

CHAGALA GROUP LIMITED

Unaudited Interim Condensed
Consolidated Financial Statements

For the six months period ended June 30, 2007

CHAGALA GROUP LIMITED

CONTENTS

| | Pages |
|---|--------------|
| Report on Review of Interim Condensed Consolidated Financial Statements | |
| Unaudited Interim Condensed Consolidated Financial Statements | |
| Interim Condensed Consolidated Balance Sheet | 1 |
| Interim Condensed Consolidated Statement of Income..... | 2 |
| Interim Condensed Consolidated Statement of Cash Flows..... | 3 |
| Interim Condensed Consolidated Statement of Changes in Equity | 4 |
| Notes to the Unaudited Interim Condensed Consolidated Financial Statements..... | 5-11 |

Report on Review of Interim Condensed Consolidated Financial Statements

To the shareholders of Chagala Group Limited

Introduction

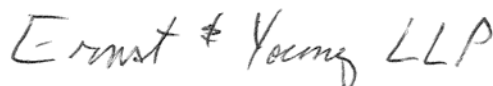
We have reviewed the accompanying interim condensed consolidated balance sheet of Chagala Group Limited and its subsidiaries as of June 30, 2007 and the related interim condensed consolidated statement of income, changes in equity and cash flow for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34.



October 31, 2007

CHAGALA GROUP LIMITED

Interim Condensed Consolidated Balance Sheet

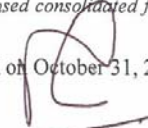
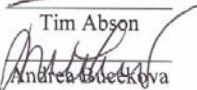
| <i>In thousands of US Dollars</i> | Note | June 30, 2007 (unaudited) | December 31, 2006 |
|--|------|------------------------------|-------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Premises and equipment | 6 | 113,234 | 80,836 |
| Goodwill | | 3,901 | 320 |
| Other non-current assets | | 411 | 424 |
| Restricted cash | | 31 | 27 |
| | | 117,577 | 81,607 |
| Current Assets | | | |
| Inventories | | 1,116 | 1,206 |
| Prepayments and other receivables | 8 | 4,887 | 6,994 |
| Due from related parties | 5 | 855 | 752 |
| Trade accounts receivable | 7 | 3,702 | 1,943 |
| Cash and cash equivalents | 9 | 32,201 | 1,652 |
| | | 42,761 | 12,547 |
| Total Assets | | 160,338 | 94,154 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | | 5,939 | 4,903 |
| Additional paid-in capital | | 81,962 | 2,444 |
| Retained earnings | | 6,836 | 6,262 |
| Revaluation reserve | | 34,506 | 18,519 |
| Other reserves | | 208 | - |
| Foreign currency translation reserve | | 2,095 | 937 |
| | | 131,546 | 33,065 |
| Minority interests | | 2,985 | 1,018 |
| Total Equity | | 134,531 | 34,083 |
| Non-Current Liabilities | | | |
| Long-term borrowings | 10 | 3,408 | 24,606 |
| Deferred taxes | | 16,800 | 10,019 |
| | | 20,208 | 34,625 |
| Current Liabilities | | | |
| Long-term borrowings | 10 | 1,201 | 16,516 |
| Other payables and accruals | | 996 | 668 |
| Taxes payable | | 1,247 | 723 |
| Due to related parties | 5 | 512 | 3,116 |
| Trade accounts payable | | 1,643 | 4,423 |
| | | 5,599 | 25,446 |
| Total Liabilities | | 25,807 | 60,071 |
| Total Equity and Liabilities | | 160,338 | 94,154 |

The accompanying notes on pages 5 through 11 form an integral part of these unaudited interim condensed consolidated financial statements.

Signed and authorized for release on behalf of the Board of Directors of Chagala Group Limited on October 31, 2007.

Chief Executive Officer

Chief Financial Officer


 Tim Abson

 Andrea Boeckova

CHAGALA GROUP LIMITED

**Interim Condensed Consolidated Statement of Income
For the six months ended June 30, 2007**

| <i>In thousands of US Dollars</i> | Note | Six months ended June 30 | |
|---|-------------|---------------------------------|-----------------------------|
| | | 2007 (unaudited) | 2006 (unaudited) |
| Room and rent revenue | | 7,635 | 7,097 |
| Food and beverages revenue | | 2,347 | 2,086 |
| Total revenue | | 9,982 | 9,183 |
| Salaries and employee benefits | | (3,846) | (2,095) |
| General and administrative expenses | | (1,937) | (2,012) |
| Room utilities, cleaning and maintenance | | (1,515) | (1,175) |
| Depreciation | | (1,138) | (1,013) |
| Food and beverages | | (1,048) | (998) |
| Repair and refurbishment | | (158) | (122) |
| Other income | | 258 | 7 |
| Operating profit | | 598 | 1,775 |
| Finance revenue | | 1,195 | - |
| Finance cost | | (1,828) | (1,332) |
| Net foreign currency translation gains | | 338 | 3,179 |
| Profit before tax | | 303 | 3,622 |
| Income tax expense | 11 | (41) | (1,307) |
| Net profit for the period | | 262 | 2,315 |
| Attributable to: | | | |
| Equity holders of the parent | | 334 | 1,987 |
| Minority interests | | (72) | 328 |
| Earnings per share (in US Dollars) | | | |
| - basic and diluted, for profit for the period attributable to equity holders of the parent | | 0.004 | 0.04 |

The accompanying notes on pages 5 through 11 form an integral part of these unaudited interim condensed consolidated financial statements.

CHAGALA GROUP LIMITED
Interim Condensed Consolidated Statement of Cash Flows
For the six months ended June 30, 2007

| <i>In thousands of US Dollars</i> | Note | Six months ended June 30 | |
|---|----------|--------------------------|---------------------|
| | | 2007 (unaudited) | 2006 (unaudited) |
| Cash flows from operating activities | | | |
| Profit before tax | | 303 | 3,622 |
| Adjustments for: | | | |
| Depreciation | | 1,138 | 1,013 |
| Unrealized foreign exchange (gain) | | (1,050) | (3,082) |
| Finance revenue | | (1,195) | - |
| Finance cost | | 1,828 | 1,320 |
| Share-based payments | | 208 | - |
| Bad debt expense and write-offs | | 29 | 9 |
| Gain from disposal of premises and equipment | | - | 118 |
| Cash from operations before working capital changes | | 1,261 | 3,000 |
| Decrease in inventories | | 202 | 214 |
| (Increase)/decrease in prepayments and other receivables | | 296 | 148 |
| (Increase)/decrease in amounts due from related parties | | (32) | 153 |
| Increase in trade accounts receivable | | (1,566) | (179) |
| (Decrease)/increase in accounts payable | | (2,362) | 1,675 |
| Increase/(decrease) in amounts due to related parties | | 4,560 | (156) |
| (Decrease)/increase in other payables and accruals | | (93) | 103 |
| Cash flows from operating activities | | 2,266 | 4,958 |
| Interest paid | | (1,804) | (1,511) |
| Income tax paid | | (106) | (1,561) |
| Net cash flows from operating activities | | 356 | 1,886 |
| Cash flows from investing activities | | | |
| Purchases of premises and equipment | | (4,064) | (2,669) |
| Acquisition of subsidiaries | | (7,572) | - |
| Proceeds from disposal of premises and equipment | | - | 472 |
| Net cash used in investing activities | | (11,636) | (2,197) |
| Cash flows from financing activities | | | |
| Repayment of long-term borrowings | | (42,082) | (2,298) |
| Proceeds from long-term borrowings | | 2,989 | 3,205 |
| Proceeds from initial public offering | | 80,554 | - |
| Net cash from financing activities | | 41,461 | 907 |
| Net increase in cash and cash equivalents | | 30,181 | 596 |
| Effect of exchange rate changes on cash and cash equivalents | | 368 | 78 |
| Cash and cash equivalents at the beginning of the period | | 1,652 | 284 |
| Cash and cash equivalents at the end of the period | 9 | 32,201 | 958 |

The accompanying notes on pages 5 through 11 form an integral part of these unaudited interim condensed consolidated financial statements.

CHAGALA GROUP LIMITED

**Interim Condensed Consolidated Statement of Changes In Equity
For the six months ended June 30, 2007**

| <i>In thousands of US Dollars</i> | Attributable to equity holders of the parent | | | | | | | Minority interest | Total Equity |
|---|--|----------------------------|---------------------|--------------------------------------|-----------------------------|----------------|----------------|-------------------|----------------|
| | Share Capital | Additional paid in capital | Revaluation Reserve | Foreign Currency Translation Reserve | Retained Earnings (Deficit) | Other reserves | Total | | |
| As at January 1, 2007 | 4,903 | 2,444 | 18,519 | 937 | 6,262 | - | 33,065 | 1,018 | 34,083 |
| Foreign currency translation | - | - | 710 | 1,158 | 240 | - | 2,108 | 39 | 2,147 |
| Acquisition of minority interests | - | - | - | - | - | - | - | (1,057) | (1,057) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | 3,057 | 3,057 |
| Premises and equipment revaluation | - | - | 21,824 | - | - | - | 21,824 | - | 21,824 |
| Deferred tax effect on premises and equipment revaluation | - | - | (6,547) | - | - | - | (6,547) | - | (6,547) |
| Total income and expense for the six month period recognised directly in equity | - | - | 15,987 | 1,158 | 240 | - | 17,385 | 2,039 | 19,424 |
| Net profit for the period | - | - | - | - | 334 | - | 334 | (72) | 262 |
| Total income and expense for the six month period | - | - | 15,987 | 1,158 | 574 | - | 17,719 | 1,967 | 19,686 |
| Issue of share capital | 1,036 | 79,518 | - | - | - | - | 80,554 | - | 80,554 |
| Share-based payments | - | - | - | - | - | 208 | 208 | - | 208 |
| As at June 30, 2007 – Unaudited | 5,939 | 81,962 | 34,506 | 2,095 | 6,836 | 208 | 131,546 | 2,985 | 134,531 |
| As at January 1, 2006 | 4,903 | 2,444 | 15,629 | 476 | 3,727 | - | 27,179 | 2,891 | 30,070 |
| Foreign currency translation | - | - | 1,094 | 2,448 | 261 | - | 3,803 | 202 | 4,005 |
| Premises and equipment revaluation | - | - | 1,113 | - | - | - | 1,113 | 47 | 1,160 |
| Deferred tax effect on premises and equipment revaluation | - | - | (334) | - | - | - | (334) | (14) | (348) |
| Total income and expense for the six month period recognised directly in equity | - | - | 1,873 | 2,448 | 261 | - | 4,582 | 235 | 4,817 |
| Net profit for the period | - | - | - | - | 1,986 | - | 1,986 | 328 | 2,314 |
| Total income and expense for the six month period | - | - | 1,873 | 2,448 | 2,247 | - | 6,568 | 563 | 7,131 |
| As at June 30, 2006 – Unaudited | 4,903 | 2,444 | 17,502 | 2,924 | 5,974 | - | 33,747 | 3,454 | 37,201 |

The accompanying notes on pages 5 through 11 form an integral part of these unaudited interim condensed consolidated financial statements.

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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 group of companies based in the Republic of Kazakhstan.

The principal activities of the Company consist of (i) ownership and management of hotels, serviced apartments and office accommodations and (ii) restaurant operations.

On February 27, 2007 the Company listed its Global Depository Receipts (“GDRs”), each representing four ordinary shares, through an initial public offering (“IPO”) on the London Stock Exchange, and successfully floated 57.9% of its ordinary shares.

The Company is owned by the following entities and individuals:

| <u>Shareholder</u> | <u>Percentage Ownership</u> |
|---|-----------------------------|
| Free float | 57.9% |
| Ms. Kathleen Lootens (Belgium) and Mr. Timothy Abson (UK) | 14.0% |
| Mr. Javier del Ser (Spain) | 9.4% |
| Mr. Berik Amanbayev (Kazakhstan) | 7.8% |
| Mr. Azmi Wan Ham Zah (Malaysia) | 4.6% |
| Mr. Anatoly Mizikovskiy (USA) | 4.5% |
| Mr. Sagat Tugelbayev (Kazakhstan) | 0.9% |
| Mr. Mark Andrew Lockwood | 0.8% |
| Kingsgrove Industries Limited | 0.1% |

The Company’s registered address is c/o Offshore Incorporations Limited, PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Company and its subsidiaries operate in the Republic of Kazakhstan.

Consolidated subsidiaries and the share of voting interest held by the Parent as at June 30, 2007 and December 31, 2006, are as follows:

| <u>Subsidiary</u> | <u>Percentage Ownership</u> | |
|---------------------------------|-----------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Bayan Limited LLP | 100% | 100% |
| Caspi Limited LLP | 100% | 100% |
| Bautino Development Company LLP | 100% | 50% |
| Bautino Land Development LLP | 100% | 50% |
| Bautino Properties LLP | 100% | 100% |
| Chagala Management LLP | 100% | 100% |
| Chagala Construction LLP | 100% | 100% |
| Aktau Development LLP | 100% | 100% |
| Chagala Zere Mall | 50.1% | - |

On June 28, 2007, the Company acquired 50.1% of Chagala Zere Mall. The provisional fair value of the identifiable assets and liabilities of Chagala Zere Mall as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

| <i>In thousands of US Dollars</i> | Provisional fair value as at June 28, | |
|--|--|---------|
| | 2007 | |
| Premises and equipment | | 3,307 |
| Other assets | | 3,276 |
| Cash and cash equivalents | | 5 |
| Other creditors | | (613) |
| Net assets | | 5,975 |
| Less minority interest | | (2,985) |
| Net assets less minority interest | | 2,990 |
| Purchase consideration paid in cash | | 3,072 |
| Excess of share in the net fair value of the identifiable assets and liabilities over consideration paid | | 82 |

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

1. CORPORATE INFORMATION (continued)

Minority Interest in Bautino Development Company LLP

On January 15, 2007, the Company acquired the remaining fifty percent of Bautino Development Company for cash consideration of US\$ 3,000 thousand, thus gaining 100% ownership of the subsidiary. The book value of the net assets of Bautino Development Company LLP at this date was US\$ 2,217 thousand, and the book value of the additional interest acquired was US\$ 1,108 thousand. The difference of US\$ 1,892 thousand between the consideration and the book value of the interest acquired, has been recognised as goodwill, which was adjusted to reflect exchange rate changes amounting to US\$ 61 thousand, and totaled US\$ 1,953 thousand as at June 30, 2007.

Minority Interest in Bautino Land Development LLP

On January 15, 2007, the Company acquired the remaining fifty percent of Bautino Land Development LLP, thus gaining 100% ownership in the subsidiary. Cash consideration of US\$ 1,500 thousand was paid. The book value of the net assets of Bautino Land Development LLP at this date was US\$ 13 thousand, and the book value of the additional interest acquired was US\$ 6 thousand. The difference of US\$ 1,494 thousand between the consideration and the book value of the interest acquired, has been recognised as goodwill, which was adjusted to reflect exchange rate changes amounting to US\$ 52 thousand, and totaled US\$ 1,546 thousand as at June 30, 2007.

Share-based payment plans

On January 2007, the Company has granted options to its senior management and directors, under share-based payment plans, which will be exercisable as one-third on the first anniversary of the date of grant, one-third at the second anniversary of the date of grant and one-third on the third anniversary of the date of grant. These options will lapse on the fourth anniversary of the date of grant. There are no cash settlement alternatives.

The fair value of the options amounting to US\$ 208 thousand is estimated using the Black-Scholes-Merton pricing model, taking into account the terms and conditions upon which the instruments were granted.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended June 30, 2007 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in preparation of this condensed interim financial information are consistent with those applied in preparation of the annual financial statements for the year ended December 31, 2006.

New accounting developments:

- IFRS 7 "Financial Instruments: Disclosures" and a Complementary Amendment to IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures", are effective for annual periods beginning on or after January 1, 2007;
- IFRS 8 "Operating Segments", is effective for annual periods beginning on or after January 1, 2009;
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 7 "Applying the Restatement Approach under IAS 29", is effective for annual periods beginning on or after March 1, 2006;
- IFRIC 8 "Scope of IFRS 2", is effective for annual periods beginning on or after May 1, 2006;
- IFRIC 9 "Reassessment of Embedded Derivatives", is effective for annual periods beginning on or after June 1, 2006;
- IFRIC 10 "Interim Financial Reporting and Impairment", is effective for annual periods beginning on or after November 1, 2006;
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions", is effective for annual periods beginning on or after March 1, 2007;

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRIC 12 “Service Concession Arrangements”
- IFRIC 13 “Customer Loyalty Programmes”
- IFRIC 14 “IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”;

The Company expects that the adoption of the pronouncements listed above have or will have no material impact on the Company’s results of operations and financial position, except that the adoption of IFRS 7 and amendment to IAS 1 will result in additional disclosures, including sensitivity analysis for market risks and capital management disclosures.

4. SEGMENT INFORMATION

The Company’s primary reporting format is business segments. Since the Company operates only in Kazakhstan there is no other geographical 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.

Business Segments

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

In thousands of USD

| Six months ended June 30, 2007 (unaudited) | Room and rent | Food and beverages | Eliminations | Total operations |
|---|----------------------|---------------------------|---------------------|-------------------------|
| Revenue | | | | |
| Sales to external customers | 5,695 | 1,734 | 2,553 | 9,982 |
| Inter-segment sales | 1,940 | 613 | (2,553) | - |
| Total revenue | 7,635 | 2,347 | - | 9,982 |
| Results | | | | |
| Segment results | 3,092 | 976 | | 4,068 |
| Unallocated expenses | | | | (1,937) |
| Finance cost | | | | (1,828) |
| Profit before tax and minority interest | | | | 303 |
| Income tax expense | | | | (41) |
| Profit for the six month ended June 30, 2007 (unaudited) | | | | 262 |
| Six months ended June 30, 2006 (unaudited) | | | | |
| Revenue | | | | |
| Sales to external customers | 4,697 | 1,377 | 3,109 | 9,183 |
| Inter-segment sales | 2,400 | 709 | (3,109) | - |
| Total revenue | 7,097 | 2,086 | - | 9,183 |
| Results | | | | |
| Segment results | 5,364 | 1,602 | | 6,966 |
| Unallocated expenses | | | | (2,012) |
| Finance cost | | | | (1,332) |
| Profit before tax and minority interest | | | | 3,622 |
| Income tax expense | | | | (1,307) |
| Profit for the six month ended June 30, 2006 (unaudited) | | | | 2,315 |

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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. The Company provides a 30% discount on hotel services to related parties.

During the period ended June 30, 2007 the Company entered into transactions with related parties. Those transactions along with related balances at June 30, 2007 and for the period then ended are presented in the following table:

| | At June 30, 2007 (unaudited) | At December 31, 2006 |
|---|---------------------------------|----------------------|
| Balance sheet | | |
| Shareholders | | |
| Amounts due from shareholders | 2 | 1,947 |
| Less loan from B.A.N.T. Trading Limited included in Note 10 | - | (858) |
| Amounts due to shareholders, including loans | 16 | - |
| Other entities under common control | | |
| Amounts due from related parties, including loans | 853 | 752 |
| Amounts due to related parties, including loans | 496 | 2,027 |
| Statement of income | | |
| Shareholders | | |
| Sales to related parties | - | - |
| Purchases from related parties | 110 | 476 |
| Finance cost | - | 37 |
| Other entities under common control | | |
| Sales to related parties | 43 | 49 |
| Purchases from related parties | 31 | 476 |
| Key Management Personnel | | |
| Remuneration and compensation paid | 201 | 66 |
| Bonuses and other benefits paid | 81 | 16 |
| Loans and advances | 5 | 55 |

Key management personnel comprised members of the Management Board and Board of Directors of the Company, totalling five persons as at June 30, 2007 and 2006.

6. PREMISES AND EQUIPMENT

For the six-month period ended June 30, 2007 management have internally made an assessment of the change in land values based on their knowledge of the current market trends, which resulted in an increase of US\$ 21,800 thousand during the six-months period ended June 30, 2007 (June 30, 2006: US\$ 1,146 thousand). The carrying value of buildings did not change significantly during the same period.

The revaluation increase of US\$ 21,800 thousand was recognised directly in the statement of changes in shareholders' equity along with the related deferred tax liability of US\$ 6,547 thousand.

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

6. PREMISES AND EQUIPMENT (continued)

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

In thousands of US \$

| At June 30, 2007 (unaudited) | Land | Buildings | Furniture and Equipment | Capital Work in Progress | Total |
|-------------------------------------|---------------|------------------|--------------------------------|---------------------------------|---------------|
| At cost | 12,153 | 38,973 | 12,191 | 9,722 | 73,039 |
| Accumulated depreciation | - | (5,634) | (4,661) | - | (10,295) |
| Net carrying amount | 12,153 | 33,339 | 7,530 | 9,722 | 62,744 |

| At December 31, 2006 | Land | Buildings | Furniture and Equipment | Capital Work in Progress | Total |
|-----------------------------|--------------|------------------|--------------------------------|---------------------------------|---------------|
| At cost | 4,626 | 31,825 | 11,203 | 14,449 | 62,103 |
| Accumulated depreciation | - | (4,185) | (3,859) | - | (8,044) |
| Net carrying amount | 4,626 | 27,640 | 7,344 | 14,449 | 54,059 |

7. TRADE ACCOUNTS RECEIVABLE

The Company's trade accounts receivable are denominated in US Dollars. At June 30, 2007 the largest trade debtor, AGIP KCO, accounted for 68% (at December 31, 2006: 78%) of total trade accounts receivable.

8. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables are comprised of the following:

| <i>In thousands of US \$</i> | June 30, 2007 (unaudited) | December 31, 2006 |
|--------------------------------------|----------------------------------|--------------------------|
| VAT recoverable | 2,135 | 1,646 |
| Other receivables | 1,830 | 3,555 |
| Advances paid to contractors | 969 | 1,824 |
| | 4,934 | 7,025 |
| Allowance for bad and doubtful debts | (47) | (31) |
| | 4,887 | 6,994 |

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

| <i>In thousands of US \$</i> | June 30, 2007 (unaudited) | December 31, 2006 |
|--------------------------------|----------------------------------|--------------------------|
| Current accounts in US dollars | 31,525 | 1,232 |
| Current accounts in Tenge | 614 | 351 |
| Cash on hand | 62 | 69 |
| | 32,201 | 1,652 |

CHAGALA GROUP LIMITED

Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

10. LONG-TERM BORROWINGS

Long-term borrowings are comprised of the following:

| <i>In thousands of US \$</i> | June 30, 2007 (unaudited) | December 31, 2006 |
|--|--------------------------------------|------------------------------|
| Kazkommertsbank | 3,191 | 37,355 |
| Agip KCO loan | 1,418 | 1,878 |
| IFC loan | - | 1,031 |
| B.A.N.T loan | - | 858 |
| Total loans | 4,609 | 41,122 |
| Less current portion of long-term borrowings | (1,201) | (16,516) |
| Long-term portion of loans | 3,408 | 24,606 |

Kazkommertsbank

As at June 30, 2007 the Company 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 and were repayable in equal monthly installments of US\$ 1,095 thousand. As at June 30, 2007 the Company repaid US\$ 34,164 thousand ahead of original maturity on loans outstanding as at December 31, 2006. The remaining balance of US\$ 3,191 thousand is due by December 26, 2016. The rate of interest on the loan is 11.5% per annum.

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.

Agip KCO

On February 6, 2004 the Company signed an agreement with Agip KCO to receive non-interest bearing financial assistance of US\$ 1,958 thousand related to the VAT from the contracts with Agip KCO that Caspi Limited LLP and Bautino Development Company 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 and Bautino Development Company LLP recovers from any authority of the Republic of Kazakhstan in respect of this VAT paid. The Group has a verbal agreement with Agip KCO that repayments will be made from Bautino Development Company LLP of US\$10 thousand per month from February 2006 and from Caspi of US\$100 thousand per month from April 2007.

11. INCOME TAX

The major components of income tax expense for the six months period ended:

| | June 30, 2007 (unaudited) | June 30, 2006 (unaudited) |
|--|--------------------------------------|--------------------------------------|
| Income tax expense – current | 191 | 1,184 |
| Deferred tax expense origination and reversal of temporary differences | 6,397 | 457 |
| Less: deferred tax recognised directly in equity | (6,547) | (334) |
| Income tax expense | 41 | 1,307 |

The corporate income tax of the Republic of Kazakhstan is 30%.

12. CONTINGENT COMMITMENTS AND OPERATING RISKS

Business environment

The Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market economy in transition. These characteristics have in the past included higher than normal historical inflation, lack of liquidity in capital markets, and the existence of currency controls, which caused the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Company'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 likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. As of June 30, 2007, the Company does not believe that any material matters exist relating to developing markets and the evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to this interim financial information.

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 Company and which have not been accrued or disclosed in these consolidated financial statements.

Taxation

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. 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 June 30, 2007. As at June 30, 2007 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.

13. SUBSEQUENT EVENTS

Currently the Company is negotiating to obtain a secured loan facility from "Hong-Kong" Bank amounting to approximately US\$ 103,000 thousand at Libor + 4% per annum with maturity in five years commencing from the loan grant date. Loan proceeds are expected to be used for construction of hotels and other residential buildings. Management is expecting proceeds on this loan facility during November 2007.

In October 2007, the Company purchased approximately 3.5 hectares of land within the Atyrau region of Kazakhstan amounting to US\$ 3,000 thousand.

In September 2007 the loan facility from KKB was decreased from US\$ 80,200 thousand to US\$ 28,200 thousand. Any additional drawdowns on this loan facilities will bear interest at 14 %.