MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statements 2008

Introduction

The Group has published its audited financial results for the 12 months of the year 2008 ended 31 December 2008 and the operating results and management discussion follow hereunder.

1. ASSETS

In thousands of US Dollars

	Note	Period Ended 31.12.2008	Period Ended 31.12.2007	% Change
Premises and equipment	1.1	100,565	111,667	-9.94%
Capital work in progress	1.1	21,958	12,235	79.47%
Intangible assets other than goodwill		976	732	33.33%
LT prepayments and other receivables	1.1	11,868	0	
Deferred transaction costs	1.1	1,453	0	
Restricted cash		38	156	-75.64%
Goodwill	1.2	2,708	3,938	-31.23%
Non-Current Assets		**139,566**	**128,728**	**8.42%**
Inventories		2,965	1,154	156.93%
Trade accounts receivable		6,730	4,160	61.78%
Prepayments and other receivables		3,295	4,326	-23.83%
Cash and cash equivalents		8,205	23,706	-65.39%
Current Assets		**21,195**	**33,346**	**-36.44%**
Due from related parties outside the group		641	2,306	-72.20%
TOTAL ASSETS		**161,402**	**164,380**	**-1.81%**

1.1 Land, premises and equipment, capital WIP and LT prepayments

- Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charges
- Revaluation of land and buildings performed by KPMG as at 31 December 2008
- Combination of income approach and depreciated replacement cost methods were applied in order to determine fair value of premises and equipment
- Land is revalued based on limited current market evidence from recent transactions
- All other premises and equipment are measured at cost less accumulated depreciation and impairment charges
- Capital work in progress is measured at costs and is not depreciated, however the Group assesses at each reporting date whether there is an indication that an asset may be impaired
- Long term prepayments are these related to construction works and capital expenditures
- Fees paid to obtain a firm commitment from a lender under a loan facility which relate to the un-drawn amount are initially recognized as deferred transaction costs when it is probable that commitment will be utilized. These deferred expenses will be amortized during the whole period of credit, capitalized during the construction and expensed afterwards.

- additions during 2008	+ 16,286	(15,029 is addition in CIP)
- acquisition of subsidiary	+ 2,611	(Chagala Aksai – 50.1% interest)
- revaluation net	- 14,229	(Land: -22,028, Buildings: +7,799)
- Impairment, disposals and depreciations	- 6,047	

In thousands of US Dollars	Period Ended 31.12.2008	Period Ended 31.12.2007	% Change
Land	28,030	46,885	-40%
Buildings	64,330	54,677	18%
Furniture & Equipment	8,205	10,105	-19%
Capital Work in Progress	21,958	12,235	79%
TOTAL	**122,523**	**123,902**	**-1%**

Impairment in total value of US$ 984 thousand is related to Capital work in progress – Aktau Hotel.

Revaluation showed decrease of value of the land in total amount US$ 22,028 thousand and increase of the value of buildings in the amount of US$ 7,799 thousand. The Company brought forward reserves from valuation and part of the reserves was used for decrease of the value of the land thus no impairment was recorded to P&L.

Long term prepayments in the amount of US$ 11,868 thousand are mainly these related to construction works (US$ 11,645 thousand), acquisition of premises and equipment (US$ 45 thousand) and acquisition of investment (US$ 165 thousand).

2008 *In thousands of US Dollars*	***Capital*** **work-in-progress**	***Long Term Prepayments*** **Construction**	***Deferred Transaction*** **Costs**
Bautino RCP Camp Phase 1	1,054	1,251	291
Bautino Hotel Phase 3	3,068	2,038	72
Aktau Chagala Hotel	3,802	3,000	213
Aktau Caspian Star (Apartments & Offices)	384	-	-
Uralsk Apartments Phase 1	1,083	296	64
Caspi - Masterplan and Infrastructure	4,469	1,054	-
Caspi - Ural Residence Buildings	3,598	3,572	813
Caspi - Sport and Leisure Park	404	48	-
Caspi - Camp (office, canteen, dormitory)	2,934	-	-
CZM - Shopping Malls	1,094	291	-
OTHER	68	318	-
TOTAL	**21,958**	**11,868**	**1,453**

1.2 Goodwill

On June 11, 2008, the Company acquired 50.1% of interest in Maverick LLP, the name of the business unit was changed to Chagala Aksai LLP. The total cost of the combination was US$ 3,794 thousand and was paid in cash. The provisional book value of the net assets of Chagala Aksai LLP at this date was US$ 6,900 thousand; the Company's share of this value was US$ 3,457 thousand. The difference was recognized as goodwill on acquisition in the amount of US$ 337 thousand.

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$ 80 thousand, and totalled US$ 1,574 thousand for the year ended December 31, 2007. Assets of Bautino Land Development LLP were transferred to Bautino Development Company LLP on January 22, 2008. On September 1, 2008 the directors of Chagala Group Limited resolved that subsidiaries of the Company that are inactive and have no assets – Bautino Land Development LLP being one of them – be liquidated. The Company thus tested goodwill and the result was that goodwill in the amount of US$ 1,574 thousand was impaired in 2008.

2. Liquidity and capital resources

2.1 Liquidity

The Group's primary source of liquidity consisted at 31 December 2008 of net cash provided by its financing activities and its operating activities. On June 12, 2008, the Group entered into a Credit Facility Agreement with HSBC Bank Kazakhstan and Raiffeisen Zentralbank Osterreich AG and total amount of the credit facility is US$ 53,500 thousand. The purpose of the credit facility is development of six real estate projects in West Kazakhstan. As at 31 December 2008 the Group had drawn down part of the loan for development of the project in Aktau in the amount of US$ 7,654 thousand. The Group has not yet generated liquidity from the sale of real estate assets as these have been held for further development. 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 2008 and 2007.

In thousand of US$	**Period Ended**	
	31 December 2008	**31 December 2007**
Net cash (used in)/from operating activities	2,647	683
Net cash used in investing activities	(23,916)	(18,415)
Net cash from financing activities	5,768	39,291

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

In the period ended 31 December 2008, net cash from operating activities increased by US$ 1,964 thousand compared to the period ended 31 December 2007. This increase was mainly due to decrease in prepayments and other receivables and increase in the account payables and no interest paid.

b) *Net cash used in investing activities*

In the period ended 31 December 2008, net cash used in investing activities increased by US$ 5,501 thousand compared with the period ended 31 December 2007. This increase was primarily due to increases in the prepayments related to construction works and capital work in progress.

c) *Net cash from financing activities*

In the period ended 31 December 2008, net cash from financing activities decreased by US$ 33,523 thousand compared with the period ended 31 December 2007. This change was primarily due to the receipt of first loan from the credit facility in December 2008; in 2007, the Company received financial resources from the IPO.

2.2 Trade account payable and other current liabilities

In the periods under review, trade account payable and other current liabilities primarily consisted of the current portion of long-term borrowings 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 2008, trade account payable and other current liabilities had increased compared to 31 December 2007, by US$ 1,972 thousand due to retention amounts related to construction agreements, improvement of negotiations with suppliers and less prepayments and provisions for services related to 2008 not invoiced yet (e.g. valuation, audit, expertise).

2.3 Capital resources

a) *Capital commitments, capital expenditures and future projects*

As at 31 December 2008, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately US$ 16,935 thousand net of VAT.

In 2009-2010, the Group estimates that its current projects will require a total investment of approximately US$ 57,100 thousand. The Group will source these funds from a mixture of debt, equity, revenues and other internally generated sources.

The Group's management is aware of the facts that Kazakhstan's economy is vulnerable to marked downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector and the tighter credit conditions. The market volatility in the real estate sector may significantly decrease or increase the carrying values of premises and equipment in the future. However, the Group is somewhat protected as a result of its focus on the oil and gas sector involving long term leases.

While the Group's management believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas mentioned above could affect the Group's medium term plans (2-5 years).

Regarding the short to medium term, over the next 4-5 years, the Group is monitoring the situation in the market and customer needs. Projects that may not be bankable are under review at the moment.

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:

In thousand of US$	**Period Ended**	
	31 December 2008	**31 December 2007**
Short-term loans	569	977
Long-term loans	7,962	333
Total debt	8,531	1,310

Long-term loans include the interest bearing first part of credit facility drawn-down in December 2008 in the amount of US$ 7,654 thousand for Aktau hotel project and non-interest-bearing borrowing from AGIP in the amount of US$ 308 thousand. The Group plans to draw-down the outstanding part of credit facility in the amount of US$ 45,846 thousand in 2009.

Short term loans consist of the current portion of non-interest-bearing borrowing from AGIP and accrued interests.

3 Operating results, comments on the period of 2008 compared to 2007

3.1 Operating revenue and profit

The following table represents our operating results for the period ended 31 December 2008 and 2007:

In thousands of US Dollars

	Year 2008	Year 2007	% Change
Room and rent revenue	18,752	16,473	13.83%
Food and beverages revenue	7,983	5,600	42.55%
TOTAL REVENUE	**26,735**	**22,073**	21.12%
Room utilities, cleaning and maintenance	-3,243	-3,209	1.06%
Food and beverages	-3,244	-2,409	34.66%
Salaries and employee benefits	-9,308	-7,568	22.99%
General and administrative expenses	-4,418	-3,741	18.10%
Repair and maintenance expenses	-699	-328	113.11%
Other Income / (expenses)	1,474	1,173	25.66%
EBITDA	**7,297**	**5,991**	**21.80%**
Depreciation	-3,869	-2,388	62.02%
Gain / (Loss) on disposal of assets	-168	-519	-67.63%
(Reversal) / Impairment of carrying value	-3,897	-81	4711.11%
Finance revenue	333	1,526	-78.18%
Finance costs	-338	-2,497	-86.46%
NET Foreign exchange translation gain/(loss)	-274	78	-451.28%
NET PROFIT before income tax	**-916**	**2,110**	-143.41%
Income tax benefit / (expense)	1,483	-1,339	-210.75%
NET PROFIT for the period	**567**	**771**	-26.46%
Attributable to:			
Equity holders of the parent	1,171	951	23.13%
Minority Interests	-604	-180	235.56%
	567	**771**	-26.46%

3.2 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.

During this period our revenue increased by 21.12%.

3.2.1 Room and rent revenue

Room and rent revenue increased by US$ 2,279 thousand (an increase of 13.83%, in comparison to the preceding year) as a result of an increase of apartments’ rental rates in Atyrau starting July 1, 2008.

3.2.2 Food and beverage revenue

The increase of US$ 2,383 thousand represents an increase of 42.55% which was mainly due to an increase in the price for full board related to rental of apartments in Atyrau since July 1, 2008, improved sales in all outlets and increase of prices at food outlets.

3.3 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:

3.3.1 Room utilities, cleaning and maintenance

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

During this period, the room utilities, cleaning and maintenance increased slightly by US$ 34 thousand, a 1.06% increase compared to the prior period as the Group managed to control consumption and no inflation in utilities especially gas and electricity.

3.3.2 Cost of food and beverage

This includes the cost of the consumed food and beverage.

The 34.66% increase in food and beverage costs, from US$ 2,409 thousand to US$ 3,244 thousand, is due both to increased sales volumes and high inflation of food products. On the other hand, the Group classified staff meals into payroll, booked in F&B cost the previous years and the impact is US$ 244 thousand.

3.3.3 Salaries and employee benefits

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

There was a 22.99% increase in this expense between the compared years 2008 and 2007. The increase was mainly due to the following reasons:

- salaries increases – local staff, minimum monthly net salary raised to KZT 25 thousand in 2008, the total impact of which was US$ 260 thousand; other salaries increases – impact 322 thousand;
- staff meals booked as benefits (including taxes), total impact is US$ 339 thousand;
- staff transportation – the increase in the amount of US$ 440 thousand;
- variable parts of salaries introduced for management and based on performance, total impact is US$ 127 thousand; and
- other benefits and other HR costs – total impact of US$ 252 thousand.

3.3.4 General and administration expenses

This includes audit fees, legal fees, marketing fees, consultancy fees, insurance, land and property taxes, training, advertising, travel, telephone, printing and stationery and other services.

There was an increase by 18.1% in general and administration expenses from US$ 3,741 thousand in 2007 to US$ 4,418 thousand in 2008. The major difference comes from booking provisions for overdue debts in the amount of US$ 1,277 thousand.

3.3.5 Repair and maintenance expenses

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

There is an increase in these expenses by US$ 371 thousand due to a necessity of maintain aged premises and repair aged equipment.

3.3.6 Other Income / (Expenses)

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

This amount consists of following:

Membership fee Sport & Leisure	US$ 800 thousand
Prior year adjustments writing off	US$ 849 thousand
Reimbursement of repair and maintenance expenses	US$ 192 thousand
Facilities management	US$ 179 thousand
Other Operating Revenue	US$ 450 thousand
Prior year adjustments writing off	US$ (626) thousand
Repair and maintenance costs – reimbursed	US$ (158) thousand
Other Operating Costs	US$ (212) thousand
TOTAL	US$ 1,474 thousand

3.3.7 Depreciation

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

Depreciation in 2008 was US$ 3,869 thousand compared to US$ 2,388 thousand in 2007, an increase of US$ 1,481 thousand. This increase was due to the increase of the value of property, plant and equipment in 2008.

3.3.8 Finance revenue, Finance costs

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

Finance revenue of the Group for the period of 2008 consists of interest from deposits in the amount of US$ 333 thousand.

Finance expenses decreased in 2008 by 86.46% as the Group did not have interest bearing borrowings. The interest on loans used for acquisition of property, plant and equipment are capitalized during the period of construction.

3.3.9 Impairment of premises and equipment and goodwill

The Group assessed whether premises and equipment and financial assets are impaired.

In 2008 the Group booked impairment of following assets:

Land of Chagala Zere Malls	US$ 1,339 thousand
Capital work in progress Aktau hotel	US$ 984 thousand
Goodwill Bautino Land Development	US$ 1,574 thousand
TOTAL impairment	US$ 3,897 thousand

3.3.10 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.

In the period of 2008, the Group experienced a foreign exchange NET loss of US$ 274 thousand compared to the gain of US$ 78 thousand in 2007. During this period, the exchange rate US$ to KZT was rather stable closing the period at KZT 120.77 to US$ one, with weighted average rate KZT 120.29 to US$ one.

3.4 Net profit before income tax

Profit before tax decreased by 143.31% between 2008 and 2007. The decrease in profit before tax was primarily due to the increase of depreciation and impairment of premises, equipment and goodwill.

3.5 Income tax

Income tax benefit / expense consists of current income tax expense in the amount of US$ 1,708 thousand and deferred tax benefit in the amount of US$ 3,191 thousand. The deferred tax benefit is mainly due to a change in the Corporate Income Tax rate from 30% in 2008 to 20% in 2009 and a further reduction will follow in 2010 (17.5%) and 2011 (15%).

4 Recent events

After 31 December 2008, we have undertaken the following:

a) *Caspi Limited, Atyrau*

The lease agreement for office space expired and a new contract was renegotiated effective since January 1, 2009. Rental rates increased and also indexation was implemented. The new contract is valid for following 4 years.

b) *Chagala Zere Malls*

Chagala Group Limited has acquired the remaining 49.9% share in Chagala Zere Malls LLP and became the sole shareholder of Chagala Zere Malls LLP.

Minority shareholder Zere Limited, a real estate developer in the provincial cities of Kazakhstan, has been affected by the economic down-turn and is unable to continue supporting the operations of Chagala Zere Malls LLP. To secure the cash that was left in the company along with plans and designs for the 2 proposed centres in Ust-Kamenogorsk and Atyrau, Chagala Group Limited acquired Zere`s shares through a combination of cash amounting to US$ 300 thousand and selling the land in Ust- Kamenogorsk to Zere Limited at a discounted value.

c) *Chagala Aksai LLP*

Chagala Group Limited opened the first phase of "Chagala Aksai Camp" in March 2009.
The camp style facility, which has undergone a major refurbishment, is made up of 150 rooms (5 modules of 30 rooms each) and a bar and restaurant. It is located in Aksai, the town that supports the giant Karachaganak oil and gas field. The first phase, which opened in March 2009, consists of 95 rooms (84 bedrooms and 11 apartments). The second phase of development that will bring on line another 55 rooms and a catering facility is expected to be operational in the second part of the year 2009.
Chagala has a majority holding of 50.1% of the venture and will manage the day-to-day operations.
The venture also owns a four hectare green-field site located close to the existing facility which will be held for future development.

d) *Chagala Hotel, Bautino*

We have started accommodation contract renegotiations with our major client as the previous one (which was on fixed rates for the last 4 years) expires at the end of April 2009. The Group targets a significant uplift in the rates and improvement of the contractual terms.

The construction of the 50 room extension to the hotel commenced mid 2007, is scheduled for completion in May 2009.

e) *Credit facility*

The Group will continue to draw-down further parts of credit facility during 2009 in order to fund the projects.

f) *Chagala Hotel in Aktau*

Launch of new accommodation facility in Aktau in Q3 2009.

g) *Growth in Uralsk*

Construction of 45 one bedroom apartments on the land of the Chagala Hotel. The project is scheduled for completion end in Q3 2009, dependent on confirmed off-take.

h) Appointment of Francisco Parrilla as Director of Construction (April 09)

Francisco brings with him a breadth of experience in the construction and real estate business. We expect that his experience will help us resolving the issues with have been experiencing over the past 2 years, bringing a higher level of programme and budget certainty to our development and construction process.

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 December 31, 2007.

These risks are discussed in greater detail below.

5.1 ***Credit risk***

Credit risk arising from the inability of 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. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis. 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 mainly with HSBC Bank Kazakhstan.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

5.2 ***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.

5.3 ***Foreign currency risk***

As a result of accounts receivable, cash and cash equivalents, accounts payable and loans and borrowings denominated in US Dollars, the Group's consolidated balance sheet can be affected significantly by movement in the US Dollar / Tenge exchange rate.

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.

6 Responsibility statement

To the best of my knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Tim Abson
Chief Executive Officer