	41,845	987	1,466	44,559
Balance at 31 December 2006	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 and transfers from inventory	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
Depreciation and impairment					
Balance at 1 January 2006	1,331	734	-	2,994	5,059
Transfer from assets under construction	177	-	-	(177)	-
Depreciation charge for the year	1,652	4,497	-	2,653	8,802
Disposals	(195)	-	-	(837)	(1,032)
Effect of movements in foreign exchange	464	9	-	(250)	223
Balance at 31 December 2006	3,429	5,240	-	4,383	13,052
Depreciation charge for the year	2,628	5,890	-	4,012	12,530
Reclassifications and transfers from inventory	(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
Net book value					
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
At 31 December 2005	20,707	761,975	15,095	13,995	811,772

16 Property, plant and equipment - continued

Included within assets under construction is an amount of US\$1,408,000 (2006:US\$Nil), which represents capitalised interest. Included within mining properties is an amount of US\$5,700,000 (2006: Nil), which represents capitalised interest.

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

	2007	2006
	Group	Group
	US\$000	US\$000
Cost	14,016	7,238
Depreciation	(1,619)	(717)
Net book value	12,397	6,521

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 2006	1,257	9,013	-	10,270
Additions	-	540	-	540
Transfers to mining properties	-	(8,627)	-	(8,627)
Disposals	(6)	-	-	(6)
Effect of movements in foreign exchange	(67)	24	-	(43)
Balance at 31 December 2006	1,184	950	-	2,134
Additions	308	4,243	-	4,551
Acquisitions	-	-	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
Amortisation and impairment				
Balance at 1 January 2006	165	-	-	165
Amortisation for the year	321	-	-	321
Disposals	(1)	-	-	(1)
Effect of movements in foreign exchange	(158)	-	-	(158)
Balance at 31 December 2006	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
Net book value				
At 31 December 2007	1,017	5,303	48,457	54,777
At 31 December 2006	857	950	-	1,807
At 31 December 2005	1,092	9,013	-	10,105

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

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 company's 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.

During the year the Group acquired the 51% of Sino-Kazakh Mining Company Limited (SKM) not previously owned, taking Group ownership to 100%. SKM is incorporated in Kazakhstan. No consideration was payable for the shares acquired from China National Gold Corporation. SKM provided mining and engineering support services in Kazakhstan. The assets, liabilities and income statement of SKM have been consolidated within the Group financial statements.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2007

19 Available for sale investments

	Group 2007 US\$000	Group 2006 US\$000
<i>Non-current</i>		
Available for sale financial asset	164	-

The available for sale financial asset represents an interest together with an option to acquire a further interest in the Hatay joint venture project in Turkey. As there is no active market for this asset, the fair value has been estimated by the directors and is not significantly different to the carrying value. There were no material movements in the available for sale financial asset during the year.

20 Other financial assets

	Group 2007 US\$000	Group 2006 US\$000
<i>Non-current</i>		
Deposits	2	2

21 Inventories

	Group 2007 US\$000	Group 2006 US\$000
Long-term inventory and ore stockpile	2,692	7,549
Raw materials and consumables	11,782	6,774
Work in progress	3,614	1,345
Finished goods	6,370	13,452
	21,766	21,571

The Group consumed US\$42,965,000 of raw materials and consumables during the year (2006: US\$25,563,000). There were no provisions against inventories at 31 December 2007 (2006:US\$Nil).

22 Trade and other receivables

	Group 2007 US\$000	Group 2006 US\$000
Trade receivables (net)	35,122	71,047
Other debtors	50,060	21,894
Trade and other receivables	85,182	92,941
Prepaid expenses	93	775
	85,275	93,716

22 Trade and other receivables - continued

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 2007 US\$000	Group 2006 US\$000
Opening balance	6,063	2,075
Increase in provisions	2,129	3,703
Written off against provisions	(4,192)	-
Foreign exchange movement	290	285
Closing balance	4,290	6,063

A maturity analysis of trade receivables is as follows:

	Total US\$000	<30 Days US\$000	30-60 days US\$000	60-90 days US\$000	90-120 days US\$000	>120 days US\$000
2007	85,275	58,031	4,747	527	10,050	11,920
2006	93,716	65,476	7,060	7,559	5,981	7,640

There are no amounts included above that are past due but not impaired in this or the previous year.

23 Investments at fair value through profit or loss

	Group 2007 US\$000	Group 2006 US\$000
Quoted	31,304	-
Unquoted	456	-
	31,760	-

The investments are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The quoted investments include bonds listed on the Kazakh stock exchange and are stated at fair value. As there is no active market for the unquoted assets the fair value has been estimated by the directors and is not significantly different to the carrying value.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2007

24 Cash and cash equivalents

	Group 2007 US\$000	Group 2006 US\$000
Cash available on demand	9,664	12,905
Short-term deposits	334	186,126
Short-term investments	150,287	5,721
Cash per balance sheet and per the cash flow statement	160,285	204,752

Cash available on demand and short-term deposits consist of cash. The short-term investments consist of short-term fixed rate securities listed on the Kazakh stock exchange.

25 Share capital

	2007 Number	2006 Number
<i>Number of ordinary shares</i>		
In issue at 1 January	47,100,000	47,100,000
Issued in the year	3,541,666	-
In issue at 31 December	50,641,666	47,100,000

	2007 US\$000	2006 US\$000
Ordinary shares of US\$0.0001 each	9	8

	2007 Number	2006 Number
<i>Authorised</i>		
Ordinary shares of US\$0.0001 each	100,000,000	100,000,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of US\$0.0001 each	50,641,666	47,100,000

On 10 May 2007, in consideration for the acquisition of the assets from Oxus Gold plc, KazakhGold Group Limited issued 3,541,666 new shares to Oxus Gold plc (see note 32).

Holders of 28,541,666 (2006:13,100,000) 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.

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 2006	8	97,429	510,000	(41)	714	608,110
Foreign exchange on translation of foreign operations	-	-	-	27,449	-	27,449
Profit for the year	-	-	-	-	18,858	18,858
Equity-settled share-based payments	-	-	-	-	115	115
Adjustment to share issue costs	-	229	-	-	-	229
Balance at 31 December 2006	8	97,658	510,000	27,408	19,687	654,761
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 payment	-	-	-	-	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

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 10 May 2007 the company issued 3,541,666 new ordinary shares of US\$.0001 each at a price of US\$20.58 per share for a total consideration of US\$72,887,000, this is further explained in note 32.

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.

27 Equity-settled share-based payment transactions

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

US\$105,000, (2006: US\$115,000) has been charged to the Group and Company income statements for the year to 31 December 2007 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 2007, 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 vest on 1 December 2008 and are exercisable until 1 December 2011.

The outstanding options at 31 December 2007 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 total charge will be spread over the period to 1 December 2008.

The principal assumptions used within the stock option valuation model, which are unchanged as at 31 December 2007, 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%

28 Interest-bearing loans and borrowings

	Note	Group 2007 US\$000	Group 2006 US\$000
Non-current			
Bank loans	33	1,732	-
Leases	33	10,582	3,022
Bonds	33	22,851	21,615
Senior loan notes (secured) ²	33	196,611	195,888
Total non-current loans and borrowings		231,776	220,525
Current			
Bank loans	33	4,504	-
Leases	33	1,724	1,564
Total current loans and borrowings		6,228	1,564

² The fair value of the Group Senior loan notes at the balance sheet date was US\$172,940,000 (2006:US\$202,540,000) 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.

29 Provisions

	Group 2007 US\$000	Group 2006 US\$000
<i>Within non-current liabilities</i>		
Balance at 1 January	401	241
Additions	955	-
Acquisitions (see note 32)	6,500	-
Foreign exchange adjustments	21	13
Charged to the income statement	33	147
Balance at 31 December	7,910	401

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 2007 US\$000	Group 2006 US\$000
Trade payables	17,599	35,080
Other taxes and social security	8,167	4,239
Interest payable	2,867	4,025
Other creditors and accruals	14,574	4,867
Total financial liabilities measured at amortised cost	43,207	48,211

Maturity analysis of financial liabilities

	Total US\$000	< 3 months US\$000	3-6 months US\$000	6-12 months US\$000	1-5 years US\$000	> 5 Years US\$000
2007						
Trade and other payables	43,207	30,051	-	-	12,631	525
Loan and borrowings	238,004	-	-	6,228	228,506	3,270
2006						
Trade and other payables	48,211	45,989	-	-	-	2,222
Loan and borrowings	222,089	-	-	1,564	24,637	195,888

31 Deferred tax assets and liabilities

	Group 2007 US\$000	Group 2006 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	315,280	286,783
Other	(2,791)	6,372
Net deferred tax liabilities	312,489	293,155
<i>The movement on the deferred tax account is as shown below:</i>		
At 1 January	293,155	271,134
Short term differences relating to revenue recognition	(5,546)	5,280
Temporary differences arising in respect of property, plant and equipment	11,793	3,647
Amount credited to income statement in respect of amortisation of fair value adjustment	(1,789)	(1,574)
Foreign exchange adjustments arising in respect of deferred taxation of fair value adjustment	14,206	14,574
Foreign exchange adjustments arising in respect of subsidiary companies	670	94
Net deferred tax liabilities	312,489	293,155

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.

No deferred tax asset has been recognised in respect of the carried forward tax losses of approximately \$5,879,000 (2006: US\$3,217,000) arising in the Company as the recoverability of excess management expenses in future periods is uncertain.

32 Acquisition

On 26th 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 Romanlytyn 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 Romanlytyn were fair valued by the directors, having regard to reports by independent experts which resulted in a fair value adjustment.
- No identifiable goodwill has arisen in respect of the transaction. The surplus value of the consideration over the separable net assets and liabilities acquired has been attributed to negotiation rights in relation to the Jerooy mining licence. 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, 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.

- 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 \$6,500,000, in respect of Romalbyn Limited. In accordance with IFRS a corresponding asset has been recognised.
- f. On the 10th of May 2007 the company issued 3,541,666 new ordinary shares of US\$0.0001 each at a price of US\$20.58 per share for a total consideration of US\$72,887,000.

33 Financial instruments

Risk and sensitivity analysis

There have been no substantive 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, liquidity risk, market price 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:

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.

A US\$.01 increase in the value of the Kazakh Tenge against the US\$ will result in an increase in pre-tax profits by US\$182,000 (2006: decrease in profits US\$23,000).

	US\$	GBP£	Kazakh Tenge KZT	Romanian Leu	Russian Rouble	Kyrgyz Som	Total US\$000
2007							
Trade and other receivables	50,539	6	28,643	474	117	5,496	85,275
Fair value through profit and loss	-	-	31,760	-	-	-	31,760
Cash and cash equivalents	8,806	12	151,289	140	-	38	160,285
Interest bearing loans and borrowings	(202,847)	-	(35,157)	-	-	-	(238,004)
Trade and other payables	(3,156)	(684)	(35,261)	(864)	-	(3,242)	(43,207)

	US\$	GBP£	Kazakh Tenge KZT	Romanian Leu	Russian Rouble	Kyrgyz Som	Total US\$000
2006							
Trade and other receivables	76,460	-	17,256	-	-	-	93,716
Cash and cash equivalents	186,390	23	18,339	-	-	-	204,752
Interest bearing loans and borrowings	(195,888)	-	(26,201)	-	-	-	(222,089)
Trade and other payables	(6,226)	(2,226)	(39,759)	-	-	-	(48,211)

Foreign currency risk - continued

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.

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.

Market 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.

The Group is sensitive to movements in the price of gold, at 31 December 2007 the spot price per ounce was US\$836.50 (2006: US\$635.70). An increase in the spot price per ounce by US\$10 will result in an increase in revenues by US\$3,000,000 (2006: US\$1,800,000).

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\$277,486,000 (2006: US\$298,740,000).

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.

Investment risk

Investment 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).

The Group has invested a significant amount of cash into short term investments. The assets are held by a brokerage company Real Invest LLP and relate principally to re-purchase agreements, typically held on a 90 day cycle on which a fixed interest rate is paid at between 11% and 12% (see note 23).

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

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.

An increase of 0.5% in interest rates will increase finance expenses by US\$2,300,000 (2006:US\$850,000).

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.

2007	Fixed Interest Rate %	Floating Interest Rate %	Group Total US\$000	Group 0-1 Years US\$000	Group 2-5 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)

2006	Fixed Interest Rate %	Floating Interest Rate %	Group Total US\$000	Group 0-1 Years US\$000	Group 2-5 Years US\$000	Group 5-10 Years US\$000
Cash and cash equivalents	-	4.5%	204,752	204,752	-	-
Senior loan notes ³	9.375%	-	(195,888)	-	-	(195,888)
Bonds ⁴	-	10.4%	(21,615)	-	(21,615)	-
Leases ⁵	10.5%	-	(4,586)	(1,564)	(3,022)	-
			(17,337)	203,188	(24,637)	(195,888)

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 irrevocable guaranteed on a joint and several basis by JSC Kazakhaltyn MMC, and certain other wholly owned subsidiaries.

⁴ These are floating rate bonds, the interest rate is capped at a maximum of 13%.

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.

Categories of financial asset

	2007	2006
	US\$000	US\$000
Current financial assets		
Current net trade and other receivables:	85,182	92,941
Prepaid amounts	93	775
Fair value through profit or loss	31,760	-
	117,035	93,716
Cash and cash equivalents	160,285	204,752
Total current financial assets	277,320	298,468
Non-current financial assets		
Available for sale financial assets	164	-
Other financial assets	2	2
Total non-current financial assets	166	2
Total financial assets	277,486	298,470

Categories of financial liabilities

	2007	2006
	US\$000	US\$000
Current financial liabilities		
Trade and other payables	43,207	48,211
Loans and borrowings	6,228	1,564
Total current financial liabilities	49,435	49,775
Non-current financial liabilities		
Loans and borrowings	231,776	220,525
Total non-current financial liabilities	231,776	220,525
Total financial liabilities	281,211	270,300

Capital

As described in note 26 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 has 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 28 February 2008, the Company placed 2,300,000 new ordinary shares in the form of Global Depository Receipts ("GDRs") with institutional investors at price of US\$23 per GDR.

35 Commitments and contingencies

(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.

As at 31 December 2007 and 2006 the Group was not involved in any significant legal proceedings, including arbitration.

(b) Kazakhstan taxation contingencies

(i) Inherent uncertainties in interpreting tax legislation

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.

In relation to excess profits tax, the tax law gives no explicit guidance on how the tax base should be determined for individual sub-surface use contracts relevant to certain members of the Group. In the event of a successful challenge by the tax authorities, the Group may be liable for additional payments of excess profits tax. Depending on the interpretation adopted and the amounts, if any, that are involved, this could have a significant adverse impact on the Group's financial position and on its profit or loss for a reporting period. Under such circumstances, there would also be a consequential significant adverse impact on all subsequent periods due to the cumulative nature of the excess profits tax calculations.

(ii) Period for additional tax assessments

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of the excess profits tax they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(iii) Possible additional tax liabilities

The Directors believe that the Group is in substantial compliance with tax legislation and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant Government authorities may take a differing position with regard to the interpretation of contractual provisions or tax legislation. The resulting effect of this matter is that significant additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(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.

(f) Capital commitments

As explained in note 32 the group is committed to making an additional payment to Oxus Gold PLC, if the negotiations on the resumption of mining rights are successful in Kyrgyzstan.

36 Immediate and ultimate parent company

During the year Gold Lion Limited transferred its entire shareholding in the company to Gold Lion Holdings Limited (both companies were wholly owned by RBC Trustees (CI) Limited as trustee of the ABM SK Trust).

Additionally the Company issued 3,541,666 ordinary shares of US\$0.0001 each as described in note 32, and Gold Lion Holdings Limited sold 6,000,000 shares in the Company. Following this Gold Lion Holdings Limited held 43.6% of the share capital in the Company. Accordingly there is no longer a parent company of Kazakhgold Limited.

37 Related party transactions

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

(a) 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.
- The Group purchased goods and materials during the year from MAED Limited to the value of US\$6,919,860, (2006:US\$Nil), on normal commercial terms. William (Bill) Trew is beneficially interested in certain service agreements that MAED Limited holds with the Group. The balance due to MAED Limited at 31 December 2007 was US\$Nil, however the Group entered into a contract with MAED in relation to tailings retreatment plants at Bestobe and Zholymbet for a contracted price of US\$30,320,000. The initial payments totalling US\$5,252,000 in respect of this contract are included within other debtors.

(b) Refer to note 11 for details of transactions with key management personnel.

Company only notes

38 Operating loss

	Company 2007 US\$000	Company 2006 US\$000
<i>This has been stated after charging:</i>		
Equity-settled share-based payment expense	105	115
Depreciation	50	25
Staff costs (see note 10)	2,128	1,294
Auditors' remuneration (see note 9)	450	385

39 Finance income

	Company 2007 US\$000	Company 2006 US\$000
Bank interest receivable	3,764	3,179
Group interest receivable	18,684	2,281
	22,448	5,460

40 Finance expense

	Company 2007 US\$000	Company 2006 US\$000
Bond interest	18,750	2,865
Unwinding of discount on senior loan notes	723	80
	19,473	2,945

41 Taxation

	Company 2007 US\$000	Company 2006 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	(1,782)	(11)
Tax using domestic rates of corporation tax of 30%	535	3
<i>Effect of:</i>		
Effect of expenses not deductible for tax purposes	218	10
Withholding tax on income received	(1,840)	-
Losses carried forward	(753)	(13)
Total tax charge for the year	(1,840)	-

42 Property, plant and equipment

	Motor Vehicles US\$000
Company	
Cost	
Balance at 1 January 2006	-
Acquired in the year	200
Balance at 31 December 2006	200
Acquired in the year	-
Balance at 31 December 2007	200
Depreciation and impairment	
Balance at 1 January 2006	-
Depreciation charge for the year	25
Balance at 31 December 2006	25
Depreciation charge for the year	50
Balance at 31 December 2007	75
Net book value	
At 31 December 2007	125
At 31 December 2006	175
At 31 December 2005	-

43 Amounts due from group undertakings

	Company 2007 US\$000	Company 2006 US\$000
Non-current receivables	200,000	35,000

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 2007 US\$000	Company 2006 US\$000
Amounts due from group undertakings	82,525	73,626
Other debtors	3,404	-
Prepaid expenses	21	955
	85,950	74,581

A maturity analysis of trade receivables is as follows:

	Total US\$000	<30 Days US\$000	30-60 days US\$000	60-90 days US\$000	90-120 days US\$000	>120 days US\$000
2007	85,950	3,425	-	-	-	82,525
2006	74,581	955	-	-	-	73,626

There are no amounts included above that are past due but not impaired in this or the previous year.

KazakhGold Group Limited

Notes forming part of the financial statements for the year ended 31 December 2007

45 Cash and cash equivalents

	Company 2007 US\$000	Company 2006 US\$000
Cash available on demand	5	292
Short-term deposits	8,811	186,121
Cash per balance sheet and per the cash flow statement	8,816	186,413

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

46 Interest-bearing loans and borrowings

	Note	Company 2007 US\$000	Company 2006 US\$000
Non-current			
Senior loan notes (secured) ⁶	33	196,611	195,888

⁶ The fair value of the Group Senior loan notes at the balance sheet date was US\$172,940,000 (2006:US\$202,540,000) 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.

47 Current liabilities – Other payables

	Company 2007 US\$000	Company 2006 US\$000
Bond interest payable	2,865	2,865
Other creditors and accruals	851	2,226
	3,716	5,091

Maturity analysis of financial liabilities

	Total US\$000	< 3 months US\$000	3-12 months US\$000	1-5 years US\$000	5-10 years US\$000
2007					
Trade and other payables	3,716	3,716	-	-	-
Loan and borrowings	196,611	-	-	196,611	-
2006					
Trade and other payables	5,091	5,091	-	-	-
Loan and borrowings	195,888	-	-	-	195,888

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 2007

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 2006	8	97,429	510,000	(2,580)	604,857
Loss for the year	-	-	-	(11)	(11)
Equity-settled share-based payments	-	-	-	115	115
Adjustment to share issue costs	-	229	-	-	229
Balance at 31 December 2006	8	97,658	510,000	(2,476)	605,190
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

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 10 May 2007 the company issued 3,541,666 new ordinary shares of US\$.0001 each at a price of US\$20.58 per share for a total consideration of US\$72,887,000, this is further explained in note 32.

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 2007

50 Financial instruments

Risk and sensitivity analysis

Details are provided in note 33.

	US\$	GBP£	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

	US\$	GBP£	Total US\$000
2006			
Trade and other receivables	74,370	211	74,581
Cash and cash equivalents	186,121	292	186,413
Interest bearing loans and borrowings	195,888	-	195,888
Trade and other payables	2,865	2,226	5,091

Fair value and cash flow interest rate risk

2007	Fixed Interest Rate %	Floating Interest Rate %	Company Total US\$000	Company 0-1 Years US\$000	Company 2-5 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)	-

2006	Fixed Interest Rate %	Floating Interest Rate %	Company Total US\$000	Company 0-1 Years US\$000	Company 2-5 Years US\$000	Company 5-10 Years US\$000
Cash and cash equivalents	-	4.5%	186,413	186,413	-	-
Senior loan notes ⁷	9.375%	-	(195,888)	-	-	(195,888)
			(9,475)	186,413	-	(195,888)

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 irrevocably guaranteed on a joint and several basis by JSC Kazakhaltyn MMC, and certain other wholly owned subsidiaries.

51 Related party transactions

Details are provided in note 37.

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 (Production)

William Trew
Non-Executive Director

LEGAL ADVISERS

As to English law
Dewey & LeBoeuf
One London Wall
London EC2Y 5EZ
England

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

Registered Office

KazakhGold Group Limited
La Motte Chambers
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
6th Floor
8 Grafton Street
London W1S 4EL
England

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

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.

Doré bars

These are produced when the cathodic gold is smelted with flux and the mixture poured as gold doré bars.

FDI

Foreign direct investment.

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 Depositary 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.

Listing or IPO

The listing of the Group's Global Depository Receipts on the London Stock Exchange in November 2005.

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.