

## Introduction

The Group has published its reviewed financial results for the 6 month of the year 2007 ended 30 June 2007 and the operating results and management discussion follow hereunder.

### 1. Operating results

#### 1.1 Operating revenue and profit

The following table represents our operating results for the period ended 30 June 2007 and 2006:

*In thousands of US Dollars*

	<u>Period Ended</u> <u>30-Jun-07</u>	<u>Period Ended</u> <u>30-Jun-06</u>	<u>% Change</u>
Room and rent revenue	7,635	7,097	7.58%
Food and beverages revenue	2,347	2,086	12.51%
<b>TOTAL REVENUE</b>	<b><u>9,982</u></b>	<b><u>9,183</u></b>	<b>8.70%</b>
Cost of room and rent revenue	(1,515)	(1,175)	28.94%
Cost of food and beverage	(1,048)	(998)	5.01%
Salaries and employee benefits	(3,846)	(2,095)	83.58%
General and administrative expenses	(1,937)	(2,012)	-3.73%
Repair and refurbishment expenses	(158)	(122)	29.51%
Other Income / (expenses)	258	7	3585.71%
<b>Operating profit</b>	<b><u>1,736</u></b>	<b><u>2,788</u></b>	<b><u>-37.73%</u></b>
Depreciation	(1,138)	(1,013)	12.34%
Finance revenue	1,195	-	
Finance costs	(1,828)	(1,332)	37.24%
NET Foreign exchange translation gain/(loss)	338	3,179	-89.37%
<b>NET PROFIT before income tax</b>	<b><u>303</u></b>	<b><u>3,622</u></b>	<b><u>-91.63%</u></b>
Income tax benefit / (expense)	(41)	(1,307)	-96.86%
<b>NET PROFIT for the period</b>	<b><u>262</u></b>	<b><u>2,315</u></b>	<b><u>-88.68%</u></b>

#### 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.

### 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, taxes and other benefits. This was not historically broken down according to work function or category.

d) *General and administration expenses*

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

e) *Repair and refurbishment expenses*

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

f) *Other Income / (Expenses)*

This line reflects these items which cannot be included in the lines listed above.

g) *Depreciation*

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

h) *Finance revenue, Finance costs*

This includes interests from bank deposits on revenue side and bank charges and interest expenses on the cost side.

i) *NET Foreign exchange translation gains and losses*

This includes gains and losses, both realized and unrealized on our foreign exchange exposure including on foreign currency loans, deposits, payables and receivables accounts.

## **2. Comments on the period ended 30 June 2007 compared to 30 June 2006**

During this period our revenue increased by 8.70%.

### **2.1 Comments on Room and rent revenue**

#### *a) Room and rent revenue*

Room and rent revenue increased by US\$ 538 thousands (an increase of 7.58%, in comparison to the same period of the preceding year) as a result of:

- an increase in occupancy levels in Chagala Hotel Uralsk and Chagala Hotel Bautino.

#### *b) Food and Beverage Revenue*

The increase of US\$ 261 thousands represents an increase of 12.51% as a direct impact of increase of occupancy in Chagala Hotel Uralsk and Chagala Hotel Bautino.

### **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\$ 340 thousands, a 28.94% increase compared to the prior period. The larger increase in costs than in revenue, on a year-on-year basis, was as a result of inflation with direct impact on our purchases but due to the long term contracts our revenues are not inflation linked.

#### *b) Cost of food and beverage revenue*

There was an increase in food and beverage costs from US\$ 998 thousands to US\$ 1,048 thousands representing an increase of 5.01% which is on line with revenue increase.

#### *c) Salaries and employee benefits*

There was a 83.58% increase in this expense between the compared periods in 2007 and 2006. The increase was due to the following reasons:

- new hires – specialists in construction for new projects start and follow-up – total impact of US\$ 151 thousands;
- new hires – in finance in order to fulfil all the obligations rising from IPO, total impact of US\$ 90 thousands;
- new hires – additional staff for the new operations, total impact of US\$ 502 thousands;
- change in expatriates' remuneration package – in 2006 reported as marketing – the total impact of US\$ 459 thousands;
- salaries increases – local staff, total impact of US\$ 253 thousands;
- Chagala Zere Mall – investment in subsidiary of 50.1% of shares, the total impact is US\$ 88 thousands;
- In addition, we have an additional expense of US\$ 208 thousands relating to the grant of options to some of our directors and senior management on listing.

IFRS requires us to calculate the fair value of the cost of granting those options on the date of grant and then accrue the expense over the vesting period of the options.

The recognized method of valuing options is the system known as Black Scholes, which requires tracking the volatility of the underlying shares.

d) *General and administrative expenses*

There was a small decrease in general and administration expenses from US\$ 2,012 thousands in June 2006 to US\$ 1,937k in June 2007. The major differences were as follows:

<u>total diff. USD thousands</u>		
Audit	109	provision for 6m 2007 audit fee
Non-tax deductions	101	foreigners expenses as food, tickets, visas, Guest house rent
Legal services	95	payment to legal Co as Caspian Commercial center (\$56k),
FA write off	74	
Property tax	53	property tax
Electricity	53	electricity costs
Chagala BVI	48	payments to LSE, ATK, Harneys, Lovells
Technical services	39	engineering and technical works in Atyrau
Other taxes in Zere Mall	42	payment 14% tax for non-resident in Ch Zere Mall
Other expenses	135	writing off related parties indebtedness as per IFRS
<b>INCREASES TOTAL</b>	<b>750</b>	
Marketing	(459)	decrease in Marketing fee (expat's salaries)
Navision expenses	(244)	no Navision expenses in 2007
Doubtful liabilities	(112)	there were no doubtful liabilities expenses in 2007
Others	(10)	
<b>DECREASES TOTAL</b>	<b>(825)</b>	
<b>Diff TOTAL</b>	<b>(75)</b>	

e) *Repair and refurbishment expenses*

There is a slight increase in these expenses by US\$ 36 thousands due to a number of projects undertaken being capitalised and not expensed as maintenance costs.

f) *Other Income*

This amount consists of US\$ 258 thousands charged to Atyraunefemsh as the penalty.

g) *Depreciation*

Depreciation as at 30 June 2007 was US\$ 1,138 thousands compared to US\$ 1,013 thousands as at 30 June 2006, an increase of US\$ 125 thousands. This increase was due the CAPEX approved for Q1, Q2 2007.

h) *Finance revenue and costs*

Finance revenue of the company for the period ended June 30, 2007 consists of interests from following items:

- US\$ 420 thousands Citigroup depository bonus received as the result of IPO;
- US\$ 620 thousands Interest on CGL deposits;
- US\$ 21 thousands Interest on KKB and KIB deposits;
- US\$ 134 thousands – fair value of the AGIP loan adjustment.

Our debt as at 30 June 2007 was US\$ 4,609 thousands (US\$ 3,191 thousands - KKB loan, US\$ 1,418 thousands – AGIP) compared to US\$ 29,317 thousands as at 30 June 2006. The part of additionally paid-in capital as the result of the IPO was utilized to service our debts with KKB US\$ 42,537 thousands, with BANT US\$ 910 thousands, with IFC US\$ 1,073 thousands and Caspian Services Group US\$ 1,231 thousands. The debts were serviced by the end of April 2007, the impact of debts' settlement will be visible in second half of the year 2007.

The increase in Finance costs is due to the following reasons:

- increase in interest expense to non-residents due to the accrued 15% withholding tax (US\$180 thousands),
- penalties for the earlier IFC and KKB loans settlements and untimely payment to the BANT (US\$ 140 thousands),
- increase in bank charges due to the Group bank transactions by US\$ 176 thousands.

i) *Foreign exchange translation gains and losses*

In the period ended June 30, 2007, the Group experienced a foreign exchange NET gain of US\$ 338k compared to the amount of US\$ 3,179 thousands as per June 30, 2006 . During this period, the Tenge had appreciated against the Dollar starting the year at KZT 127.00 to US\$ and closing the period at KZT 122.31 to US\$, approximately a 3.7% appreciation. This results in both realized and unrealized gain relating to the dollar loans held by the Group and adjusted for IFRS purposes as at the balance sheet date as well as the loss related to the deposits held in USD and gain or loss related to commercial transactions with customers and suppliers denominated in foreign currencies.

j) *Net profit before income tax*

Profit before tax decreased by 91.63% between June 2007 and June 2006. The decrease in profit was primarily due to the decrease of foreign exchange gains as explained in part 2.2 j) above, the other reasons were increase of the Salaries and employee benefits as described in part 2.2 c) above, the increase in Finance Costs as discussed in part 2.2 h) above, partially compensated by increase of Other income as discussed in part 2.2 f) above and Finance revenue as discussed in the part 2.2 h) above.

### **3. Recent events**

3.1 Since 30 June 2007, we have undertaken the following:

a) *Chagala Hotel, Bautino*

Construction of the 50 room extension to the hotel commenced in August 2007, the project is scheduled for completion in Q2 2008.

b) *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 31,777 thousands for the 6 month of 2007. ANM agreed to vacate the **site** by the end of 2007.

c) *Aktau.*

On the 8<sup>th</sup> June 2007, we acquired 3.2 hectares of land in the industrial zone for the development of 2x2000m<sup>3</sup> warehouses. We are in negotiations with 2 oilfield supply companies who require such facilities, and we hope to finalise the lease agreements before the end of the year, enabling us to start construction during Q1 of 2008.

d) *Atyrau.*

On the 7<sup>th</sup> August we acquired 30 hectares of land, with an option on an additional 15 hectares, some 15 minutes from the city centre. We intend to hold this land for future development as the city expands to the North. Presently the land is zoned as agricultural and we are in the process of re-zoning to residential, we expect this process to take upward of 12 months.

e) *Atyrau.*

To complete the land plot required for our 8 hectare multi-use development in the centre of Atyrau, we acquired the final 0.8 hectare plot on the 12<sup>th</sup> September 2007.

- f) Atyrau.  
In the mid October we opened the recently refurbished restaurant/nightclub La Cabana giving us now 5 food and beverage outlets in the complex.
- g) Atyrau.  
In June we were successful in extending our catering and cleaning contract with Agip KCO at their 250 pax training centre on the outskirts of the city.
- h) Bautino.  
Due to strong demand, we have decided to develop our Residential and Commercial Park in one go as opposed to our previous plan of the 3 phases. We are now reconfiguring the site layout and will start ground works before the end of the year aiming for completion during Q3 of 2008.
- i) Kazakhstan Liquidity.  
Due to the world wide issues surrounding the sub-prime lending market in the US, Kazakh banks are experiencing a liquidity problem and are drastically cutting back on project financing, especially in the real estate sector. In general terms they are not extending any credit for new projects, are restricting cash calls on existing projects and have hiked the interest rates up 15-17%. In July of this year we entered into detailed discussions with 2 International banks and 1 multilateral bank. We have received 2 term sheets, one for our own pipeline and one for CZM; both term sheets offer very competitive conditions compared to local banks and are presently in the process of finalising them.

#### 4. Liquidity and capital resources

##### 4.1 Liquidity

The Group's primary source of liquidity consisted at 30 June 2007 of net cash provided by its financing activities and its operating activities. Subsequently the Group has raised US\$ 83 m 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 30 June 2007 and 2006.

<i>In thousands of US\$</i>	Period Ended	
	30 June 2007	30 June 2006
Net cash (used in)/from operating activities. . . . .	356	1,886
Net cash used in investing activities. . . . .	(11,636)	(2,197)
Net cash from financing activities. . . . .	41,461	907

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

In the period ended 30 June 2007, net cash from operating activities decreased by US\$ 1,530 thousands compared to the period ended 30 June 2006. 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 period ended 30 June 2007, net cash used in investing activities increased by US\$ 9,439 thousands compared with the period ended 30 June 2006. This increase was primarily due to increases in the development of property, purchase of land and associated purchase of plant as well as acquisition of stakes in Bautino Land Development, Bautino Development Company and Chagala Zere Mall.

c) *Net cash from financing activities*

In the period ended 30 June 2007, net cash from financing activities increased by US\$ 40,554 thousands compared with the period ended 30 June 2006. This was primarily due to the decrease in long terms loans and the receipt of the financial resources from IPO.

**4.2 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 30 June 2007, trade and other accounts payable had decreased significantly compared to 31 December 2006, primarily due to the post IPO settlements with majority of the suppliers.

**4.3 Capital resources**

a) *Capital commitments*

As at 30 June 2007, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately US\$ 1,822 thousands.

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 30 June 2007 and 31 December 2006:

Short-term loans and accrued interest <sup>1</sup> . . . . .	1,201	16,516
Long-term loans . . . . .	3,408	24,606
<b>Total debt</b> . . . . .	<b>4,609</b>	<b>41,122</b>

<sup>1</sup> 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 30 June 2007, the current portion of long-term loans amounted to 1,163k USD and accrued interest amounted to 38k USD.

d) *Long-term loans*

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 and minor part of the KKB debt outstanding.

**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\$ 174,500 thousands, out of which the Group has already invested US\$ 16,200 thousand. In addition through Chagala Zere Malls will be investing approximately US\$ 83,000 thousands for the first two of its projects of which US\$ 5,200 thousand has already been invested.

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.

## **5. 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.

Tax legislation and regulations of the 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. 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 June 30, 2007.

These risks are discussed in greater detail below.

### **6.1 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. The majority of interest rates on long-term borrowings are fixed. The Group has no significant interest-bearing assets.

### **6.2 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.

Concentrations of credit risk with respect to accounts receivable are significant due to the fact that the majority of revenue came from one main customer, Agip KCO. The Group places its cash with high credit quality Kazakhstani financial institutions.

### **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.

## **SHAREHOLDERS**

Details of our shareholders are as at today as follows:

1. Citibank NA: 49,220,000
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 ) **7, 973,936** Shares
4. BANT Trading Limited: 8, 044,852 Shares

## **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..

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

TIM ABSON  
CHIEF EXECUTIVE OFFICER