

KazakhGold Group Limited

Interim Report

1 January to 30 June 2006



KAZAKHGOLD

KazakhGold Group Limited is the largest specialised gold mining company in Kazakhstan. We estimate our gold reserves and resources to be the largest known in the country. We are developing rapidly, and aiming to become a leading low-cost central Asian gold producer.

In 2005, we acquired eight new properties in Kazakhstan, adding to our three existing operational mines.

- ▲ Mines in production
- Properties acquired – July 2005
- New licences awarded – December 2005



2006 Business Highlights

- Gold production of 95,160 oz
- Combined July and August 2006 production of 46,966 oz
- A further reduction in cash production costs, which averaged US\$180 per contained oz
- Higher than anticipated output of cathodic sludge impacted revenue and margins – work was initiated to enhance the electrolysis process
- Gold inventory increased by 30,611 oz due to a delay in sales to Kyrgyzstan and additional stockpiling. Inventory has now been reduced since the first half
- Capital expenditure of US\$22.6 million, included the upgrading of mine shafts at Aksu and Zholymbet and exploration of recently acquired mine properties
- Production commenced at the Kaskabulakskoe mine in Eastern Kazakhstan
- Preparation of an accelerated investment plan to exploit more fully the Group's significant reserves and resources. This raises the long-term production target, albeit at lower than anticipated growth in 2007–8. The plan has an associated financing requirement of some US\$120 million, that the Group intends to satisfy through debt finance
- Management team strengthened: Chief Accountant and Chief Geologist appointed to JSC Kazakhaltyn MMC, the Group's principal operating subsidiary; recruitment of London-based CFO commenced.

Interim Results Summary (Six months to 30 June 2006)

Revenue (US\$ '000)	31,578
EBITDA (US\$ '000)	12,698
Operating profit (US\$ '000)	7,119
Profit before tax (US\$ '000)	6,231
Cash (US\$ '000)	32,456
Net assets (US\$ '000)	686,714
Earnings per share (basic & diluted – US\$)	0.06
Weighted average number of shares in issue	47,100,000
Total ore extracted (tonnes)	2,244,518
Head grade (grammes/tonne)	1.92
Recovery rate (%)	68.8
Gold production (oz)	95,160
Average cash production cost (US\$ per contained oz)	180.0

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President & CEO's Statement



It is my pleasure to present KazakhGold Group Limited's first interim results, for the six months to 30 June 2006. During the period, the Group made further progress towards its objective of becoming one of Central Asia's leading gold mining companies – for this, the Board is grateful to all employees.

Revenue for the period was US\$31.58 million, with EBITDA of US\$12.7 million and profit before tax of US\$6.2 million. Earnings per share were US\$0.06 and net assets at the period close were US\$686.7 million. Cash flow from operations, before changes to working capital and provisions, was US\$27.5 million. Cash absorbed by operating activities was US\$7.5 million, reflecting sales of cathodic sludge, an increase in trade and other receivables and inventory.

Operations

Over the period, there was further expansion of open pit mining activity at Aksu, Bestobe and Zholymbet, in accordance with our strategy. Production began in June at the Group's recently acquired Kaskabulakskoe mine, in Eastern Kazakhstan, which will make a minimal contribution to the second half.

In the first half 2,244,518 tonnes of ore were extracted, with an average head grade of 1.92 grammes/tonne, and a recovery rate of 68.8 per cent. Gold production was 95,160 oz. The Group has reallocated 8,715 oz of gravity concentrate production, held in inventory as finished goods at the 2005 year end, to work in progress. This follows the decision to process

the concentrate further during the first half. As a result, reported production for the 14 weeks to 31 December 2005 has been re-stated to 43,976 oz. This adjustment has no impact on the 2005 year-end financial results.

The Group benefits from a low-cost production base and is committed to retaining this competitive advantage. In the first half, cash production costs continued to reduce and averaged US\$180.0 per contained ounce.

During the period, the performance of our recently installed high-pressure electro-winning vessels was sub-optimal. Representatives from the manufacturers have worked with us to resolve matters, in order to achieve the designed specification for the equipment. This has now resulted in a higher output of cathodic gold and we expect this trend to continue in the final quarter of the year.

Gold sales in the first half were 64,549 oz, at an average achieved sales price of US\$507/oz, based on the prevailing tenge/US\$ exchange rate at the time of each sale. This compares with US\$448/oz for the final quarter of 2005, using the year-end exchange rate.

The Group's gold inventory increased by 30,611 oz to 48,821 oz in the first half. This was due to the temporary suspension of shipments to Kyrgyzstan, following disagreement with a customer regarding the grade of product shipped. In August, sales were resumed and a new customer was added in Dubai. Inventory levels are expected to decline in the second half, as we smelt some of the build-up of cathodic sludge into gold doré.

Capital expenditure and loan repayments

In 2005, US\$46 million was allocated from the Group's Initial Public Offering (IPO) proceeds for capital expenditure in the current year. US\$18 million was for construction of a 2.5 million tonnes annual capacity Carbon-in-Pulp (CIP) plant at Bestobe, to be operational from the first quarter of 2007.

A further sum was allocated for a 1.0 million tonnes annual throughput capacity heap leach facility at Zholymbet, due to commence operation in the first quarter of 2006. After careful evaluation of our accelerated investment plan, outlined below, we deferred implementation of these investments. This was in order not to compromise the greater economies of scale from the construction of the larger facilities identified in our new plan.

In the event, capital expenditure over the period was US\$22.6 million, which included US\$11.7 million for the refurbishment of a mine shaft at Aksu, as well as equipment to accelerate open pit and other mine development activity. At Zholymbet, US\$5.2 million was invested, which included refurbishment of a mine shaft, equipment for open pit mining and construction of a new tailings dam. Of the remaining expenditure, the majority was allocated to geological exploration and drilling equipment for our new mine sites.

During the first half all bank loans and promissory notes were repaid, amounting to US\$21.6 million and US\$3.0 million respectively.

Shareholders

In July, the free float of the Group's shares increased by 11.5 per cent to 39 per cent, following the sale by Gold Lion Limited ("Gold Lion") of 5.5 million secondary shares in the form of Global Depositary Receipts. The sole beneficiaries of Gold Lion are the Assaubayev family. Gold Lion has confirmed to the Group that it intends to retain a majority shareholding in the Group.

Accelerated investment plan

With gold reserves and resources of 46.6 million oz, based on the latest review in 2005 and excluding the eight new properties acquired last year, the Group has the opportunity and capability to raise production levels even further from those anticipated at the time of our IPO. With this in mind, an accelerated investment plan has been prepared that will significantly increase the long-term production target of the Group. It reduces the average life-of-mine estimated cash production cost per ounce, from US\$182/oz to US\$143/oz, and should place the Group amongst the world's top twenty gold producers. The plan envisages an additional financing requirement of some US\$120 million, which the Group intends to satisfy through debt finance.

Under the accelerated plan, the focus changes to the use of CIP processing technology. Total annualised processing capacity for the Group will increase from 3.0 million tonnes in June 2006 to 19.5 million tonnes in 2008, which is 3.0 million tonnes ahead of the Group's original plan prepared in 2005.

CIP processing technology has a number of distinct benefits for the Group. It offers the possibility of gold recovery rates of over 90 per cent, compared with some 60 per cent from heap leach processing. Under the accelerated investment plan, the Group will be able to raise average recovery rates from 73.0 per cent to 82.3 per cent. CIP processing also provides a more stable and predictable cash flow, as heap leach technology loses its effectiveness at the low winter temperatures experienced in Kazakhstan. CIP technology allows the processing of both oxide and sulphide ores, and is ideally suited to regions such as Northern Kazakhstan, where our three main mines are located.

While production will be increased significantly from 2009, the accelerated investment plan does mean that production growth will be less dramatic in 2007 and 2008, compared with the original 2005 plan. This arises principally from the delayed construction of Bestobe's CIP plant, which had originally been scheduled to be operational from 2007.

The Group is appointing an international firm of mining consultants to assist with the planning, and potentially to have an involvement with the implementation of the accelerated investment plan. Loan financing options are currently being evaluated with the aim of commencing work by the end of 2006.

Outlook

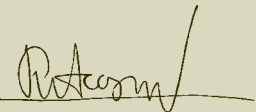
The Group has gold reserves and resources estimated to be the largest in Kazakhstan. This gives us the opportunity to transform production

growth through implementation of the foregoing accelerated investment plan. While this constrains production growth in the short-term, it enables the long-term production target of the Group to be significantly increased. Gold recovery rates will also rise materially, cash costs will reduce significantly and cash flow will be much more predictable.

Although the Group is committed to driving down production costs per ounce, some 65 per cent of our costs are in Kazakh tenge and so are adversely impacted when the tenge strengthens against the US dollar. In the first half the tenge appreciated by 13 per cent against the dollar, although it has since stabilised.

Wardell Armstrong International is converting the reserves at Aksu, Bestobe and Zholymbet to the JORC classification standard, and the first results are due early 2007. JORC classification will improve the quality of our reserve estimates and promote greater international understanding of the opportunity that the Group represents.

Overall, with increases in production and improved electrolysis, we are set to make further progress by the year-end. With the opportunity to implement an accelerated investment plan and favourable macroeconomic conditions in Kazakhstan, the Group faces the future with confidence.



Dr Kanat Assaubayev
President & Chief Executive Officer

Consolidated Income Statement

		Six months to 30 June 2006 US\$000	26 Sept to 31 Dec 2005 US\$000
	Note	Unaudited	Audited
Revenue	4	31,578	20,357
Cost of sales		(14,269)	(14,863)
Gross profit		17,309	5,494
Other operating income		430	1,473
Distribution expenses		(731)	(86)
Administrative expenses		(8,193)	(6,954)
Other operating expenses		(1,696)	(640)
Operating profit/(loss)		7,119	(713)
Financial income		1,154	277
Financial expense		(2,042)	(647)
Net financing costs		(888)	(370)
Profit/(loss) before taxation		6,231	(1,083)
Taxation		(3,208)	(1,090)
Profit/(loss) for the period attributable to equity shareholders		3,023	(2,173)
Basic earnings/(loss) per share	5	US\$0.06	US\$(0.05)
Diluted earnings per share	5	US\$0.06	–

All amounts relate to continuing operations.

Consolidated Balance Sheet

	30 June	31 Dec
	2006	2005
	US\$000	US\$000
	Unaudited	Restated
Non-current assets		
Property, plant and equipment	62,876	49,797
Mining properties	858,517	761,975
Exploration and development costs	14,617	9,013
Intangible assets	1,231	1,092
Other financial assets	2,011	1,713
	939,252	823,590
Current assets		
Inventories	22,247	7,629
Trade and other receivables	48,902	20,112
Other financial assets	3,931	–
Cash and cash equivalents	32,456	87,887
	107,536	115,628
Total assets	1,046,788	939,218
Equity and liabilities		
Equity attributable to shareholders		
Share capital	8	8
Share premium	97,429	97,429
Capital contributions	510,000	510,000
Translation reserve	75,425	(41)
Retained earnings	3,852	714
Total equity	686,714	608,110
Non-current liabilities		
Interest-bearing loans and borrowings	23,074	24,543
Other financial liabilities	1,471	1,197
Provisions	418	241
Deferred tax liabilities	305,196	271,134
	330,159	297,115
Current liabilities		
Interest-bearing loans and borrowings	–	20,464
Trade and other payables	23,385	10,959
Current tax payable	5,981	2,156
Other financial liabilities	549	414
	29,915	33,993
Total equity and liabilities	1,046,788	939,218

Consolidated Cash Flow Statement

	Six months to 30 June 2006 US\$000 Unaudited	26 Sept to 31 Dec 2005 US\$000 Audited
Cash flows from operating activities		
Profit/(loss) before tax for the period	6,231	(1,083)
Adjustments for:		
Depreciation, depletion and amortisation	5,579	1,411
Foreign exchange loss arising from translation of investment in subsidiaries	11,969	–
Foreign exchange loss arising from operations	1,516	8
Interest payable	2,042	647
Loss on disposal of non-current assets	84	640
Equity-settled share-based payment expenses	115	2,887
Cash flows from operating activities before changes in working capital and provisions	27,536	4,510
Increase in trade and other receivables	(33,019)	(6,095)
(Increase)/decrease in inventories	(14,618)	5,511
Increase in trade and other payables	12,457	888
Increase in provisions	177	241
Cash (absorbed by)/generated from operating activities	(7,467)	5,055
Cash flows from investing activities		
Acquisition of property, plant and equipment	(16,840)	(6,930)
Proceeds from the disposal of non-current assets	838	385
Capitalised exploration and development costs	(4,530)	(4,491)
Acquisition of mining licences	(138)	(114)
Cash held in subsidiary companies at the date of acquisition	–	565
Net cash flow from investing activities	(20,670)	(10,585)
Cash flows from financing activities		
Proceeds from the issue of share capital	–	106,507
Share issue costs	–	(9,070)
Proceeds from the issue of bonds	–	24
(Redemption)/issue of promissory notes	(3,007)	3,007
Repayment of borrowings	(21,630)	(6,284)
Interest paid	(1,956)	(647)
Payment of finance lease liabilities	(701)	(120)
Net cash flow from financing activities	(27,294)	93,417
Net (decrease)/increase in cash and cash equivalents	(55,431)	87,887
Cash and cash equivalents at the beginning of the period	87,887	–
Cash and cash equivalents at the end of the period	32,456	87,887

Statement of Changes in Equity for the Group

For the six month period ended 30 June 2006

	Share capital US\$000 Unaudited	Share premium US\$000 Unaudited	Capital contributions US\$000 Unaudited	Translation reserve US\$000 Unaudited	Retained earnings US\$000 Unaudited	Total US\$000 Unaudited
Balance at 1 January 2006	8	97,429	510,000	(41)	714	608,110
Equity settled share-based payments	–	–	–	–	115	115
Foreign exchange on translation of foreign operations	–	–	–	75,466	–	75,466
Profit after tax for the period	–	–	–	–	3,023	3,023
Balance at 30 June 2006	8	97,429	510,000	75,425	3,852	686,714

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.

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.

Notes forming part of the interim financial statements

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 therefore resident in the United Kingdom for the purposes of United Kingdom taxation liabilities.

2 Basis of preparation and accounting policies

These primary statements and selected notes comprise the unaudited interim consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2006.

The comparative figures presented are from the period of incorporation on 26 September 2005 to 31 December 2005. The financial statements for the period ended on 31 December 2005 were 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. These comparative figures have been restated as detailed in note 3 below.

These unaudited interim consolidated results of the Group presented in this interim announcement have been prepared on the basis of the accounting policies adopted within the financial statements for the period ended 31 December 2005. As permitted, the Group has chosen not to adopt IAS34 Interim Financial Reporting.

Details of the significant accounting policies are set out below:

a Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for-sale.

b 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 as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

c Business combinations

The Company owns the entire share capital of Romanshorn LC AG. As the controlling party of Romanshorn LC AG and KazakhGold Group Limited at the time of the acquisition was the same, the acquisition was accounted for as a capital contribution with the assets and liabilities acquired initially recognised at fair value and a corresponding increase to equity credited to the capital contributions reserve.

Notes forming part of the interim financial statements

d Exploration and development

Exploration and development 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.

e Mining properties

Once a decision is made to proceed with the development of a mining project, exploration and development expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mining properties, together with any amount transferred from exploration and development.

Depreciation, depletion and amortisation of mining properties are calculated using the 'units of production method' based upon actual production and estimated recoverable reserves. This amount is charged to cost of sales in the income statement.

f Foreign exchange

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. Goodwill and 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 is deemed by the directors of that entity to be 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").

3 Restatement

During the period ended 31 December 2005 the Company acquired the entire share capital of Romanshorn LC AG, the non-trading parent company of JSC Kazakhaltyn MMC.

On fair valuing the assets and liabilities acquired in this transaction in 2005, the Company fair valued the mining properties net of deferred tax. The financial statements of 2005 have been restated to show the fair value of the mining properties gross of deferred tax.

There is no impact upon equity, profit/(loss) before and after taxation and cash flows for the preceding period.

The effect of this restatement on those financial statements is summarised below:

	US\$000
Increase in mining properties	268,161
Increase in deferred tax liability	(268,161)
Change in equity	–

Notes forming part of the interim financial statements

4 Revenue

The Group operates in one segment, the mining and production of gold in Kazakhstan. The revenues from this segment are analysed as follows:

	Six months to 30 June 2006 US\$000 Unaudited	26 Sept to 31 Dec 2005 US\$000 Audited
By product		
Cathodic sludge	28,654	16,998
Cathodic gold	–	682
Free gold	1,514	1,841
Flotation and gravitational concentrate	1,173	602
Quartzite ore	237	138
Doré bars	–	96
	31,578	20,357
By destination market		
Kyrgyzstan	17,733	10,633
Kazakhstan	8,624	7,178
Switzerland	3,812	1,805
Russia	1,409	741
	31,578	20,357

5 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based upon the net profit after tax attributable to the ordinary shareholders of US\$3,023,000 (2005: a loss of US\$2,173,000) and a weighted average number of shares in issue, for the period 1 January 2006 to 30 June 2006, of 47,100,000 (2005: 40,212,371).

	Six months to 30 June 2006 US\$0.06 Unaudited	26 Sept to 31 Dec 2005 US\$(0.05) Audited
Earnings/(loss) per share	US\$0.06	US\$(0.05)

The numerator for the calculation of the basic earnings/(loss) per share is the profit after tax of US\$3,023,000 (2005: a loss of US\$2,173,000). The denominator for the calculation of the basic earnings per share is 47,100,000 (2005: 40,212,371).

Diluted earnings per share	US\$0.06	–
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The numerator for the calculation of the diluted earnings per share is the profit after tax of US\$3,023,000. No diluted loss per share for 2005 has been presented as the share options were anti-dilutive. The denominator for the calculation of the diluted earnings per share is 47,139,025.

Independent Review Report to KazakhGold Group Limited

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated balance sheet and the related consolidated income statement, consolidated cash flow statement and the consolidated statement in changes in equity and related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority 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 our terms of engagement 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.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (United Kingdom and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

BDO STOY HAYWARD LLP

Chartered Accountants

London

27 September 2006

Directors, Company Secretary and Advisers

Directors

Kanat Assaubayev

Chief Executive Officer

Baurzhan Assaubayev

First Deputy Chief Executive Officer

Aidar Assaubayev

Deputy Chief Executive Officer

– Corporate Development

Marussya Assaubayeva

Deputy Chief Executive Officer

– Health, Safety, Environment and HR

Peter Daresbury

Non-Executive Chairman

Toktarkhan Kozhagapanov

Non-Executive Director

David Netherway

Non-Executive Director

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