17 September 2012

Chagala Group Limited

('Chagala' or 'the Company' or 'the Group')

Interim results for the six months ended 30 June 2012

Chagala Group Limited, the specialist the specialist service and facility provider to the oil and gas industry in Kazakhstan (symbol: CHGG), is pleased to announce its unaudited interim results for the six months ended 30 June 2012.

Financial Highlights:

- Total revenue decreased to $15.37m (HY2011: $19.23m)

- EBITDA decreased to $4.55m (HY2011: $8.15m)

- Operating Profit decreased to $0.46m (HY2011: $4.95m)

- Profit before tax decreased to $(1.38)m (HY 2011 : $4.15m)

- Net Assets of $136.8m, decreased from 31 December 2011 ($139.6m)

- Total Assets of 189.0m, Total Debt of 34.3m

- Property, plant and equipment of $162.9m, increased from 31 December 2011 ($153.4 m)

Operational Highlights:

- Construction of 33 townhouses completed with client taking possession of all units on a three year lease.

- Significantly diversified our customer base in Atyrau resulting in less exposure to delays at the Kashagan project.

- Implemented strict cost control measures across the Group which will yield improved financial results going forward.

Francisco Parrilla, Chief Executive Officer of Chagala, said:

“The Group continues to face challenges in our key markets as delays in several of the large oil and gas projects in the Republic of Kazakhstan continue to linger. Despite these external difficulties, we believe we have the business model and financial strength to cope well with the postponements and can improve our relative market position and are well placed to capitalise on the opportunities that may arise. We continue to invest our expertise and resources in projects that build on and support our business strategy in Kazakhstan as we remain confident in the country’s future development, as it is reflected in our continuous investment in our locations.”

- ends -

The interim report is also available for viewing at www.chagalagroup.com

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Chief Executive Officer's Review

Overview

Chagala continued to deliver steady trading in HY2012 despite facing ongoing uncertainty and delays at the oil and gas projects it is focused on in the Republic of Kazakhstan (RoK). The Group continued to press ahead with new and exciting development projects such as our now fully rented 33 four bedroom townhouses in Atyrau and continue to be well positioned to take advantage of opportunities in our key markets. Delays at the massive Kashagan project, related to approval of the Phase II budget, continue and the impact can be seen everywhere in the city of Atyrau. More positively, since the start of 2012, the Government of the Republic of Kazakhstan and the Karachaganak (KPO) consortium have settled their differences and the way forward is now somewhat clearer. While still in the early days of reconciliation, we expect the project to return to its historical business levels soon. As stressed in our annual report for 2011, Chagala is confident that once the above issues are fully resolved, the Group will see a positive bounce back in business levels.

Our previously announced partnership with ADM Capital has begun to deliver results with new development projects and asset acquisitions well underway at this point. In the near term we expect to be able to release additional information on projects that have been initiated under the terms of the Joint Venture.

Overall occupancies achieved for the Group were: 34% for our Hotel rooms, 34% for serviced apartments and 97% for our office space. Group revenue for HY2012 totalled 15.37 mln USD.

Overall, as discussed in conference calls and prior press releases, until greater clarity returns to the development plans of the major oil and gas projects in the RoK, we see little catalyst for a sudden improvement in our business performance.

Portfolio Activity

Chagala Aksai

The Chagala Aksai property complex is a complex of two-storey buildings (105 rooms and 20 apartments) which is located in the most prestigious district in the central part of the city, on the fenced territory of the so-called "Czech Town", place of residence of the employees of KPO and other petroleum companies.

In 2009, the Government of the RoK expressed an interest in acquiring an equity stake in the Karachaganak (KPO) oil and gas condensate field. KPO has been under development by a consortium of western oil majors since 1997. Under an agreement reached in late 2011, the RoK purchased a 10% stake in the project from the existing consortium shareholders. The major business obstacles as well as the well publicized fines and penalties were dropped as part of the share purchase agreement. The expectation now is that the project will once again focus its efforts on expansion plans and increasing production. The Government of the RoK has also called for the construction of a new gas processing plant to better utilize KPO's gas production for use in northern and central Kazakhstan, particularly the capital city of Astana. This multi-billion dollar project should bring a new wave of business opportunities to Aksai.

Overall occupancy achieved for the Aksai property was only 6% with total revenue being 172.97 thousand USD, however, an increase in demands is expected after commencing operation and construction activities in the Karachaganak field at the end of 2012 or at the beginning of 2013. As mentioned above, now that the new ownership structure is in place, we expect the situation to improve substantially with business volumes returning to historical norms by 2H2013 and thereafter.

Chagala Uralsk

The Chagala Uralsk property complex is a complex which consists of two buildings: Hotel and Apartments buildings. The Hotel building is a two-storey hotel of three-star category for 49 rooms with restaurant, bar and commercial spaces for rent. The Apartments building represents a 5-storey hotel of three-star category build in 2010. The hotel consists of 41 apartments and commercial spaces for rent located in the first floor of the building.

Like our Aksai property, Uralsk is largely dependent upon the needs and business patterns of KPO. Despite the ongoing issues at KPO noted above, Uralsk has performed better than expected. Much of this is due to sales efforts directed at non-traditional sectors of the local market.

Overall occupancy achieved for the Uralsk property was: 48% for Hotel rooms, 39% for serviced apartments and total revenue amounting to 422.05 thousand USD. As with our Aksai property, until such time as KPO returns to normal operating conditions and the work force returns in full, we are not likely to see a return to historical business levels in Uralsk.

Chagala Bautino

The Chagala Bautino property complex is a complex of four-storey three-star hotel with 48 rooms (phase 1), 48 rooms (phase 2) and 51 rooms (phase 3) of varying category. There are also premises for other functional purposes in the building, such as a restaurant, bar, fitness center and a billiard room.

Bautino is the supply and logistics hub for all of the north Caspian Sea projects with Kashagan being the largest and most developed project to date. As a result, our Bautino property is heavily dependent upon the Kashagan project and continued delays in its development have negatively impacted our business volumes.

Overall occupancy achieved for the Bautino property was 48% with total revenue amounting to 1.38 mln USD.

As noted in our introductory remarks, Kashagan's development is experiencing significant delays resulting from disagreements over capital budgets with Phase II (production increasing to 1 million bopd) now being scheduled for 2018/19. This, added to other offshore projects still being in their infancy, means that there is little stimulus for business volumes in Bautino.

Chagala Atyrau

The Chagala Atyrau property complex is a complex of buildings which includes Hotel buildings (76 double and twin hotel rooms with full hotel service), Apartment buildings (351 apartments), Townhouses (33 townhouses) and Office buildings (more than 23,000 m2). It also includes recreation facilities, such as gym, swimming pool, different styles of restaurants (four restaurants and one pub) and bars. The complex is located in the central district of the city and this district is the business center of the city, where the offices of major companies and many bank branches are located.

Our Atyrau property continues to experience the impact of the delays at Kashagan first hand with both hotel and serviced apartments seeing a drop in occupancy as compared to historical norms. However, it should be noted that part of this drop in occupancy level lies in the Ural Building being placed into service in the later part of 2011. This has contributed additional volume to our serviced apartment inventory at a time when demand has been stagnant. Fortunately, our Atyrau property currently has a number of tender submissions under review with clients and a successful outcome in any of these will have an immediate positive impact on our occupancy and revenue performance going forward.

As was previously announced, the Atyrau property added 33 newly constructed four bedroom townhouses to its accommodation inventory earlier this year. NCPOC, the consortium developing the Kashagan project, entered into a lease agreement for all of these units before construction started. The townhouses were well received by NCPOC and Caspi Ltd., the Group's operating company in Atyrau, is now considering additional townhouse inventory for development.

Caspi Ltd., under its JV agreement with ADM Capital, is also in the early design and marketing stages for the construction and sale of residential apartments at the Chagala Atyrau. This first stage of a larger development project consists of 18 two and three bedroom apartments which are slated for completion in 2013.

Overall occupancies achieved for the Atyrau property were: 44% for our Hotel rooms, 33% for serviced apartments and 97% for our office space. Revenue for HY2012 in Atyrau totalled 8.79 mln USD.

Chagala has stated before and continues to strongly believe that once decisions are made with regard to the Phase II budget at Kashagan we will see an increase in transient bookings in the hotel resulting from increased service provider and sub contractor activity. This, in turn, should also lead to increased occupancy in our serviced apartments and any available office space.

Chagala Aktau

The Chagala Aktau property complex includes the building is a seven-storied three-star hotel with 28 rooms and 55 apartments. There are also restaurant, bar, laundry and gym in the building.

Again, as is the situation with Bautino and Atyrau, Aktau continues to be negatively impacted by the delays at Kashagan. However, other projects such as CMOC (Shell/KazMunaigas) and the N Block project (KazMunaiGas/ConocoPhillips/Mubadala) have also revised time frames for development and these changes have also impacted our Aktau property. Despite the challenges provided by the delays noted here, we are pleased that the Aktau property is now a cash positive business thanks to aggressive sales efforts by the local management team.

Overall occupancy achieved for the Aktau property was 23% for Hotel rooms, 27% for serviced apartments with total revenue amounting to 319.7 thousand USD.

As future development plans for the offshore are approved, we expect to see a substantial improvement in traffic through the Aktau property. The multi-national oil companies partnering in these major development projects continue to demonstrate commitment to the region and we remain confident that improvements in traffic levels will come.

Development Update

In terms of development dollars, 2010/2011 saw the Chagala Group push through with the majority of its near term investment plans. Development projects such as the Ural Building and Townhouse project in Atyrau, the aparthotel project in Aktau and the apartment project in Uralsk were all undertaken and successfully brought to completion. Going forward, the Group made the decision to minimize its spend on development projects until such time as demand increased and clarity returned to the large oil and gas projects in western Kazakhstan.

Consequently, current development projects are limited to:

- Atyrau - 18 unit residential apartment building for resale in partnership with ADM Capital.

- Almaty – purchase of office building in partnership with ADM Capital.

Financing Activities

As announced in February of this year, Caspi Ltd. LLP successfully placed US$15 million in bonds in the Kazakhstan market. The bonds were a 5-year debut bond with a coupon rate of 10% per annum. The bonds were also the first successful placement in Kazakhstan by a real estate development company since the global financial crisis and were assigned a rating of “A” by the local rating agency “Expert RA Kazakhstan”.

Management Changes

In May of this year, Sean Morgan, Group Operations Director, left Chagala in the pursuit of other challenges. Mr. Morgan was instrumental in the establishment of procedures and systems that have allowed the Chagala Group to better understand, manage and forecast its costs.

In June of this year, Francisco Parrilla, Chief Executive Officer of the Chagala Group, was appointed to the Board of Directors as an Executive Director.