MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statements 2009

Introduction

2009 was a successful year for the Group as it continued to grow both in revenue and in operating profit from its existing operations. The Group also completed the construction phase of 3 projects in its pipeline and launched these new facilities in Aksai, Atyrau and Bautino; the apart hotel in Aktau and Uralsk are nearing completion, and will be launched in early 2010.

In February 2009 there was a 25% devaluation of KZT against major currencies. However as the Group's revenues are mainly US$ denominated and the major part of the costs are KZT denominated, the impact on operating revenues and costs was positive. The devaluation did have an impact on the value of the Group's assets. As the functional currency of the Group is KZT, all assets are booked and valued in KZT and translated into US$ at the end of each reporting period. Although the value of assets of the Group in KZT increased significantly as a result of the exchange rate, the total value of the assets in US$ terms only increased by the addition of new properties to the Group's real estate portfolio.

The Group has published its audited financial results for the 12 months ended 31 December 2009 and the operating results and management discussion follows hereunder.

This management's discussion and analysis (MD&A) reflects information known to management as at April 2, 2010. This MD&A is intended to supplement and complement our audited consolidated financial statements and notes thereto for the year ended December 31, 2009, prepared in accordance with IFRS.

You are encouraged to review our financial statements in conjunction with your review of this MD&A. Additional information relating to the company, including our most current annual information form, is available on www.chagalagroup.com.

1 Operating results, comments on the period of 2009 compared to 2008

1.1 Operating revenue and profit

The following table represents our operating results for the period ended 31 December 2009 and 2008:

In thousands of US Dollars

	Year 2009	Year 2008	% Change
Room and rent revenue	21 447	18 752	14.4%
Food and beverages revenue	8 188	7 983	2.6%
Other operating revenue	2 723	1 399	94.6%
TOTAL REVENUE	**32 358**	**28 134**	15.0%
Utilities, cleaning and maintenance	(3 880)	(3 243)	19.6%
Food and beverages	(2 723)	(3 244)	-16.1%
Salaries and employee benefits	(8 399)	(9 308)	-9.8%
General and administrative expenses	(3 131)	(5 117)	-38.8%
Other Income / (expenses)	3	75	-96.0%
EBITDA	**14 228**	**7 297**	**95.0%**
Depreciation and amortization	(3 751)	(3 869)	-3.0%
Operating Profit	**10 477**	**3 428**	**205.6%**

1.2 Revenue

Revenue comprises:

a) ‘‘Room and rent revenue’’ which is the revenue from leasing hotel rooms, serviced apartments, office space and the Garage and Storage Facility;

b) ‘‘Food and beverage revenue’’ which is the revenue from all our food and beverage outlets as well as an allocation of the rent from serviced apartments where we are providing partial or full board.

c) “Other operating revenue” which is the revenue from Sport & leisure – membership fees, the revenue from facility management and maintenance and other operating revenues.

During this period our revenue increased by 15% mainly as a result of increased rental rates and additional revenue as new facilities were launched (see details below).

1.2.1 Room and rent revenue

Room and rent revenue increased by US$ 2,695 thousand (an increase of 14.4%, in comparison to the preceding year) as a result of:

- an increase of office rental rates in Atyrau starting January 1, 2009,
- an increase of apartments’ rental rates in Atyrau starting July 1, 2009,
- launch of new accommodation facilities in Aksai in March 2009,
- an increase in rental rates in Bautino starting May 1, 2009,
- additional accommodation facilities in Bautino – hotel Phase 3 launched in June 2009.

1.2.2 Food and beverage revenue

The increase of US$ 205 thousand represents an increase of 2.6% which was mainly due to an increase in the price for full board related to rental of apartments in Atyrau since July 1, 2009 and in Bautino since May 1, 2009. However the Group faces the challenge of the open market, to improve its sales to non-contracted clients in its food and beverage outlets

1.2.3 Other operating revenue

Other operating revenue plays an increasingly important role in the operations of the Group with contribution of 8.4% to total operating revenue (5.0% in 2008). Details of other operating revenue are indicated below:

Membership fee Sport & Leisure	US$ 980 thousand
Reimbursement of repair and maintenance expenses	US$ 573 thousand
Facilities management	US$ 269 thousand
Laundry	US$ 395 thousand
Other	US$ 506 thousand
TOTAL	**US$ 2,723 thousand**

1.3 Costs and expenses

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

1.3.1 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 by US$ 637 thousand, a 19.6% increase compared to the prior period as the Group launched new facilities in Aksai, Bautino and Atyrau.

1.3.2 Costs of food and beverage

This includes the cost of the consumed food and beverage.

The 16.1% decrease in food and beverage costs, from US$ 3,244 thousand to US$ 2,723 thousand, is due to KZT devaluation and strong control over consumption. As result of this there is an improvement in margins in food category as follows:

US$ thousands	**2009**	**2008**
Food Revenue	6 834	6 247
Food Costs	2 204	2 599
Food costs as % or Food revenue	32.3%	41.6%

US$ thousands	**2009**	**2008**
Beverage Revenue	1 354	1 736
Beverage Costs	519	645
Beverage costs as % or Beverage revenue	38.3%	37.2%

1.3.3 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.

There was a 9.8% decrease in this expense between the compared years 2009 and 2008. Though the Group increased minimum salary to KZT 30 thousand (KZT 25 thousand in 2008) all across the Group and regular performance based salary increases took place, the decrease of total costs was due to the KZT devaluation and positive impact of this devaluation on all KZT denominated expenses. The strong control over the headcount and costs continues which also accounts for savings in this area.

1.3.4 General and administrative expenses

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

There was a decrease by 38.8% in general and administration expenses from US$ 5,117 thousand in 2008 to US$ 3,131 thousand in 2009. The major difference comes from the following: no interim audit and no NAV valuation during 2009 – impact of US$ -516 thousand and Other G&A expenses – in 2008 there was a bad debt provision of US$ 1,475 thousand booked as opposed to US$ 142 thousand in 2009.

US$ thousands	**2009**	**2008**
Taxes, duties and fees (mainly property tax)	1 031	709
Audit and valuation costs (incl. other professional fees)	488	1 004
Communication	317	350
Replacement costs	234	101
Marketing	123	262
Insurance	162	218
Bank charges	178	289
Travel	106	222
Other	492	1 962
TOTAL	**3 131**	**5 117**

1.3.5 Depreciation

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

Depreciation in 2009 was US$ 3,751 thousand compared to US$ 3,869 thousand in 2008, a decrease of US$ 118 thousand. This decrease was mainly due to the decrease of the value of property, plant and equipment in 2009.

2 Net results, comments on the period of 2009 compared to 2008

2.2 Non operating results

The following table represents our net results for the period ended 31 December 2009 and 2008:

In thousands of US Dollars

	Year 2009	Year 2008	% Change
EBITDA	**14 228**	**7 297**	**95.0%**
Depreciation and amortization	(3 751)	(3 869)	-3.0%
Operating Profit	**10 477**	**3 428**	**205.6%**
Net foreign currency translation gains / (losses)	(138)	(274)	-49.6%
(Impairment) of land, buildings and goodwill	(5 422)	(3 897)	39.1%
(Loss) / gain on disposal of property, plant and equipment	(838)	(168)	398.8%
Finance income	28	333	-91.6%
Finance (expenses)	(605)	(338)	79.0%
Other gain / (loss)	1 160	-	
Profit / (Loss) before income tax	**4 662**	**(916)**	**609.0%**
Income tax (expense) / benefit	2 560	1 483	72.6%
Net profit for the year	**7 222**	**567**	**1173.7%**

2.2.1 Net foreign currency translation gains and losses

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

In the period of 2009, the Group experienced a foreign exchange net loss of US$ 138 thousand compared to the loss of US$ 274 thousand in 2008. In February 2009 there was a 25% devaluation of KZT against major currencies. Companies within the Group booked foreign exchange translation losses on their individual Income statements;, these losses are mainly on loans obtained in US$ from the parent company Chagala Group Limited. On the other hand the parent company booked foreign exchange translation gains on the same loans; at a consolidated level these translation differences were fully eliminated.

Overview of foreign exchange rates of the Tenge to the USD established by the National Bank of Republic of Kazakhstan (the “NBRK”):

	Exchange rate at December 31	Weighted average rate during the year
2009	148.36	147.51
2008	120.77	120.29

2.2.2 Impairment of property, plant and equipment and goodwill

The Group assessed whether property, plant and equipment, goodwill and financial assets are impaired. The Group engaged an independent appraiser at December 31, 2009 to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence.

In 2009 the Group booked impairment of the following assets:

Land in Aktau	US$ 920 thousand
Hotel in Aktau	US$ 3,881 thousand
Various objects in Atyrau	US$ 354 thousand
Other	US$ 267 thousand
TOTAL impairment	US$ 5,422thousand

2.2.3 (Loss) / gain on disposal of property, plant and equipment

The Group recorded the loss on disposal of property, plant and equipment in the amount of US$ 838 thousand. This is mainly the result of the sale of shopping centers drawings.

2.2.4 Finance income / (expenses)

This includes an interest from bank deposits on the revenue side and an interest accrued on borrowings and fair value of interest rate swap instruments on the cost side.

Finance revenue of the Group for the period of 2009 consists of the interest from deposits in the amount of US$ 28 thousand.

Finance expenses increased in 2009 by 79.0% as the Group completed construction phase of projects financed by interest bearing loans and interests then being expensed. Also the Group booked the fair value of interest rate swap instruments in the amount of US$ 232 thousand. The interest on loans used for acquisition of property, plant and equipment are capitalized during the period of construction.

2.2.5 Other gains / (losses)

The major portion of the Other gain / (loss) in the amount of US$ 1,160 thousand is the result of acquisition of 49.9% interest in Chagala Zere Malls and settlement of this transaction.

2.3 Profit before income tax

The Group achieved Profit before tax in the amount of US$ 4,662 thousand (loss US$ 916 thousand in 2008). The increase in the profit before tax was primarily due to significant improvement of operating results and Other gain as described in the point 2.2.5 above.

2.4 Income tax

Income tax benefit / (expense) include current income tax expense in the amount of US$ 261 thousand and deferred tax benefit in the amount of US$ 2,821 thousand (out of which the amount of US$ 2,026 thousand is recognised directly in equity). The deferred tax benefit is mainly due to a loss brought forward in Chagala Zere Malls and in Aktau Development Company and a temporary difference between accounting and tax depreciation.

2.5 Net profit for the year

The Net profit for the year increased by a factor of nearly 13 and reached the amount of US$ 7,222 thousand. The amount attributable to equity holders of the parent is US$ 6,966 thousand and to minority interest US$ 256 thousand.
Earnings per share increased to US$ 0.08 compared to US$ 0.01 per share in 2008. The number of shares (4 shares = 1 GDR) outstanding remains unchanged at 85,027 thousand.

3 ASSETS

3.1 Non-Current Assets

The following table represents the overview of non-current assets for the period ended 31 December 2009 and 2008:

In thousands of US Dollars

	Period Ended 31.12.2009	Period Ended 31.12.2008	% Change
Property, plant and equipment	106 043	100 565	5.45%
Intangible assets	664	976	-31.97%
Capital work in progress	21 571	21 958	-1.76%
Long term prepayments	5 066	11 868	-57.31%
Deferred transaction costs	1 165	1 453	-19.82%
Restricted cash	34	38	-10.53%
Goodwill	2 165	2 708	-20.05%
Deferred tax asset	2 163	0	
Non-Current Assets	**138 871**	**139 566**	**-0.50%**

3.1.1 Property, plant and equipment, capital WIP, Long term prepayments and Deferred transaction costs

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charges. Revaluation of land and buildings was performed by KPMG as at 31 December 2009. A combination of income approach and depreciated replacement cost methods were applied in order to determine fair value of buildings. Land is revalued based on limited current market evidence from recent transactions. All other equipment is measured at cost less accumulated depreciation and impairment charges.

Property, plant and equipment:

In thousands of US Dollars

	Period Ended 31.12.2009	Period Ended 31.12.2008	% Change
Land	21 506	28 030	-23%
Buildings	75 119	64 330	17%
Furniture & Equipment	9 418	8 205	15%
TOTAL	**106 043**	**100 565**	**5%**

Change in Property, plant and equipment compared to previous year consists of:

- additions during 2009 + 1,872 (mainly furniture and equipment)
- revaluation +14,409
- Impairment, disposals and depreciations - 9,559
- transfers from capital WIP + 17,489 (Bautino hotel Phase 3, Hotel in Aktau, Aksai, Sport & Leisure in Atyrau)
- net exchange difference - 18,733

The details of Impairment are indicated in point 2.2.2 above.

Where there was no revaluation reserve, the Group recorded impairment into the Income statement.

Capital work in progress is measured at cost and is not depreciated, however the Group assesses at each reporting date whether there is an indication that an asset may be impaired.

Change in Capital work in progress compared to 2008 consists of:

-	additions during 2009	+ 22,270	(Aktau, RCP, Uralsk, Atyrau)
-	disposals	- 768	(CZM drawings)
-	Transfers to PP&E	- 17,489	(Bautino hotel Phase 3, Aktau hotel, Aksai, Sport & Leisure Atyrau)
-	Net exchange difference	- 4,400	

Long term prepayments in the amount of US$ 5,066 thousand are mainly related to construction works and acquisition of premises and equipment.

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 the commitment will be utilized. These deferred expenses will be amortized during the whole period of credit, capitalized during the construction and expensed afterwards.

In the table below there is an overview of the allocation of Capital work-in-progress, Long term prepayments and Deferred transaction costs to the projects under construction:

2009	***Capital*** **work-in-progress**	***Long Term*** **Prepayments**	***Deferred Transaction*** **Costs**
In thousands of US Dollars			
Bautino RCP Camp Phase 1	3 050	1 842	291
Bautino Hotel Phase 3	-	-	-
Aktau Chagala Hotel	-	11	-
Uralsk Apartments Phase 1	3 535	858	-
Caspi - Masterplan and Infrastructure	5 653	-	-
Caspi - Ural Residence Buildings	5 442	2 213	874
Caspi - Camp (office, canteen, dormitory)	2 104	-	-
Chagala Aksai - Camp	389	-	-
OTHER	1 398	142	-
TOTAL	**21 571**	**5 066**	**1 165**

3.1.2 Goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections of the Group covering a 5-year period. With regard to the assessment of value in use of cash-generating units, management believes that no reasonable possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

In thousands of US Dollars	**2009**	**2008**
Bautino Development Company LLP	1 616	1 985
Bayan Limited LLP	275	338
Chagala Zere Malls LLP	0	48
Chagala Aksai LLP	274	337
	2 165	**2 708**

The decrease in goodwill compared to 2008 is mainly due to foreign exchange rate translation difference.

3.2 Current Assets

In thousands of US Dollars

	Period Ended 31.12.2009	Period Ended 31.12.2008	% Change
Inventories	2 588	2 965	-12.7%
Trade receivables	5 331	6 730	-20.8%
Taxes prepaid	3 426	2 703	26.7%
Other prepayments	538	592	-9.1%
Cash and cash equivalents	9 482	8 205	15.6%
Due from related parties outside the group	323	641	-49.6%
Current Assets	**21 688**	**21 836**	**-0.7%**

3.2.1 Inventories

Inventories decreased by 12.7% compared to prior year mainly due to foreign exchange rate translation difference. Additions were due to launch of new operations – Aksai, Bautino hotel Phase 3, Sport and Leisure in Atyrau.

3.2.2 Trade receivables

Trade accounts receivable decreased by 20.8% mainly due to improved collection, 52% of receivables balances are not due and another 34% were overdue for less than 30 days. The Group's major part of trade receivables are US$ denominated. US$ 20 thousand bad debt provision was booked.

3.2.3 Prepaid taxes and other prepayments

Major part of prepayments are VAT recoverable (amount US$ 3,083 thousand) and advance payments to suppliers for goods and services (US$ 489 thousand). The amount of VAT recoverable increased due to project development activities where VAT can be recovered only by off-setting against VAT payable, thus when new projects will start generate revenue.

4 Liquidity and capital resources

4.1 Liquidity

The Group's primary source of liquidity consisted at 31 December 2009 of net cash provided by its financing activities and its operating activities. On June 12, 2008, the Group entered into a US$ 53,500 thousand Credit Facility Agreement with HSBC Bank Kazakhstan and Raiffeisen Zentralbank Osterreich AG. The purpose of the credit facility is development of six real estate projects in West Kazakhstan.

As at 31 December 2009 the Group had drawn down US$ 19,309 thousand for development of projects in West Kazakhstan.

The Group has not yet generated cash from the sale of real estate properties 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 2009 and 2008.

In thousand of US$	**Period Ended**	
	31 December 2009	**31 December 2008**
Net cash (used in)/from operating activities	8,072	2,647
Net cash used in investing activities	(17,515)	(23,916)
Net cash from financing activities	11,179	5,768

4.1.1 Net cash (used in)/from operating activities

In the period ended 31 December 2009, net cash from operating activities increased by US$ 5,425 thousand compared to the period ended 31 December 2008. This increase was mainly due to increase in Profit before tax, and decrease in Trade accounts receivable.

4.1.2 Net cash used in investing activities

In the period ended 31 December 2009, net cash used in investing activities decreased by US$ 6,401 thousand compared with the period ended 31 December 2008. This decrease was primarily due to using the long term prepayments from previous periods for construction works and purchases of property, plant and equipment.

4.1.3 Net cash from financing activities

In the period ended 31 December 2009, net cash from financing activities increased by US$ 5,411 thousand compared with the period ended 31 December 2008. This change was primarily due to the receipt of loan from the credit facility during 2009.

4.2 Trade account payables and other current liabilities

In the periods under review, trade account payables 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 2009 trade accounts payable and other current liabilities decreased compared to 31 December 2008 by US$ 747 thousand.

4.3 Non-current liabilities

In the period ended 31 December 2009 Non-current liabilities increased to US$ 22,896 thousand mainly due to drawdown of long term loans. However part of loans in the amount of US$ 3,079 thousand are to be amortized within next 12 months and thus were booked as Current portion of long term borrowings in Current liabilities.

4.4 Capital resources

4.4.1 Capital commitments, capital expenditures and future projects

As at 31 December 2009, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately US$ 9,975 thousand which represents a decrease of US$ 6,960 thousand net of VAT compared to previous period.

In 2010-2011, the Group estimates that its current projects will require a total investment of approximately US$ 40,000 thousand. The Group will source these funds from a mixture of debt, equity, revenues and other internally generated cash 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 customers' needs. Projects that may not be bankable are under review at the moment.

4.4.2 Short-term and long-term loans

The Group's debt consists at 31 December 2009 of long-term borrowings. The following table sets forth the Group's total borrowings:

In thousand of US$	**Period Ended**	
	31 December 2009	**31 December 2008**
Long-term loans	16,744	7,962
Current portion of long-term loans	3,079	569
Total debt	19,823	8,531

Long-term loans include the interest bearing part of credit facility drawn-down in 2009 and 2008 in the amount of US$ 19,309 thousand and non-interest-bearing borrowing from AGIP in the amount of US$ 514 thousand. The Group plans to draw-down the outstanding part of credit facility in the amount of US$ 34,191 thousand in 2010.

5 Recent events

After 31 December 2009, the Group has undertaken the following upgrades and developments:

a) *Caspi Limited, Atyrau*

Bowling alley – conversion into office space giving 1,100 m2 in letable area
7 apartments – added to the stock through the refurbishment of an existing building
Ural building – block A – under construction

b) *Chagala Aksai LLP*

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 2010.

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.

c) *Credit facility*

The Group will continue to draw-down further parts of its banks' credit facility during 2010 in order to fund the projects.

d) *Chagala Hotel in Aktau*

Launch of new accommodation facility in Aktau at the beginning of 2010.

e) Growth in Uralsk

Construction of 45 one bedroom apartments on the land of the Chagala Hotel. The project is scheduled for completion in the beginning of Q2 2010, dependent on confirmed off-take.

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