



CHAGALA GROUP LIMITED

**REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER, 2006**

28 June, 2007

Contents

	Page
Directors and other officers	2
Chairman's Address	3
Report of Chief Executive Officer	5
Report of the Board of Directors	14
Major Shareholders and Directors Interests	16
Financial statements	17

Directors and other officers

Board of Directors

Mark Lockwood
Tim Abson
Javier del Ser
Kairat Saltyganov
Jaroslav Kinach

Registered Office

PO Box 190
Road Town
Tortola
British Virgin Islands

Contact Office

26th Floor
Wyndham Street
44 Wyndham Street
Central
Hong Kong

Lawyers (BVI)

Harney Westwood and Reigels
Craigmuir Chambers
PO Box 71
Road Town
Tortola
British Virgin Islands

Lawyers (England)

Lovells
Atlantic House
Holborn Viaduct
London EC1A 2 FG
United Kingdom

Lawyers (Kazakhstan)

Chadbourne and Parke
Dostyk Business Centre
43 Dostyk, 4th Floor
Almaty, 050010
Kazakhstan

Auditors

Ernst and Young LLP
240 G Furmanov Street
Almaty, 050010
Kazakhstan

Chairman's Address

Dear Shareholders

It is now over 14 years since the Chagala Group first started to pursue property opportunities in Kazakhstan. From two small hotels, we now have over:

- 268 hotel rooms with another 73 under construction;
- 235 serviced apartments with 200 under development;
- 14,500 square feet of office space;
- 3,685 square metres of garage and storage;
- a land bank of more than 15 hectares;

and we are still expanding.

Pre-listing Activities

Most importantly, 2006 was a significant year for us, having completed nearly all the preparatory work necessary to enable us to issue our GDRs on the London Stock Exchange which occurred earlier this year. All in all, the listing process was extremely time consuming but, even while this was going on, we still managed to expand our asset base (and I will high-light a few of these acquisitions later on).

In 2005 and 2006, in order to enhance our management capabilities in expectation of the listing, we also made a number of personnel changes including:

- the employment of a new Chief Operating Officer;
- the expansion of our finance department;
- the employment of a new hotel manager in Atyrau;
- the refining of the role of our CEO, Tim Abson.

Finally, in order to improve our management reporting in expectation of our listing, we commenced the implementation of new hotel and accounting software.

Expanded Assets Base

As indicated above, notwithstanding a number of personnel and structural changes that we were implementing in 2006 as well as preparing for our listing, we managed to:

- complete 68 serviced apartment in Atyrau and certain technical buildings;
- acquire a housing compound in Aktau, comprising 145 partly completed apartments;
- acquire our head office in Almaty;
- start the process of buying out our partner in the Chagala Hotel Bautino;
- start the process of buying out our partner in certain land in Bautino in order to undertake our residential commercial park.

Kazakhstan

To date, all our assets are in Kazakhstan and we are very well positioned to continue expansion here, having acquired a large land bank at attractive prices over the last several years. The price of land and buildings in Kazakhstan has increased rapidly over the last three years and prices have continued to increase in 2007. Our view is that the rapid acceleration in asset values may not continue at the same pace although we are very confident that, with the current price of oil, companies will continue to invest in Kazakhstan and these companies will continue to need real estate solutions. With our existing land bank, we are not desperate buyers but we will continue to try and find suitable, well priced opportunities.

We have started to assess opportunities in surrounding countries. While we believe that Kazakhstan will continue to be our core focus, there may be some counter cyclical opportunities in these countries and we will continue to assess these.

Challenges

We face a number of challenges, the most important being related to locating and retaining good personnel and trying to manage construction costs. The labour market in Kazakhstan has expanded rapidly over the last 18 months, with large increases in pay and employees become very fluid. While this affects our direct costs, it also affects our indirect costs as all our construction and engineering suppliers are increasing their prices.

On top of this, we face challenges in expanding our construction expertise to enable us to manage a greater number of projects as well as continuing to expand our finance department in order to monitor these projects.

We have instigated an employee share option scheme applicable to senior managers but are anticipating having to offer options to a much wider range of employees to retain staff in the forthcoming year.

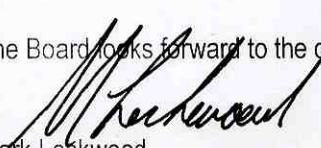
Acknowledgements

On behalf of the Board, I would like to thank the Chagala team for all their efforts last year. I would like to thank Tim Abson for his efforts in overseeing the preparatory work in the listing, as well as our large team of consultants that helped him.

I would like to thank Javier del Ser for his efforts in overseeing the construction department and his support for Tim in guiding the listing.

Vernon Page worked tirelessly in dealing with our auditors and Raushan Nakupova and her team worked diligently in dealing with the numerous legal issues that arose during the course of getting ready to list.

The Board looks forward to the coming year with confidence.



Mark Lockwood
Chairman

Report of Chief Executive Officer

Introduction

I am pleased to announce that Chagala has produced a highly encouraging maiden set of full year results, as a public limited company listed on the main market of the London Stock Exchange. These results are in line with management expectations but have been achieved in a year that has seen a shift in management attention from the main business of developing and running our portfolio to the significant investment of time required achieving a successful IPO. It has also been a year where demand from our main oil and gas clients working on the Kashagan field in the Caspian has been disrupted through, now resolved, technical difficulties.

The Group has published its audited financial results for the year ended 31 December 2006 and the operating results and management discussion follow hereunder. We are satisfied that we have met our revenue forecasts and growth expectations for the year, however we would like to highlight Section 2.2(f) General and Administrative Expenses and Section 2.2 (h) Finance Costs in which detailed explanations are discussed further.

1. Operating results

1.1 *Operating revenue*

The following table represents our operating results for the years ended 31 December 2006 and 2005

	Years Ended	
	(US\$000s)	(US\$000s)
	2006	2005
Revenue		
Room and rent revenue	14,539	11,982
Food and beverage revenue	4,164	3,678
Total revenue	18,703	15,822
Cost and expenses		
Cost of room and rent revenue	(2,355)	(1,453)
Cost of food and beverage	(2,052)	(1,506)
Salaries and employee benefits	(4,295)	(3,786)
Repair and refurbishment expenses	(373)	(586)
Depreciation	(2,086)	(1,394)
General and administrative expenses	(5,137)	(1,747)
Foreign exchange translation gain/(loss)	1,445	(617)
Reversal of Impairment/(Impairment)	391	1,120
Gain from disposal of premises and equipment	582	-
Finance cost	(2,864)	(1,931)
Other Income	488	-
Net profit before income tax	2,447	3,922
Income tax benefit (expense)	(951)	(1,250)
Net profit for the year	1,496	2,672

1.2 **Revenue**

Revenue is comprised of:

- (a) "Room and rent revenue" which is the revenue from leasing hotel rooms, serviced apartments, office space and the Garage and Storage Facility;
- (b) "Food and beverage revenue" which is the revenue from all our food and beverage outlets as well as an allocation of the rent from serviced apartments where we are providing partial or full board.
- (c) "Other Income" this line reflects 'non-core' revenue which cannot be included in the two lines listed above. This amount consists of penalties charged to AtyrauNeftymash for not having land available on time as per the contract under which we purchased certain property.

1.3 **Costs and expenses**

Costs and expenses include the various operating costs we incur in operating the hotels and serviced apartments, and managing the offices as follows:

(a) *Cost of room revenue*

This includes the costs related to the selling of the hotel rooms and the serviced apartments and leasing the offices, including utility costs, insurance, room amenities for the hotels and serviced apartments, linen, consumables and security.

(b) *Cost of food and beverage*

This includes the cost of the consumed food and beverage.

(c) *Salaries and employee benefits*

This includes local and expatriate staff salaries, including sick leave, vacation pay, statutory payments and taxes. This was not historically broken down according to work function or category.

(d) *Repair and refurbishment expenses*

This includes costs resulting from the maintenance of our properties, painting of buildings and repairs to machinery and equipment.

(e) *Depreciation*

This includes the depreciation charged in accordance with our accounting policies after each annual revaluation of our land, buildings and equipment.

(f) *General and administration expenses*

This includes audit fees, legal fees, penalties on related parties loans, marketing fees (including fees paid for sourcing offshore personnel), consultancy fees, land and property taxes, training, advertising, travel, telephone, printing and stationery.

(g) *Foreign exchange translation gains and losses*

This includes gains and losses on our foreign exchange exposure including on foreign currency loans.

(h) *Gain from disposal of premises and equipment*

This line reflects the net benefit of the income less expenses relating to the fire in Atyrau.

2. Comments on the year ended 31 December 2006 compared to 31 December 2005

During this period our revenue increased by 18.2 per cent.

2.1 Comments on Room and rent revenue

(a) *Room and rent revenue*

Room and rent revenue increased by US\$2.56 million (an increase of 21.3 per cent. over the year before) as a result of:

(i) the full year trading of the 82 Chagala Plaza Apartments, the Garage and Storage Facility, and Chagala Hotel, Bautino;

(ii) the opening of Chagala Centre Phase Three in April 2006;

(iii) a rate increase in the Chagala Hotel, Bautino from April 2006 combined with an increase in occupancy; and

(iv) an increase in occupancy levels in the Chagala Hotel, Uralsk.

This increase was despite the loss of 12 apartments and 200 sq m of office space in February 2006 due to a fire, and a slight slowdown in hotel occupancy rates in Atyrau due to technical issues related to the Kashagan project.

(b) *Food and Beverage Revenue*

As a result of the opening of additional outlets as set out in paragraph (a) and a full year of trading for Petrovski and La Cabana, there was an increase in food and beverage revenue of US\$ 0.324 million representing an increase of 8.44 per cent.

2.2 Costs and expenses

(a) *Cost of room and rent revenue*

During this period, the cost of room and rental revenue increased by US\$ 0.90 million, a 62.1 per cent. increase compared to the prior period. The larger increase in costs than in revenue was as a result of increased prices of purchased goods. Insurance costs were increased to be in line with valuation amounts as at 31 December 2005; security costs also increased with the additional buildings and additional security posts required.

(b) *Cost of food and beverage revenue*

There was an increase in food and beverage costs from US\$1.506 million to US\$2.052 million representing an increase of 36.2 per cent. The costs in the first few months were higher than expected, although we have since reduced these costs. The cost of purchased goods also increased over the corresponding period. Included in the cost of food and beverage is the cost of feeding the personnel which leads to an inflated cost of sales percentage.

(c) *Salaries and employee benefits*

There was a 13.4 per cent. increase in this expense between December 2005 and December 2006. The increase was due to the recruitment of additional staff for the new properties, in particular for the new food and beverage outlets which involved one-off recruitment costs and increased employment costs. A number of new expatriate staff were also recruited.

(d) *Repair and refurbishment expenses*

The decrease in these expenses of approximately 36.3 per cent. between December 2005 and December 2006 was due to a number of projects undertaken being capitalised and not written off as maintenance costs. These expenses related to major refurbishments rather than general wear and tear upkeep.

(e) *Depreciation*

Depreciation as at December 2006 was US\$ 2.086 million compared to US\$ 1.394 million as at December 2005, an increase of US\$ 0.692 million. This increase was primarily due to the full year depreciation in 2006 of the 82 Plaza Apartments, Petrovski and La Cabana compared to the half year in 2005, the capitalization of the third phase of Chagala Centre and acquisition of new computer hardware and software. The depreciation is also effected by the increased valuation of 2005 compared to 2004.

(f) *General and administration expenses*

There was an increase in general and administration expenses from US\$ 1.747 million in December 2005 to US\$ 5.137 million in December 2006. Costs were incurred in preparation for the IPO and all of these costs were offset against the proceeds, the major items being:

- US\$ 0.28 million Ernst & Young 2006 Audit fees and Additional costs
- US\$ 0.27 million Implementation of new accounting and hotel software
- US\$ 0.07 million Fixed Assets valuation for IFRS Reporting
- US\$ 0.12 million Master Plan Atyrau
- US\$ 0.04 million Market Research Atyrau
- US\$ 0.12 million EBRD Costs relating to due diligence for funding
- US\$ 0.05 million Safety Audit Atyrau
- US\$ 0.36 million Property Tax Provision with increased valuation for 2004 and 2005
- US\$ 1.00 million Marketing fees
- US\$ 0.20 million Technical services and communication
- US\$ 0.64 million Writing off fixed assets due to the fire
- US\$ 0.39 million Non-deductible expenses

Subsequent to September 2006 we have provided further for IPO costs which were offset against proceeds.

- US\$ 0.06 million Implementation additional costs for accounting and hotel software
- US\$ 0.09 million Property Tax Provision for 2006
- US\$ 0.14 million Recruitment expenses
- US\$ 0.10 million Technical services
- US\$ 0.10 million Non-deductible expenses

(g) *Foreign exchange translation gains and losses*

In the year ended December 31 2006, the Group experienced a foreign exchange gain of US\$ 1.445 million. During this period, the Tenge had appreciated against the Dollar starting the year

at KZT 133.77 to US\$1.00 and closing the period at KZT 127.00 to US\$1.00 approximately a 5 per cent. appreciation. This results in an unrealized gain relating to the dollar loans held by the Group and adjusted for IFRS purposes as at the balance sheet date. However, the gain attracts taxation and has an influence on cashflow. Similarly, if the tenge depreciates, there is a taxation loss and this loss can be claimed for taxation purposes.

(h) *Finance costs*

Our debt as at 31 December 2006 was US\$ 41.164 million compared to US\$ 28.277 million as at 31 December 2005. As a result and combined with the timing of drawdown of funds our finance costs increased. For the year 2007 this expense will be drastically reduced with the settlement of all our debt as discussed in 5.3 of this document as we do not foresee drawing on further debt till late 2007 and into 2008. From September 2006 we drewdown on financing amounting to US\$ 1.871 million for construction work, US\$ 2.18 million for purchase of land in Atyrau, US\$ 4.5 million for working capital and US\$ 6 million for the purchase of land and partially completed apartments in Aktau. This resulted in an increase in our finance costs for the 4th quarter.

(i) *Net profit before income tax*

Profit from operating activities decreased by 37.6 per cent. between December 2006 and December 2005 from US\$ 3.922 million to US\$ 2.447 million. The decrease in profit was due to the reversal of impairment reflected in 2005 of US\$1.12 million, the increase in General and Administrative Expenses as discussed in 2.2 (f) above and the increase in Finance Costs as discussed in 2.2(h) above.

(j) *Net profit*

Our net profit for the year ended 31 December 2006 was US\$ 1.496 million, a decrease of 44.05 per cent. over the net profit for the prior year of US\$ 2.674 million. The decrease in net profit was primarily due to the increase in General and Administrative Expenses as discussed in 2.2 (f) above and the increase in Finance Costs as discussed in 2.2(h) above.

3. Recent events

3.1 Since 31 December 2006, we have undertaken the following:

(a) *Chagala Hotel, Aktau*

While we commenced some construction work on this hotel in the middle of 2006 we awarded a contract for the shell and core construction in October 2006. The project is scheduled for completion in second quarter of 2008.

(b) *68 Apartments at Chagala Plaza*

These apartments were completed in February 2007; over 90 per cent. has been let to Agip KCO and corporate clients as from mid June 2007.

(c) *Acquisition of office in Almaty*

Pursuant to a sale and purchase agreement dated 5 January 2007, between Chagala Management LLP and Caspian Group Limited, Chagala Management LLP agreed to acquire the office that it rents from Caspian Group Limited, located at 23 Baysheshek Street in Almaty for an amount of 19,286,251 Tenge for the land and buildings, including VAT in respect of the buildings and equipment. The transaction was completed in January 2007.

(d) *Chagala Hotel, Bautino*

Pursuant to an agreement for the sale of shares made between Caspian Services Inc and the Company dated 16 January 2007, the Company agreed to acquire 100 per cent. of the issued capital of Fial Securities Market Inc (“Fial”) for a purchase price of US\$3,000,000. Fial owns the remaining 50 per cent. of the chartered capital of Bautino Development Company LLP not already owned by the Group. Bautino Development Company LLP owns the Chagala Hotel, Bautino. Pursuant to this agreement, completion of the purchase of Fial has occurred.

(e) *4.8 hectares of land at Bautino*

Pursuant to an agreement for the sale of shares made between Neymar Finance Limited and the Company dated 15 January 2007, the Company agreed to acquire 100 per cent. of the issued capital of Darma Trading Limited (“Darma”) for a purchase price of US\$1,500,000. Darma owns the remaining 50 per cent. of the chartered capital of Bautino Land Development LLP not already owned by the Group. Bautino Land Development LLP owns 4.8 hectares of land in Bautino where the Bautino RCP park is to be built. Pursuant to this sale agreement, completion of the purchase of Darma has occurred.

(f) *Atyrauneftemash (“ANM”)*

Pursuant to a sale and purchase agreement between ANM and Chagala Hotels LLP dated 1 July 2005, Chagala Hotels LLP agreed to buy certain land in Atyrau and ANM agreed to vacate the land on certain dates. ANM did not comply with its obligations to vacate the land and pursuant to a settlement agreement dated 5 January 2007, the parties agreed that the amount of compensation to be paid by ANM was KZT 61,584,376. This revenue was accrued as at 31 December 2006 in the annual financial statements.

(g) *Bautino Guest House*

Pursuant to a land plot sale and purchase agreement between KazakhstanCaspiShelf LLP (“KCS”) and Caspi Limited LLP dated 17 January 2007, KCS agreed to sell to Caspi the land situated at the following address: Bautino village, Tupkaragansky district, Mangystau oblast, Republic of Kazakhstan, and represented by cadastre number 13-202-005-291 (the “Guest House Land Plot”). The purchase price was KZT 5,625,000, currently the documents have been submitted to the authorities and we are awaiting transfer of all rights.

4. Expected changes and trends

4.1 We have incurred additional maintenance and refurbishment costs in 2006, and these costs are likely to increase over the next several years. We are currently refurbishing La Cabana at a cost of US\$1,250,000, and as competitive outlets develop in Atyrau we will be required to upgrade our facilities further.

4.2 In preparing for the Offering and the subsequent reporting requirements, we have restructured our management team with the employment of several high level managers. As such, salary expenses increased by 13.4 per cent. in 2006, with further increases expected in 2007.

Additionally, extra Directors have been appointed and an incentive compensation programme is being established. We expect an additional amount of US\$0.451 million will be required to cover Directors’ fees, the maintenance of Directors and Senior Management insurance, and the issue of options under our share incentive scheme.

4.3 We have consolidated our Atyrau companies to improve reporting efficiency and cashflow via VAT and we will proceed with the same process with our Bautino.

5. Liquidity and capital resources

5.1 Liquidity

The Group's primary source of liquidity consisted at 31 December 2006 of net cash provided by its financing activities and its operating activities. Subsequently the Group has raised US\$83 million from the Initial Public Offering in Primary shares and has not yet generated liquidity from the sale of real estate assets as it has held all developments. Over time, the Group may develop property for re-sale.

The following table sets forth key items from the Group's statement of cash flows for the years ended 31 December 2006 and 2005.

	Years Ended	
	2006	2005
	(US\$000s)	(US\$000s)
Net cash (used in)/from operating activities	2,199	2,291
Net cash used in investing activities	13,699	11,668
Net cash from financing activities	12,865	9,183

(a) Net cash (used in)/from operating activities

In the year ended 31 December 2006, net cash from operating activities decreased by US\$ 92 thousand compared with the year ended 31 December 2005. This decrease was due to decline in the operating profit as a result of the increased costs as detailed previously.

(b) Net cash used in investing activities

In the year ended 31 December 2006, net cash used in investing activities increased by US\$ 2.031 million compared with the year ended 31 December 2005. This increase was primarily due to increases in the development of property, purchases of land and associated purchase of plant and equipment and other non-current assets.

(c) Net cash from financing activities

In the year ended 31 December 2006, net cash from financing activities increased by US\$ 3.682 million compared with the year ended 31 December 2005. This was primarily due to the increase in long terms loans in order to facilitate the development of property and associated purchase of plant and equipment.

5.2 Trade and other accounts payable

In the periods under review, trade and other accounts payable primarily consisted of accounts payable on acquisition of property and trade payables to suppliers and service providers, mostly to contractors in connection with the Group's operating activities and the development of the Group's projects.

As at 31 December 2006, trade and other accounts payable had increased by US\$ 3.051 million, or 159.6 per cent., compared with 31 December 2005. This increase was primarily due to the inclusion of provisions made for expenses incurred during the IPO process and settled after listing.

A further US\$ 200,000 provision was made for the audit fee for 2006. In addition, trade accounts payable have increased directly with the general increase in the volume of business experienced in the period.

5.3 Capital resources

(a) Capital commitments

As at 31 December 2006, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately US\$ 1.80 million.

(b) Short-term and long-term loans

The Group's debt consists of long-term and short-term loans. The following table sets forth the Group's total borrowings as at 31 December 2006 and 2005.

	(US\$000s)	(US\$000s)
Short-term loans and accrued interest ¹	16,516	9,559
Long-term loans	24,606	18,718
Total debt	41,122	28,277

¹ Short-term loans and accrued interest include the current portion of long-term loans.

(c) Short-term loans and accrued interest

During the period under review, short-term loans and accrued interest consisted primarily of the current portion of long-term loans and accrued interest. As at 31 December 2006, the current portion of long-term loans amounted to US\$ 16.106 million and accrued interest amounted to US\$ 0.41 million.

(d) Long-term loans

Long-term loan repayments due

	(US\$000s)
Within 1 year	16,058
In the second year	13,478
In the third to fifth years inclusive	10,927
After 5 years	700
Less: current portion of long-term loans	16,058
Total	

As a result of the IPO, the Group settled its long-term and short-term loans in March and April 2007, leaving only AGIP debt outstanding to the amount of US\$ 1.911 million.

(e) Capital expenditure and future projects

In the medium term, the Group estimates that its current and pipeline projects will require a total investment of approximately US\$ 156 million. In addition, through Chagala Zere Malls Limited, the Group will be investing US\$ 40 million towards the US\$ 78 million project costs.

The Group expects to source these funds from a mixture of debt, equity, revenues and other internally generated sources, depending on the needs of the relevant project and the market conditions at the time.

6. Market risk

In the ordinary course of business, we are exposed to various financial and market risks, including primarily changes in currency exchange rates and changes in market prices of our investments. We do not typically hold or issue derivative financial instruments for hedging or trading purposes.

These risks are discussed in greater detail below.

6.1 Interest rate risk

As at 31 December, 2006 we had borrowed a principal amount of US\$ 37.364 million from KKB of which US\$ 31.92 million is at fixed rate of 11.5 per cent. per annum and US\$ 5.444 million is at LIBOR plus a margin of between 4.2 per cent and 5.75 per cent. In addition, under the extension of our facility with KKB, we have a facility to draw down up to US\$80,174,818 at a fixed rate of 11.5 per cent. Accordingly, we are not subject to fluctuations in LIBOR or any equivalent rate for a majority of our loans.

6.2 Credit risk

Our customers are nearly all multi-national corporations involved in the oil and gas business, with our biggest credit risk being Agip KCO.

6.3 Liquidity risk

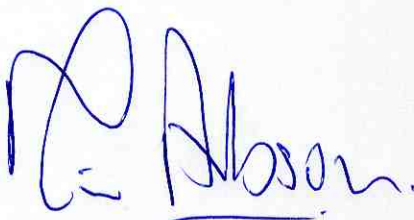
While we believe the credit risk of our clients is generally low, Agip KCO tends to pay amounts due 40 to 60 days after receipt of an invoice. We are dealing with this liquidity issue by endeavouring to pay our creditors on the same terms as we are paid by Agip KCO.

6.4 Foreign currency risk

We have in the past quoted our room rates and rental rates in US dollars and where our customers are off-shore entities, such as Agip KCO, they have been able to pay us in US dollars. For local clients we quote in Tenge. This reflects the fact that our borrowings are in US dollars but, over time, more of our expenses are in Tenge such as salaries and a variety of consumables. We are moving towards having more of our contracts in Tenge, at rates not fixed to the US dollar.

Our biggest foreign exchange exposure relates to the taxation of any losses or gains which may accrue to our foreign exchange currency loans. Under Kazakh tax law, any gain or loss accrued on foreign currency loans during the year must be taxed at the end of each year even if the loan principal is not due for several years and the loss or gain has not been fixed. As our borrowings have increased and with the fluctuations of foreign exchange rates, we have suffered tax charges on foreign exchange gains which we have been required to settle in the relevant financial year.

Should there be any questions on the above please feel free to contact myself or our Chief Financial Officer, Vernon Page.



TIM ABSON
CHIEF EXECUTIVE OFFICER

Report of the Board of Directors

The Board of Directors presents the Company's annual report on its operations, together with the audited financial statements and the auditors reports for the year ended 31 December 2006.

Principal Activities

The principle activity of the Parent company is as a holding company.

The main activities of the subsidiaries and associated companies of the Parent Company are focused on real estate investment, development and property management of real estate in Kazakhstan. The Company controls a diversified portfolio of real estate assets including hotels, serviced apartments and offices.

Overview

An overview of our financial results and our prospects has been set out in the reports from our Chairman and our CEO.

Financial Results

The financial results of the Group are set out on page 21

Dividends

The Board of Directors does not recommend the distribution of any dividend for the year ended 31 December 2006. The Company intends to use all retained earnings for future expansion.

Share Capital

Details of changes in the issue and authorized capital are set out in the accounts.

Board of Directors

None of our directors are required to retire until 2008.

Directors Interest

Details of the interests of the directors in the capital of the Company are set out on page 17 of this Report.

Contracts with Directors and Connected Persons

There were no material contracts with the Company and its subsidiaries in which Directors and their Connected Persons had material interests.

Remuneration of Directors

Eric Simpson was entitled an amount of US\$4000 for serving as a Director for the period under review. None of the other Directors were entitled to any remuneration for acting as a director for the period under review.

Subsequent Events

Events after the balance sheet date are shown in note 19 of the financial statements.

By order of the Board of Directors.



Tim Abson
28 June, 2007

Major Shareholders and Directors Interests

Major Shareholders

Details of our major shareholders are, as at today, as follows:

1. Citibank NA: 49, 220,000 shares
2. Eagle Resources Holding Limited (a company owned by the Abson Family Trust, of which Tim Abson is a beneficiary) : 11, 948,928 Shares
3. Portola Group Limited (a company owned by the Quintet Trust, of which Javier Del Ser is a beneficiary) 9, 618,380 Shares
4. BANT Trading Limited: 8, 044,852 Shares
5. Royal Fiduciary Group Limited as trustee of the Caspian Trust: 4, 186,842 Shares
6. Halfmoon Bay Enterprises Limited : 3, 876,659

Directors Interests

Directors have the following interests in the share capital of the Company, as at today's date:

1. Tim Abson (through Eagle Resources Holdings Limited) : 11,948,928 Shares
2. Javier del Ser (through Portola Group Limited): 9,618,380 Shares
3. Each of Mark Lockwood, Jaroslav Kinach and Kairat Saltyganov have each received options to subscribe for shares under the Company's share option scheme, being 123,076 shares each, vesting over a three year period..

Financial Statements

CHAGALA GROUP LIMITED
Consolidated Financial Statements
Year Ended December 31, 2006

CHAGALA GROUP LIMITED

**Consolidated Balance Sheet
As at December 31, 2006**

Consolidated Financial Statements	Pages
Independent Auditors' Report	20
Consolidated Balance Sheet	21
Consolidated Statement of Income	22
Consolidated Statement of Cash Flow	23
Consolidated Statement of Changes in Equity	24
Notes to the Consolidated Financial Statements	25 -46



■ Ernst & Young LLP
Furmanov Street, 240 G
Almaty, 050059, Kazakhstan
Tel.: 7 (327) 258-5960
Fax: 7 (327) 258-5961
www.ey.com/kazakhstan

■ ТОО «Эрнст энд Янг»
Казахстан, 050059 Алматы
ул. Фурманова, 240 Г
Тел.: 7 (327) 258-5960
Факс: 7 (327) 258-5961

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chagala Group Limited:

We have audited the accompanying consolidated financial statements of Chagala Group Limited and its Subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 27, 2007

CHAGALA GROUP LIMITED

**Consolidated Balance Sheet
As at December 31, 2006**

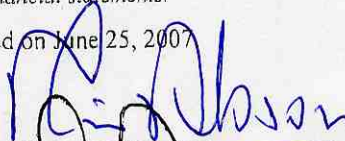
<i>In thousands of US Dollars</i>	Note	2006	2005
ASSETS			
Non-Current Assets			
Premises and equipment	6	80,836	64,195
Intangible assets		744	422
Restricted cash		27	25
		81,607	64,642
Current Assets			
Inventories	7	1,206	1,473
Trade accounts receivable	8	1,943	2,514
Due from related parties	5	752	494
Prepayments and other receivables	9	6,994	3,255
Cash and cash equivalents	10	1,652	284
		12,547	8,020
Total Assets		94,154	72,662
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	4,903	4,903
Additional paid-in capital		2,444	2,444
Retained earnings		6,262	3,727
Revaluation reserve, net of related deferred tax		18,519	15,625
Foreign currency translation reserve		937	476
		33,065	27,175
Minority interests		1,018	2,891
Total Equity		34,083	30,070
Non-Current Liabilities			
Long-term borrowings	12	24,606	18,718
Deferred tax liabilities	16	10,019	8,543
		34,625	27,261
Current Liabilities			
Current portion of long-term borrowings	12	16,516	9,555
Trade accounts payable	13	4,423	1,428
Due to related parties	5	3,116	2,811
Taxes payable	14	723	568
Advances from customers	15	129	482
Other payables and accruals		539	483
		25,446	15,331
Total Liabilities		60,071	42,592
Total Equity and Liabilities		94,154	72,662

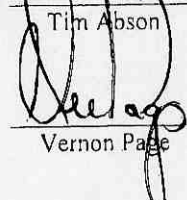
The accompanying notes on pages 5 through 24 form an integral part of these condensed consolidated financial statements.

Signed and authorized for release on behalf of the Board of Directors of Chagala Group Limited on June 25, 2007

Chief Executive Officer

Chief Financial Officer


Tim Abson


Vernon Page

CHAGALA GROUP LIMITED

**Consolidated Statement of Income
For the year ended December 31, 2006**

<i>In thousands of US Dollars</i>	Note	2006	2005
Room and rent revenue		14,539	11,982
Food and beverages revenue		4,164	3,840
Total revenue		18,703	15,822
Salaries and employee benefits		(4,295)	(3,786)
Depreciation and amortization	6	(2,086)	(1,394)
General and administrative expenses		(5,137)	(1,747)
Room utilities, cleaning and maintenance		(2,355)	(1,453)
Food and beverages		(2,052)	(1,506)
Repair and maintenance expenses		(373)	(586)
Net foreign currency translation gains / (losses)		1,445	(617)
Reversal of carrying value of premises and equipment below cost as a result of revaluation		391	1,120
Finance cost		(2,864)	(1,931)
Gain from disposal of premises and equipment		582	-
Other income		488	-
Net profit before income tax expense		2,447	3,922
Income tax expense	16	(951)	(1,248)
Net profit for the year		1,496	2,674
Attributable to:			
Equity holders of the parent		1,106	1,957
Minority interests		390	717
		1,496	2,674
Earnings per share (in US Dollars)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	11	0.02	0.04

The accompanying notes form an integral part of these condensed consolidated financial statements.

CHAGALA GROUP LIMITED

**Consolidated Statement of Cash Flow
For the year ended December 31, 2006**

<i>In thousands of US Dollars</i>	Note	2006	2005
Cash flows from operating activities			
Profit before income tax expense		2,447	3,922
Adjustments for:			
Depreciation	6	2,028	1,394
Amortisation		58	-
Unrealized foreign exchange gain		(1,356)	(155)
Provision for doubtful accounts receivable and other provisions		27	221
Interest expense		2,864	1,837
Gain from disposal of premises and equipment		(582)	-
Reversal of carrying value of premises and equipment below cost as a result of revaluation		(391)	(1,120)
Cash from operations before working capital changes		5,095	6,099
Decrease / (increase) in inventories		348	(446)
Decrease / (increase) in trade accounts receivable		683	(877)
Increase in amounts due from related parties		(233)	-
Increase in prepayments and other receivables		(3,040)	(124)
Increase in accounts payable		3,096	182
Increase in amounts due to related parties		389	344
Decrease in advances from customers		(381)	(547)
Cash generated from operations		5,957	4,631
Interest paid		(2,906)	(1,807)
Income taxes paid		(852)	(533)
Net cash provided by operating activities		2,199	2,291
Cash flows from investing activities			
Purchases of premises and equipment		(14,289)	(11,668)
Acquisition of minority interests		(267)	-
Purchase of intangible assets		(376)	-
Proceeds from disposal of premises and equipment		1,233	-
Net cash used in investing activities		(13,699)	(11,668)
Cash flows from financing activities			
Repayment of borrowings		(6,640)	(4,831)
Receipt of long-term borrowings		19,505	14,014
Net cash provided by financing activities		12,865	9,183
Net increase / (decrease) in cash and cash equivalents		1,365	(194)
Effect of exchange rate changes on cash and cash equivalents		3	(34)
Cash and cash equivalents at the beginning of the year		284	512
Cash and cash equivalents at the end of the year	10	1,652	284

The accompanying notes form an integral part of these condensed consolidated financial statements.

CHAGALA GROUP LIMITED

**Consolidated Statement of Changes in Equity
For the year ended December 31, 2006**

	Attributable to equity holders of the parent								
	<i>In thousands of US Dollars</i>	Share Capital	Additional paid in capital	Revaluation Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total	Minority interest	Total equity
As at January 1, 2006		4,903	2,444	15,629	476	3,727	27,179	2,891	30,070
Foreign currency translation		-	-	824	461	200	1,485	110	1,595
Purchase of minority interest		-	-	1,306	-	1,229	2,535	(2,535)	-
Premises and equipment revaluation		-	-	1,082	-	-	1,082	231	1,313
Deferred tax effect on premises and equipment revaluation		-	-	(322)	-	-	(322)	(69)	(391)
Total income and expense for the year recognized directly in equity		-	-	2,890	461	1,429	4,780	(2,263)	2,517
Net profit for the period		-	-	-	-	1,106	1,106	390	1,496
Total income and expense for the year		-	-	2,890	461	2,535	5,886	(1,873)	4,013
As at December 31, 2006		4,903	2,444	18,519	937	6,262	33,065	1,018	34,083
As at January 1, 2005		4,903	2,444	6,933	696	1,799	16,775	1,515	18,290
Foreign currency translation		-	-	(508)	(220)	(29)	(757)	(102)	(859)
Premises and equipment revaluation		-	-	13,148	-	-	13,148	1,087	14,235
Deferred tax effect on premises and equipment revaluation		-	-	(3,944)	-	-	(3,944)	(326)	(4,270)
Total income and expense for the year recognized directly in equity		-	-	8,696	(220)	(29)	8,447	659	9,106
Net profit for the period		-	-	-	-	1,957	1,957	717	2,674
Total income and expense for the year		-	-	8,696	(220)	1,928	10,404	1,376	11,780
As at December 31, 2005		4,903	2,444	15,629	476	3,727	27,179	2,891	30,070

The accompanying notes form an integral part of these condensed consolidated financial statements.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

1. CORPORATE INFORMATION

Chagala Group Limited (the "Company" or "Parent") was incorporated as a private company in the British Virgin Islands ("BVI") on February 20, 2006. The Company was formed for the principal purpose of acting as the parent company of the Chagala Hotels LLP group of companies, and subsequent to year-end became a public company (refer to Note 19) based in the Republic of Kazakhstan.

At September 1, 2006 the Company obtained control of Chagala Hotels LLP (former Parent company) and all its subsidiaries pursuant to an agreement whereby the Company exchanged 48,925,860 ordinary shares with par value of US\$ 0.10 each for the contribution of 100% of Chagala Hotels LLP shares.

Following the exchange of shares, Chagala Hotels LLP became a 100% owned subsidiary of the Company (the Company and its controlled subsidiaries are collectively referred to as the "Group"). The transfer of Chagala Hotels LLP to the Company represented a reorganization under common control and accordingly, was accounted for at predecessor book values using the pooling of interest method. Chagala Hotels LLP was incorporated in the Republic of Kazakhstan in September 1998 and was ultimately owned by the individuals below with the same ownership percentages at December 31, 2006 and 2005.

Shareholder	Percentage Ownership
Ms. Kathleen Lootens (Belgium) and Mr. Timothy Abson (UK)	34%
Mr. Javier del Ser (Spain)	23%
Mr. Berik Amanbayev (Kazakhstan)	20%
Mr. Anatoly Mizikovsky (USA)	12%
Mr. Azmi Wan Ham Zah (Malaysia)	8%
Mr. Sagat Tugelbayev (Kazakhstan)	2%
Mr. Mark Andrew Lockwood	1%

The Company's registered address is c/o Offshore Incorporations Limited, PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Group operates in the Republic of Kazakhstan.

The principal subsidiaries consolidated within the Group, and the share of voting interest held by the Group as at December 31, 2006 and December 31, 2005, are as follows:

Subsidiary	Percentage Ownership	
	2006	2005
Bayan Limited LLP	100%	100%
Atyrau Land Development Company LLP	100%	100%
Caspi Limited LLP	100%	81%
Bautino Development Company LLP	50%	50%
Atyrau Properties LLP	100%	50%
Chagala Hotels LLP	100%	-
Bautino Properties LLP	100%	-
Bautino Land Development LLP	50%	-
Chagala Management LLP	100%	-
Chagala Construction LLP	100%	-
Aktau Development LLP	100%	-

During the year ended December 31, 2006 the Company formed the following new 100% owned subsidiaries: Chagala Management Limited LLP, Chagala Construction LLP, Bautino Properties LLP and Aktau Development LLP and also 50% of Bautino Land Development LLP.

The Company exercises effective control over Bautino Development Company LLP because of a management contract to operate the business of the subsidiary.

The principal activities of the Group consist of (i) construction of hotels, serviced apartments and office accommodations; (ii) ownership and management of hotels, serviced apartments and office accommodation and (iii) restaurant operations.

During the year ended December 31, 2006 the Company acquired the remaining 50% and 19% of the share capital in Atyrau Properties LLP and Caspi Limited LLP, respectively, and became the sole owner.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

1. CORPORATE INFORMATION (continued)

The Group has negative working capital of US\$ 12,399 thousand as at December 31, 2006 (December 31, 2005: US\$ 7,311 thousand). The Group is operating profitably and has positive cash flows from operations, but is unable to finance current and future developments without additional long-term financing. The current illiquidity of the Group is the result of current revenue being insufficient to meet development costs of the Group's property portfolio. The Group successfully obtained additional financing through an Initial Public Offering in 2007 (refer to Note 19).

Management believes that existing cash and cash equivalents, financing from the Initial Public Offering and current operations will be sufficient to allow the Group to meet management's operating and long-term development plans for the foreseeable future. Should revenues and cash flows not materialize to planned levels or additional equity financing be unavailable to the Group, the Group would have to take actions such as disposing of part of the land bank, delaying additional projects, reducing anticipated improvements and otherwise rescheduling discretionary payments in order to sustain operations and conserve cash resources.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The following new standards, amendments to standards and interpretations are mandatory for the financial year ended December 31, 2006:

IAS 19 (Amendment), *Actuarial Gains and Losses, Group Plans and Disclosures*, effective for annual periods beginning on or after January 1, 2006, introduces an additional recognition option for actuarial gains and losses in post-employment defined benefit plans. The amendments to IAS 19 did not have a material impact on the Group's financial position or results of operations.

IAS 21 (Amendment), *Net Investment in a Foreign Operation*, effective for annual periods beginning on or after January 1, 2006. The amendments to IAS 21 did not have a material impact on the Group's financial position or results of operations.

IAS 39 (Amendment), *The Fair Value Option; IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions; IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts*, all effective for annual periods beginning on or after January 1, 2006, clarified the use of fair values, clarified that the definition of a financial hedge extends to certain intercompany transactions and clarified the accounting for insurance contracts. The amendments to IAS 39 and IFRS 4 did not have a material impact on the Group's financial position or results of operations.

IFRS 6, *Exploration for and Evaluation of Mineral Resources*, is effective for annual periods beginning on or after January 1, 2006. IFRS 6 permits the continued use of recognition and measurement practices for exploration and evaluation assets applied immediately before adopting the IFRS. IFRS 6 also provides specific guidance on impairment of exploration and evaluation assets. The adoption of IFRS 6 did not have a material impact on the Group's financial position or results of operations.

IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, is effective for annual periods beginning on or after January 1, 2006. The adoption of IFRIC 4 did not have a material impact on the Group's financial position or results of operations.

IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, is effective for annual periods beginning on or after January 1, 2006. The adoption of IFRIC 5 did not have a material impact on the Group's financial position or results of operations.

IFRIC 6, *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, is effective for annual periods beginning on or after December 1, 2005. The adoption of IFRIC 6 did not have a material impact on the Group's financial position or results of operations.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

- IFRS 7, *Financial Instruments: Disclosures*;
- IFRS 8, *Operating Segments*;
- IAS 1 (amended 2005), *Presentation of Financial Statements – Capital Disclosures*;
- IFRIC 8, *Scope of IFRS 2*;
- IFRIC 9, *Reassessment of Embedded Derivatives*;
- IFRIC 10, *Interim Financial Reporting and Impairment*;

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions*
- IFRIC 12, *Service Concession Arrangements*

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position in the period of initial application.

Significant accounting judgements and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results may differ from management's estimates made at the time of preparing the consolidated financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Revaluation of premises and equipment

The Group uses a revaluation model under IAS 16 "Property, Plant and Equipment". The Company applied the income approach involving the exercise of significant assumptions and judgments in determining the fair values of certain premises and equipment. The key assumptions used in deriving the valuation using the income approach are the discount rate and the projection of future cash flows. Other equipment is revalued based on the depreciated replacement cost method. Market-based evidence is also used to support the valuations derived from the income approach and depreciated replacement cost methods. Land is revalued based on limited current market evidence from recent transactions.

Recovery of related deferred tax assets

As discussed in Note 16 the Group recognized deferred tax assets resulting from decreases in the carrying value of premises and equipment below cost as a result of revaluation in the loss making segments of Chagala Hotels LLP, Bayan Limited LLP and Atyrau Properties LLP. The management of the Group believes it is able to recover deferred tax assets in these segments in the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

Subsidiaries

The consolidated financial statements comprise the accounts of the Company, Chagala Group Limited and eleven controlled subsidiaries. Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over its operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. Minority interests principally represent interests in Bautino Land Development Ltd and Bautino Development Company LLP, not held by the Group.

Acquisition of Subsidiaries from Parties under Common Control

Acquisition of subsidiaries from parties under common control is accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the carrying amounts of the transferring entity (the "Predecessor") at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid if any is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

Acquisition of Subsidiaries from Parties under Common Control (continued)

These financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within the shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses and the minority has the ability to do so. All such losses are allocated to the Group.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Functional and Presentation Currencies

The functional currency of the Company and its principal subsidiaries is Kazakhstan Tenge ("KZT" or "Tenge"). All items included in the financial statements of each entity are measured using that functional currency. The consolidated financial statements are presented in US Dollars, which is the Company's presentation currency. The Group's Tenge consolidated financial statements are translated to US Dollars ("US\$") (the presentation currency) based on the provisions of IAS 21 "The Effect of Changes in Foreign Exchange Rates" as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate existing at the date of each balance sheet presented;

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Income and expense items for each period presented are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates for those periods;
- Equity items other than net profit or loss for the period are translated at the exchange rates existing at the dates of the transactions; and
- Exchange differences resulting from translation are recognized directly in equity.

The Tenge is not a fully convertible currency outside the territory of the Republic of Kazakhstan. The Group used exchange rates of the Tenge to the US\$ established by the Kazakhstan Stock Exchange (the "KASE") as follows in the table:

	Exchange rate at December 31	Weighted average rate during the year
2006	127.00	126.09
2005	133.77	132.88

Investments

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition. All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; and discounted cash flow analysis.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Restricted Cash

Restricted cash comprises bank deposits that represent guarantee deposits for recruited expatriate employees. These deposits are in compliance with the Law of the Republic of Kazakhstan and hence are not included in cash and cash equivalents.

Trade and Other Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is significant doubt that the Group will not be able to collect the debts.

Value Added Tax (VAT)

The financial statements present VAT net because the tax authorities permit the settlement of sales and purchases VAT on a net basis.

Value Added Tax Payable

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VAT is payable to the tax authorities upon collection of accounts receivable from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Inventory cost, which comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition, is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Premises and Equipment

Premises and equipment are measured at fair value less accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Following initial recognition at cost, premises and equipment are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on premises and equipment and subsequent accumulated impairment losses.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same assets is directly offset against the surplus in the revaluation reserve. Depreciation is calculated on a straight-line basis over the estimated total useful lives of the assets as follows:

Buildings	20-50 years
Equipment	4-14 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of premises and equipment.

Borrowing costs that are directly attributable to the construction of an asset are capitalized as part of the cost of that asset and recognized in depreciation expense when the construction of the asset is completed and placed into service.

Impairment

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of income.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

Capital Work-in-Progress

All assets under construction are classified as Capital Work-in-Progress and are not depreciated. Once projects are completed and placed into service they are transferred to Premises and Equipment.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

Deferred Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange in effect at the balance sheet date. All resulting differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Share Capital

Share capital represented by ordinary shares is classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid in capital.

Recognition of Revenue and Expenses

Revenues from sales of inventory are recognised when goods are shipped and the buyer accepts delivery. Sales of services are recognised in the period the services are provided based on the total contract value and the percentage completed. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Expenses are recognized as incurred and are reported in the financial statements in the period to which they relate on an accruals basis.

Employee Benefits

The Group pays social tax to the Kazakhstan government for its employees. Social tax and related staff costs are expensed as incurred.

The Group also withholds and contributes 10% from the salary of its local employees as the employees' contribution to their pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to pay its employees upon their retirement.

4. SEGMENT INFORMATION

The Group's primary reporting format is business segments. Since the Group operates only in Kazakhstan there is no other geographic segment. The operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

4. SEGMENT INFORMATION (continued)

Primary Reporting Format – Business Segments

The Group is organized into two main business segments: room and rent revenue and food and beverages revenue.

Segment revenue, segment expenses and segment result include transfers between business segments. These transfers are eliminated on consolidation.

Unallocated costs represent corporate expenses. Segment assets consist primarily of premises and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to premises and equipment. Impairment loss and provisions relate only to those charges made against allocated assets.

The following table presents revenue and profit and certain asset and liability information regarding the Group's business segments:

In thousands of US\$

Year ended December 31, 2006	Room and rent	Food and beverages	Eliminations	Total operations
Revenue				
Sales to external customers	11,084	3,190	4,429	18,703
Inter-segment sales	3,455	974	(4,429)	-
Total revenue	14,539	4,164	-	18,703
Results				
Segment results	8,149	2,299	-	10,448
Unallocated expenses				(5,137)
Net finance cost				(2,864)
Profit before taxation and minority interest				2,447
Income tax expense				(951)
Profit for the year				1,496
Other segment information				
Capital expenditures: premises and equipment	11,076	3,124	-	14,200
Depreciation of premises and equipment and amortisation	1,627	459	-	2,086
Reversal of decrease in carrying value of premises and equipment below cost as a result of revaluation	305	86		391
Year ended December 31, 2005				
Revenue				
Sales to external customers	10,142	3,291	2,389	15,822
Inter-segment sales	1,816	573	(2,389)	-
Total revenue	11,958	3,864	-	15,822
Results				
Segment results	5,776	1,824	-	7,600
Unallocated expenses				(1,747)
Net finance cost				(1,931)
Profit before taxation and minority interest				3,922

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

Income tax expense				(1,248)
Profit for the year				2,674

Other segment information

Capital expenditures: premises and equipment	8,868	2,800	-	11,668
Depreciation of premises and equipment	1,059	335	-	1,394
Reversal of decrease in carrying value of premises and equipment below cost as a result of revaluation	851	269	-	1,120

Primary Reporting Format – Business Segments (continued)

As at December 31	2006	2005
ASSETS		
Segment assets		
Room and rent	64,594	50,247
Food and beverages	18,219	15,868
Unallocated assets	11,341	6,547
Total assets	94,154	72,662
LIABILITIES		
Segment liabilities		
Room and rent	39,890	27,983
Food and beverages	11,251	8,837
Unallocated liabilities	8,930	5,772
Total liabilities	60,071	42,592

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

During the year ended December 31, 2006 the Group entered into transactions with related parties. Those transactions along with related balances at December 31, 2006 and 2005 for the period then ended are presented in the following table:

<i>Balance sheet</i>	At December 31, 2006	At December 31, 2005
Shareholders		
Amounts due from related parties	-	-
Amounts due to related parties, including loans	1,947	1,465
Less loan from B.A.N.T. Trading Limited included in Note 12	(858)	(755)
Amounts due to related parties	1,089	710
Other entities under common control		
Amounts due from related parties, including loans	752	494
Amounts due to related parties, including loans	2,027	2,101

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

<i>Statement of income</i>	2006	2005
Shareholders		
Sales to related parties	10	103
Purchases from related parties	1,173	1,506
Interest paid	74	441
Other entities under common control		
Sales to related parties	87	74
Purchases from related parties	762	271
Key Management Personnel		
Remuneration and compensation paid	127	138
Bonuses and other benefits paid	16	32
Interest free short-term loans and advances provided to key management personnel	146	105

Key management personnel comprise members of the Management Board and Board of Directors of the Group, totalling five persons as at December 31, 2006 (2005: 5). The total compensation to key management personnel is included in general and administrative expenses in the statement of income.

Terms and conditions of transactions with related parties

The Group provides a 30% discount on hotel services to related parties. For details of the loan from B.A.N.T. Trading Limited refer to Note 12.

Purchases from related parties consist of the marketing fees to Kingsgrove Ltd and Caspian Group Overseas Ltd totalling US\$ 1,145 thousand and US\$ 215 thousand respectively; late payment penalties of \$109 thousand paid to Caspian Group Overseas, rent of apartments totalling US\$ 194 thousand to Caspian Group Ltd and payment of marketing research services totalling US\$ 125 thousand to Trade Pro Ltd.

CHAGALA GROUP LIMITED

**Notes to the Consolidated Financial Statements
For the year ended December 31, 2006**

6. PREMISES AND EQUIPMENT

Premises and equipment and related accumulated depreciation consist of the following:

2006	Land	Buildings	Furniture and Equipment	Capital Work- in-Progress	Total
<i>In thousands of US \$</i>					
Net carrying amount at January 1	18,071	31,263	7,737	7,124	64,195
Additions	1,075	607	1,707	10,811	14,200
Revaluations	631	1,814	110	-	2,555
Revaluation decrease of premises and equipment	(123)	(1,025)	(94)	-	(1,242)
Impairment	-	-	(42)	-	(42)
Reversal of impairment	-	430	-	-	430
Disposals	-	(484)	(392)	(16)	(892)
Transfers	-	3,835	-	(3,835)	-
Depreciation charge for the year	-	(1,004)	(1,024)	-	(2,028)
Depreciation on disposals	-	80	161	-	241
Net exchange difference	964	1,687	403	365	3,419
Net carrying amount at December 31	20,618	37,203	8,566	14,449	80,836
At cost or revalued amount	20,618	42,728	12,641	14,449	90,436
Accumulated depreciation and impairment	-	(5,525)	(4,075)	-	(9,600)
Net carrying amount	20,618	37,203	8,566	14,449	80,836

2005	Land	Buildings	Furniture and Equipment	Capital Work- in-Progress	Total
<i>In thousands of US \$</i>					
Net carrying amount at January 1	6,393	20,965	5,249	7,399	40,006
Additions	1,463	1,235	2,870	6,100	11,668
Revaluations	10,395	3,377	463	-	14,235
Reversal of decrease in carrying value of as a result of revaluation	-	1,121	(1)	-	1,120
Disposals	-	-	(440)	(252)	(692)
Transfers	-	5,860	34	(5,894)	-
Depreciation charge for the year	-	(707)	(687)	-	(1,394)
Depreciation on disposals	-	-	397	-	397
Net exchange difference	(180)	(588)	(148)	(229)	(1,145)
Net carrying amount at December 31	18,071	31,263	7,737	7,124	64,195
At cost or revalued amount	18,071	35,864	10,949	7,124	72,008
Accumulated depreciation and impairment	-	(4,601)	(3,212)	-	(7,813)
Net carrying amount	18,071	31,263	7,737	7,124	64,195

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

6. PREMISES AND EQUIPMENT (continued)

Revaluation of Premises and Equipment

2006 and 2005

The Group engaged AppraisConsult LLP, an independent valuator, to determine the fair value of its premises and equipment. Fair value is determined by reference to market-based evidence when available and the combination of the income approach and depreciated replacement cost methods when market-based evidence is not readily available. Land was revalued based on limited current market evidence from recent transactions, buildings and furniture and equipment was valued based on a combination of the income approach and depreciated replacement cost. The date of revaluation was as at December 31, 2006 and 2005.

If the premises and equipment were presented using the cost model, the carrying amounts would be as follows:

2006	Land	Buildings	Furniture and Equipment	Capital Work in Progress	Total
<i>In thousands of US \$</i>					
At cost	4,626	31,825	11,203	14,449	62,103
Accumulated depreciation and impairment	-	(4,185)	(3,859)	-	(8,044)
Net carrying amount	4,626	27,640	7,344	14,449	54,059

2005	Land	Buildings	Furniture and Equipment	Capital Work in Progress	Total
<i>In thousands of US \$</i>					
At cost	3,492	27,922	9,418	7,124	47,956
Accumulated depreciation and impairment	-	(3,582)	(2,861)	-	(6,443)
Net carrying amount	3,492	24,340	6,557	7,124	41,513

7. INVENTORIES

Inventories consisted of the following:

<i>In thousands of US \$</i>	2006	2005
Construction materials and spare parts	828	1,163
Food and beverages	344	271
Other	34	39
	1,206	1,473

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following:

<i>In thousands of US \$</i>	2006	2005
Trade receivables	1,988	2,532
Allowance for bad and doubtful debts	(45)	(18)
	1,943	2,514

The Group's trade accounts receivable are denominated in US Dollars. At December 31, 2006 the largest trade debtor, AGIP KCO, accounts for 78% (at December 31, 2005: 72%) of total trade receivables.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

9. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables comprised the following:

<i>In thousands of US \$</i>	2006	2005
Deferred IPO costs	2,460	-
VAT recoverable	1,646	2,482
Due from budget	823	358
Advances paid	1,824	273
Due from employees	256	56
Other receivables	16	115
	7,025	3,284
Allowance for bad and doubtful debts	(31)	(29)
	6,994	3,255

Prepayments and other receivables are denominated in Kazakh Tenge.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

<i>In thousands of US \$</i>	2006	2005
Current accounts with Kazakhstani banks – Tenge	351	172
Current accounts with Kazakhstani banks – US dollars	1,232	63
Cash on hand	69	49
	1,652	284

11. SHARE CAPITAL

As described in Note 1, Chagala Group Limited was formed through transactions between entities under common control with the Group.

Share capital of Chagala Group Limited

The Group's authorised share capital is 100,000,000 ordinary shares with a par value of US\$ 0.10 each carrying equal voting rights.

At September 1, 2006 Chagala Group Limited had issued 100,000 ordinary shares with par value of US\$ 0.10 each. Pursuant to an agreement dated September 1, 2006, Chagala Group Limited issued an additional 48,925,860 ordinary shares with a par value of US\$ 0.10 each in exchange for the contribution of 100% of Chagala Hotels LLP shares and US\$ 246,990 in cash.

Share capital of Chagala Hotels LLP

The shareholders of Chagala Hotels LLP immediately prior to the transfer were Kingsgrove Industries Limited and B.A.N.T. Trading Limited with interests of 79.55% and 20.45%, respectively. The shareholder structure of Chagala Hotels LLP did not change during 2006 or 2005.

Earnings Per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals basic earnings per share.

CHAGALA GROUP LIMITED**Notes to the Consolidated Financial Statements
For the year ended December 31, 2006****11. SHARE CAPITAL (continued)**

	2006	2005
Weighted average number of ordinary shares outstanding (thousands)	49,026	49,026
Profit for the year attributable to equity holders of the parent	1,106	1,957
Basic and diluted earnings per share, US\$	0.02	0.04

12. LONG-TERM BORROWINGS

Long-term borrowings comprised the following:

<i>In thousands of US \$</i>	2006	2005
Kazkommertsbank	37,355	24,009
IFC loan	1,031	1,555
B.A.N.T loan	858	755
Agip KCO loan	1,878	1,958
Total loans	41,122	28,277
Less current portion of long-term borrowings	(16,516)	(9,559)
Long-term portion of loans	24,606	18,718

At December 31, 2006 the current portion of long-term borrowings included interest accrued on loans of US\$ 401 thousand (December 31, 2005: US\$ 309 thousand).

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

12. LONG-TERM BORROWINGS (continued)

Kazkommertsbank

As at December 31, 2006 the Group had loans from Kazkommertsbank (KKB) under a general credit line agreement dated March 7, 2001. Credit facilities were drawn in several tranches with different interest rates and maturities as tabulated below. These loans are repayable in equal monthly installments of US\$ 1,095 thousand.

The credit line provided by Kazkommertsbank is secured by a lien over Caspi Limited LLP's premises and equipment totalling US\$ 8,642 thousand; Chagala Hotel LLP's premises and equipment totalling US\$ 6,934 thousand and the property complex of Bayan Limited LLP in the amount of US \$ 428 thousand. Also, Kazkommertsbank has a right to block Caspi Limited LLP's bank accounts on amounts in any currency equivalent to two million US Dollars in the case of non-repayment of the loan. The interest on floating rate loans is reset every 6 months.

	Nominal rate of interest	Ultimate maturity	2006	2005
KKB № 86/A	11,5%	February 28, 2010	1,959	2,377
KKB № 3567/A (86)	6m LIBOR +5,75%	February 28, 2010	109	133
KKB No 5428/A	11,5%	March 1, 2010	117	147
KKB No 6664/A	11,5%	February 28, 2010	132	-
KKB No 6481/A	11,5%	February 27, 2010	403	-
KKB No 6824/A	11,5%	February 26, 2010	264	-
KKB No 7635/A	11,5%	May 24, 2013	1,002	-
KKB No 7636/A	11,5%	May 29, 2007	556	-
KKB No 8274/A	11,5%	July 26, 2007	195	-
KKB No 8393/A	11,5%	July 26, 2007	452	-
KKB No 9620/A	11,5%	December 26, 2016	501	-
KKB No 8828/A	11,5%	May 24, 2013	200	-
KKB No 8679/A	11,5%	May 21, 2012	47	-
KKB No 9067/A	11,5%	May 26, 2012	144	-
KKB No 9386/A	11,5%	May 14, 2013	205	-
KKB No 9384/A	11,5%	October 18, 2007	1,536	-
KKB No 9438/A	11,5%	December 26, 2016	2,222	-
KKB No 9905/A	11,5%	November 29, 2007	1,010	-
KKB No 9907/A	11,5%	May 24, 2013	100	-
KKB No 0060/A	11,5%	December 07, 2007	504	-
KKB No 0030/A	11,5%	May 24, 2013	103	-
KKB No 0299/A	11,5%	May 24, 2013	100	-
KKB № 696/A	11,5%	June 17, 2009	3,591	4,805
KKB № 3568/A (696)	6m LIBOR +4,2%	June 17, 2009	1,035	1,384
KKB № 2079/A	11,5%	June 17, 2009	1,236	1,654
KKB № 3569/A (2079)	6m LIBOR+ 5,75%	June 17, 2009	808	1,080
KKB No 5059/A	11,5%	March 01, 2010	311	393
KKB No 4389/A	6m LIBOR+5,75%	May 11, 2012	151	159
KKB No 4390/A	6m LIBOR +5,75%	May 11, 2012	3,089	3,568
KKB No 5308/A	11,5%	March 01, 2010	196	247
KKB No 5535/A	6m LIBOR +5,75%	May 03, 2012	10	11
KKB No 5631/A	11,5%	May 14, 2012	135	136
KKB No 5577/A	11,5%	May 08, 2012	50	52
KKB No 6457/A	11,5%	February 08, 2012	43	-
KKB No 7764/A	11,5%	May 31, 2012	150	-
KKB No 7719/A	11,5%	February 26, 2010	44	-
KKB No 8518/A	11,5%	February 14, 2010	273	-
KKB No 9241/A	11,5%	May 14, 2013	101	-
KKB No 8783/A	11,5%	September 11, 2007	102	-
KKB No 9292/A	11,5%	May 14, 2013	102	-
KKB № 2008/A	11,5%	October 01, 2007	682	1,222

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

12. LONG-TERM BORROWINGS (continued)

	Nominal rate of interest	Ultimate maturity	2006	2005
KKB No 4391/A	6m LIBOR +5,75%	May 11, 2012	275	308
KKB № 456/A	11,5%	February 28, 2010	930	1,100
KKB № 9714/A	11,5%	December 14, 2016	119	-
KKB № 1591	11,5%	February 28, 2010	3,847	4,889
KKB № 6855/A	11,5%	February 28, 2010	271	344
KKB No 9385/A	11,5%	October 18, 2007	1,024	-
KKB No 9906/A	11,5%	December 26, 2016	303	-
KKB No 0213/A	11,5%	May 24, 2013	100	-
KKB No 0298/A	11,5%	December 25, 2007	501	-
KKB No 0301/A	11,5%	December 26, 2016	6,015	-
Total			37,355	24,009

International Finance Corporation

In 2001, Caspi Limited LLP received a long-term loan from International Finance Corporation ("IFC") amounting to US\$ 2,500 thousand for the development and improvement of the Bautino Guest House for a period of seven years. The loan bears contractual interest at LIBOR + 5.5% per annum, which was changed to LIBOR + 4% in August 2005, and was repayable in ten equal semi-annual instalments of US\$ 250,000 each. Repayment of principal and interest commenced on January 15, 2004 and maturity date is July 15, 2008. The loan was provided by IFC to Caspi Limited LLP under a guarantee issued by Kazkommertsbank in the amount of US\$ 2,500 thousand. The interest on the loan is reset every 3 months.

The IFC Agreement provides for various covenants requiring prior consent from the senior lenders in order to declare or pay any dividends, make certain restricted payments, incur additional indebtedness, make certain investments, guarantee indebtedness, sell or acquire assets with certain exceptions, enter into any merger or consolidation or reorganization, as well as requiring compliance with certain other financial maintenance tests. These financial maintenance tests include the maintenance of certain financial ratios and minimum levels of net worth. At December 31, 2006 the Group was not in compliance with the current ratio covenant of the IFC agreement, which required a current ratio of at least 1.5. The agreement provides that in the event of breach of a covenant, IFC has the right to call the principal amount, interest and any penalties immediately. Accordingly, the balance of the loan is presented in the current portion of long-term borrowings at December 31, 2006 and 2005.

B.A.N.T. Trading Limited

In January 2002, Chagala Hotels LLP received a long-term loan from B.A.N.T. Trading Limited, the former Parent's shareholder, amounting to US\$ 1 million for the repurchase and subsequent cancellation of 1,480,000 ordinary shares of Chagala Hotels LLP. The loan bears contractual interest at 10% per annum payable on a quarterly basis. The principal amount with an original maturity of January 3, 2005 was prolonged and is now repayable by eight equal quarterly payments ending July 4, 2007.

Agip KCO

On February 6, 2004 the Group signed an agreement with Agip KCO to receive non-interest bearing financial assistance of US\$ 1,300 thousand related to the VAT from the contracts with Agip KCO that Caspi Limited LLP has not charged to Agip KCO but for which a liability was imposed by the Ministry of Finance of the Republic of Kazakhstan. The loan amount should be reduced by any amounts that Caspi Limited LLP recovers from any authority of the Republic of Kazakhstan in respect of this VAT paid. In the case of failure of contract terms, the outstanding amount should be repaid to Agip KCO on request. Accordingly this loan is classified as short-term.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

13. TRADE ACCOUNTS PAYABLE

As at December 31, trade accounts payable consisted of the following:

<i>In thousands of US \$</i>	2006	2005
Payable for supplies and IPO costs	3,795	309
Payable for construction services	628	697
Other	-	422
	4,423	1,428

Trade accounts payable is primarily repayable in Tenge.

14. TAXES PAYABLE

As at December 31, current taxes payable consisted of the following:

<i>In thousands of US \$</i>	2006	2005
VAT payable	519	289
Withholding tax payable in respect of import contracts	115	204
Corporate income tax	3	17
Other taxes	86	58
	723	568

15. ADVANCES FROM CUSTOMERS

As at December 31, advances from customers consisted of the following:

<i>In thousands of US \$</i>	2006	2005
Advances for rent services – US Dollars	79	469
Advances for hotel services – Tenge	50	13
	129	482

As at December 31, 2006 the largest portion of advances for rent represents advances received from Agip KCO which accounted for 74% of total advances received (2005: 97%).

16. INCOME TAX

	2006	2005
Income tax expense – current	315	533
Deferred tax expense / (income) – origination and reversal of temporary differences, less:	1,476	4,791
Deferred tax recognised directly in equity	(391)	(4,270)
Effect of translation to presentation currency recognised in equity	(449)	194
Income tax expense	951	1,248

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

16. INCOME TAX (continued)

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2006	2005
Income before taxation	2,447	3,922
Theoretical tax charge at statutory rate of 30%	734	1,177
Tax effect of items which are not deductible or assessable for taxation purposes:		
Interest on loans	19	16
Penalties and late interest on taxes	-	39
Non-deductible employee costs	45	-
Non-deductible audit expenses	60	-
Non-recognized revenues	32	-
Other non-deductible expenses	61	16
Income tax expense	951	1,248

Movements in deferred tax balances were as follows:

	December 31, 2005	Differences recognition and reversal	December 31, 2006
Tax effects of deductible / (taxable) temporary differences:			
Premises and equipment	(8,342)	(1,635)	(9,977)
Fair value of interest free loan	(92)	(13)	(105)
Other	(109)	172	63
Tax effect of temporary differences	(8,543)	(1,476)	(10,019)

As at December 31, 2006, a deferred tax asset of US\$ 127 has been recorded in respect of the impairment of certain premises and equipment (see Note 6) as Management believes it is probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates to (2005: US\$ 243 thousand).

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a consolidated net tax loss. Therefore, deferred tax assets of one company of the Group are not offset against the deferred tax liabilities of another company.

17. CONTINGENT COMMITMENTS AND OPERATING RISKS

Business Environment

Whilst there have been improvements in the Kazakhstani economic situation, such as an increase in gross domestic product and a reduced rate of inflation, the Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. The Group's operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The market volatility in the real estate sector may significantly decrease or increase the carrying values of premises and equipment in the future. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

17. CONTINGENT COMMITMENTS AND OPERATING RISKS (continued)

Legal Proceedings

In the opinion of Management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation

Tax legislation and regulations of Republic of Kazakhstan are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at 20% per annum. As a result, penalties and interest can amount to multiples of any unreported taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with the Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2006. As at December 31, 2006 management believes that its interpretations of the relevant legislation is appropriate and that it is probable that the Company's tax position will be sustained.

Contractual Commitments and Guarantees

As at December 31, 2006 and 2005 the Group had contractual commitments for the purchase of premises and equipment from the third parties for US\$ 946 thousand and US\$ 1,202 thousand, respectively.

18. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise long-term loans, cash and deposits with banks. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk and interest rate risk. The Group reviews and agrees policies for managing this risk and it is summarised below. The Group also monitors the market price risk arising from all financial instruments.

Credit Risk

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. Therefore, the Group does not expect to incur material credit losses on its financial instruments.

During the year, concentrations of credit risk with respect to accounts receivable are significant due to the fact that the major share of revenue (58% and 68% in 2006 and 2005, respectively) came from one main customer. Concentration of credit risk is disclosed in Note 8. The Group places its cash with high credit quality Kazakhstani financial institutions.

Foreign Exchange Risk

The Group has a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities (see Notes 8, 9, 10 and 12, 15) give rise to foreign exchange exposure.

Foreign Exchange Risk (continued)

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is naturally hedged from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

CHAGALA GROUP LIMITED

Notes to the Consolidated Financial Statements For the year ended December 31, 2006

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. Information on the fixed and floating rate loans are disclosed in Note 12. The Group has no significant interest-bearing assets.

Net Fair Values of Financial Instruments

The fair values of the Group's cash and cash equivalents, financial assets and liabilities, other than long-term borrowings are considered to be equal to their carrying values. Adequate allowances are made in respect of accounts receivable.

The estimated fair value of long-term borrowings, including the current portion, at December 31, 2006 was US\$ 35,552 thousand (2005: US\$ 26,944 thousand).

19. SUBSEQUENT EVENTS

On February 27, 2007 the Company successfully floated 57.9% of its ordinary shares on the London Stock Exchange and received US\$ 83,117 thousand. The Company used a portion of these proceeds to repay loans that were outstanding at December 31, 2006 of \$41,850 thousand.

In January 2007 the Company acquired 100% of the issued capital of Fial Securities Market Inc ("Fial") for US\$ 3,000 thousand from Caspian Services Inc. Fial owns the remaining 50% of the chartered capital of Bautino Development Company LLP not already owned by the Group. Bautino Development Company LLP owns the Chagala Hotel, Bautino.

On January 15, 2007 Chagala Group Ltd acquired 100 percent of the issued capital of Darma Trading Limited ("Darma") from Neymar Finance Limited, for a purchase price of US\$ 1,500 thousand. Darma owns the remaining 50 percent of the chartered capital of Bautino Land Development LLP not already owned by the Group. Bautino Land Development LLP owns 4.8 hectares of land in Bautino, Kazakhstan where the Group intends to build the Bautino residential commercial park.

From January 1, 2007 Chagala Group Ltd decided to merge Chagala Hotels, LLP Atyrau Properties and LLP Atyrau Land Development to Caspi Ltd; and increase the charter capital of Caspi Ltd to US\$ 558 thousand.

In January 2007, the Company has granted approximately 177,000 stock options to several employees and related parties. These stock options are exercisable ratably over three years at the initial public offering offer price of \$9.75 per share