

## MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of the financial condition and results of operations should be read in conjunction with the audited Consolidated Financial Statements of Chagala Group Limited (the "Group") as at and for the year ended 31 December 2010 and the Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2010 prepared in accordance with IFRS.

*Throughout this report, unless otherwise indicated by the context, references herein to the "Group", "we", "our" or "us" means Chagala Group Limited, incorporated in the British Virgin Islands, and its corporate subsidiaries.*

This Management's Discussion and Analysis (MD&A) reflects information known to management as at 25 March 2011.

Additional information relating to the Group, including our most current annual information form, is available on [www.chagalagroup.com](http://www.chagalagroup.com).

### Information concerning forward-looking statements

Any statement contained in this Management's Discussion and Analysis that is not a statement of historical fact may be deemed to be forward-looking, including statements about our revenue, spending, cash flow, products, actions, intentions, plans, strategies and objectives. Without limiting the foregoing, words such as "may", "hope", "will", "expect", "believe", "anticipate", "estimate", "projected" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainty, and actual results may differ materially depending on a variety of factors, many of which are not within our control.

Forward-looking statements are predictions and not guarantees of future performance or events. The forward-looking statements are based on current industry, financial and economic information which we have assessed but which, by its nature, is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. We hereby qualify all our forward-looking statements by these cautionary statements. We undertake no obligation to amend this report or revise publicly these forward looking statements to reflect subsequent events or circumstances.

### Introduction

Chagala Group is a facilities and services provider to the oil and gas industries in the Caspian region of Kazakhstan, now firmly established as one of the biggest geographical exploration and production areas worldwide, with its share of global oil exports expected to rise to 9 percent by 2035. In particular, Chagala provides residential and business accommodation, associated catering, leisure, transport, warehousing and logistics support to nearly all of the major companies involved in the oil and gas industry Kazakhstan.

2010 saw the Group build on the progress made in 2009.

Key operational highlights include:

- New facilities were opened in Atyrau, Aktau, Aksai and Uralsk;
- Management was strengthened by key hires in the engineering, HSE, sales/marketing and operations teams;
- Construction continued on the 108 apartment (10,000 sq.) Ural building in Atyrau (due mid 2011) and the pilot 170 bed camp in Bautino was completed but not equipped;
- A new corporate structure was initiated in the Netherlands resulting in the Group being able to respond to its lenders more readily and the improvement of the Group's overall tax efficiency.

2010 saw improved performance in many of the Group's activity areas. However, the year was influenced by unresolved issues surrounding the ENI/BG Karachaganak project and the extensive AGIP/NCOC consortium Kashagan development.

In the case of Karachaganak, the Kazakh Government is seeking an equity stake in the project and, whilst negotiations are in progress, the US\$12 billion "Phase 3" stage has been placed on hold. This delay has affected occupancy levels at our Aksai and Uralsk projects.

NCOC (North Caspian Operating Company) is a joint operating company formed by the Republic of Kazakhstan and the seven oil and gas companies participating in the North Caspian Sea Project Share Agreement. In 2009, NCOC became the operator of the Kashagan project, taking over the role that was previously held by Agip KCO. "Phases 2 and 3" of the Kashagan project have been delayed by the Kazakh government due to budget issues and whilst our flagship Atyrau complex continues to see real growth, in Bautino we have temporarily suspended our pilot camp and are working hard to increase occupancy levels at our apart-hotel in Aktau.

We believe that both these projects will develop to their full potential once the Kashagan budget issues have been resolved.

**Dividend Policy**

The Board of Directors recommends the payment of 3.5 cents per share (equivalent to 14 cents per GDR) to shareholders on record on 17 July 2011, subject to shareholder's approval.

Going forward, the Board has adopted a policy of targeting a dividend of not less of 50% of net profit with the balance of net profit being retained to fund our future growth.

## Operating results, comments on the period of 2010 compared to 2009

### 1.1 Operating revenue and profit

The following table represents our operating results for the year ended 31 December 2010 and 2009:

<i>In thousands of US Dollars</i>	Year 2010	Year 2009	% Change
Room and rent revenue	25 116	21 447	17.1%
Food and beverages revenue	9 331	8 188	14.0%
Other operating revenue	1 629	2 723	-40.2%
<b>TOTAL REVENUE</b>	<b>36 076</b>	<b>32 358</b>	<b>11.5%</b>
Utilities, cleaning and maintenance	(4 827)	(3 880)	24.4%
Costs of food and beverages	(2 956)	(2 723)	8.6%
Salaries and employee benefits	(10 243)	(8 399)	22.0%
General and administrative expenses	(3 586)	(3 128)	14.6%
<b>EBITDA</b>	<b>14 464</b>	<b>14 228</b>	<b>1.7%</b>
Depreciation and amortization	(5 167)	(3 751)	37.7%
<b>Operating Profit</b>	<b>9 297</b>	<b>10 477</b>	<b>-11.3%</b>

### 1.2 Revenue

Revenue comprises:

- “Room and rent revenue” which is the revenue from leasing hotel rooms, serviced apartments, office space and other similar facilities;
- “Food and beverage revenue” which is the revenue from all our food and beverage outlets plus that derived from providing partial or full board to the serviced apartments;
- “Other operating revenue” which is the revenue from our sport facilities membership fees, the revenue from facility management and maintenance and other operating revenues.

During this period, our revenue increased from USD 32,358 thousand during the twelve months ended 31 December 2009 to USD 36,076 thousand during the twelve months ended 31 December 2010. This 11.5% increase resulted from increases in 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 from USD 21,447 thousand during 2009 to USD 25,116 thousand during 2010. This 17.1% increase was primarily the result of the following:

- an increase in office rental rates in Atyrau starting 1 January 2010;
- an increase in apartment rental rates in Atyrau starting 1 July 2010;
- an increase in hotel room rates in Bautino starting 1 May 2010;
- the launch of new accommodation facilities in Aktau in April 2010;
- the launch of new accommodation facilities in Uralsk in March 2010;
- additional refurbished premises in Aksai (rooms) and Atyrau (offices and apartments) being leased.

### 1.2.2 Food and beverage revenue

Food and beverage revenue increased from US\$ 8,188 thousand during the twelve months ended 31 December 2009 to US\$ 9,331 thousand during the twelve months ended 31 December 2010. The increase of 14.0% was mainly due to an increase in the price of the food services related to the apartment rental in Atyrau (from 1 July 1, 2010) and hotel room revenue in Bautino (from 1 May 1, 2010). As our food and beverage outlets continue to face competition from third party retail outlets, we have introduced a rolling program of new product lines and refurbishments to limit this threat.

### 1.2.3 Other operating revenue

Other operating revenue decreased from USD 2,723 thousand during 2009 to USD 1,629 thousand during 2010. Details of Other operating revenue are indicated below:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Laundry	514	395
Reimbursement of repair and maintenance expenses	370	573
Facilities management	129	269
Membership fee (Sport & Leisure)	37	980
Other	579	506
<b>TOTAL</b>	<b>1 629</b>	<b>2 723</b>

Laundry revenue increased due to the increase in fees for laundry services and the launch of new accommodation facilities.

Reimbursement of repair and maintenance expenses and facilities management revenue decreased due to a decrease in client requests for technical support services as a result of the general slowdown in the oil & gas projects.

The membership income from our sports and leisure facility in Atyrau came principally from one of our clients. In 2010, the client changed its policy regarding attendance of the facility. As a result, the membership income decreased significantly during the year and we are now considering closing this unit and replacing it with other projects depending on market demand.

## 1.3 **Costs and expenses**

Costs and expenses include various costs incurred 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.

Utilities, cleaning and maintenance expenses increased from USD 3,880 thousand during the twelve months ended 31 December 2009 to USD 4,827 thousand during the twelve months ended 31 December 2010. This 24.4% increase was primarily the result of the following:

- launch of new accommodation facilities in Uralsk in March 2010;
- launch of new accommodation facilities in Aktau in April 2010;
- launch of new residential space in Bautino in November 2010;
- additional refurbished premises in Aksai and Atyrau;
- increase in the costs of electricity and other goods and materials (prices increased by 15% in 2010 in comparison with 2009 prices);
- change in the supply of security services due to a change in local regulations from in-house to sub-contracted services in Atyrau in February 2010.

### 1.3.2 Costs of food and beverage

This includes the cost of the consumed food and beverage.

Costs of food and beverage increased from USD 2,723 thousand during the twelve months ended 31 December 2009 to USD 2,956 thousand during the twelve months ended 31 December 2010. The increase of 8.6% is primarily due to the increase of sales of food and beverage by 14.0% while better control over consumption of food and beverages helped us to improve margins decreasing the cost of the services for food from 32.3% in 2009 to 30.9% in 2010 and for beverages from 38.3% in 2009 to 36.3% in 2010 as presented in table below:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Food Revenue	7 941	6 834
Food Costs	2 451	2 204
Food costs as % of Food revenue	30.9%	32.3%

  

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Beverage Revenue	1 390	1 354
Beverage Costs	505	519
Beverage costs as % of Beverage revenue	36.3%	38.3%

### 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.

Salaries and employee benefits increased from USD 8,399 thousand during the twelve months ended 31 December 2009 to USD 10,243 thousand during the twelve months ended 31 December 2010. This 22% increase was primarily the result of the following:

- the apart-hotel in Aktau which was put into operation in April 2010;
- an increase in the number of housekeeping employees in Aksai in February 2010;
- costs related to recruitment;
- 7% - issuance of stock options;
- 5% - payment of bonuses.

On 28 September 2010, the Group granted options to its senior management and directors to subscribe for 680,000 ordinary shares in the Group. The options were granted under the established Chagala Group Limited share option scheme. As a term of an appointment, one of the directors has been granted the option to subscribe for 154,440 shares at an exercise price of USD 1.94, which must be exercised by 15 January 2012. All other options were granted with an exercise price of USD 0.875 and must be exercised by 1 July 2014. The granted options were vested immediately at the grant date. The fair value of the options is estimated at the grant date using the Black-Scholes-Merton pricing model, taking into accounts the terms and conditions upon which the instruments were granted. No options were granted in 2009.

The Group employed approximately 785 employees in 2010 and 2009. The Group is looking into improving the efficiency of its human resources and some reduction in staffing may occur in the future. However, this would be subject to operational expansion.

### 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.

General and administrative expenses increased from USD 3,128 thousand during the twelve months ended 31 December 2009 to USD 3,586 thousand during the twelve months ended 31 December 2010. This 14.6% increase is mainly as a result of the increases in property tax as new assets were put into operation; some additional professional services were rendered for establishing the Netherlands structure.

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Taxes, duties and fees (mainly property tax)	1 270	1 031
Audit and valuation costs (incl. other professional fees)	705	488
Communication	303	317
Replacement costs	111	234
Marketing	264	123
Insurance	179	162
Bank charges	131	178
Travel	148	106
Other	475	489
<b>TOTAL</b>	<b>3 586</b>	<b>3 128</b>

### 1.3.5 Depreciation and amortization

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

Depreciation and amortization increased from USD 3,751 thousand during the twelve months ended 31 December 2009 to USD 5,167 thousand during the twelve months ended 31 December 2010. This 37.7% increase is due to a similar increase in the book value of buildings, furniture and equipment (by 38.1% - see Note 3.1.1) resulting from the valuation undertaken by KPMG and the launch of new facilities:

- accommodation facilities in Uralsk in March 2010;
- accommodation facilities in Aktau in April 2010;
- camp accommodation (RCP) in Bautino in November 2010;
- refurbished premises in Aksai and Atyrau.

## 1 Net results, comments on the period of 2010 compared to 2009

### 1.1 Non operating results

The following table represents our net results for the year ended 31 December 2010 and 2009:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>	<b>% Change</b>
<b>Operating Profit</b>	<b>9 297</b>	<b>10 477</b>	<b>-11.3%</b>
Net foreign currency translation gain / (loss)	24	(138)	-117.4%
Impairment of land, buildings and goodwill	(2 062)	(5 422)	-62.0%
Loss gain on disposal of property, plant and equipment	(81)	(838)	-90.3%
Finance income	58	28	107.1%
Finance expenses	(1 928)	(605)	218.7%
Other (loss) / gain	(20)	1 160	-101.7%
<b>Profit before income tax</b>	<b>5 288</b>	<b>4 662</b>	<b>13.4%</b>
Income tax (expense) / benefit	(1 300)	2 560	-150.8%
<b>Net profit for the year</b>	<b>3 988</b>	<b>7 222</b>	<b>-44.8%</b>

### 1.1.1 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.

The functional currency of the Company and its subsidiaries is Kazakh Tenge ("Tenge"). All items included in the financial statements of each entity are measured using that functional currency.

Tenge is not a fully convertible currency outside the territory of the Republic of Kazakhstan. The Group used exchange rates of Tenge to the U.S. Dollar established by the National Bank of the Republic of Kazakhstan.

Below is an overview of foreign exchange rates of the Tenge to the U.S. Dollar established by the National Bank of Republic of Kazakhstan:

	Exchange rate at 31 December	Weighted average rate during the year
2010	147.40	147.43
2009	148.36	147.51

On 4 February 2009, Kazakhstan's National Bank dramatically devalued the Tenge, the local currency, from a range of 117-123 Tenge/U.S. Dollar to 145-155 Tenge/U.S. Dollar, citing the decline in oil price (oil comprises 60% of Kazakh exports), currency devaluations in Kazakhstan's neighbours, particularly Russia, and the fledgling state of the domestic banking sector. This currency devaluation was the main cause of the foreign exchange loss incurred by the Group during the twelve months ended 31 December 2009 while during 2010 we realized an exchange gain of USD 24 thousand due to strengthening of the Tenge.

Currently, the Group is not engaged on currency hedging activities due to the balance between the revenues and expenses in U.S. Dollar and Tenge. This policy may change, depending on the developments of the exchange rate Tenge/U.S. Dollar.

### 1.1.2 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, KPMG, to determine the fair value of its land and buildings at 31 December 2010.

In 2010 and 2009 the Group recognized impairment of the following assets:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Apartment-Hotel complex in Aktau	1 206	3 881
Apartment-Hotel complex in Uralsk	807	-
Land in Aktau	-	920
Other	49	621
<b>TOTAL</b>	<b>2 062</b>	<b>5 422</b>

The fair value of land is determined by reference to market-based transactions while the fair value of buildings is determined by using the income approach (expected profit from the facility). The capitalization rate used in the income approach calculation is between 18%-23%. We believe that these capitalization rates are very conservative and feel that capitalization rates of between 15%-18% can be used; if this were the case the value of buildings would increase by between USD 30 to 45 million; use of such capitalization rates would also decrease the consolidated impairment loss although increase property taxes.

### 1.1.3 Loss on disposal of property, plant and equipment

The Group recorded the loss on disposal of property, plant and equipment in the amount of USD 81 thousand which resulted from physical deterioration of certain equipment while the 2009 loss of USD 838 resulted from sale of shopping mall drawings.

#### 1.1.4 Finance income / (expenses)

Finance income of USD 58 thousand and USD 28 thousand in 2010 and 2009, respectively, represents interest from bank deposits.

Finance expenses represent interest accrued on borrowings and the fair value of interest rate swap instruments as follows.

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Interest expense on borrowings	1 256	336
Amortisation of loan arrangement fees	346	37
Loss on swap derivative instrument	326	232
<b>TOTAL</b>	<b>1 928</b>	<b>605</b>

The increase in interest expenses on borrowings is mainly due to additional borrowings of USD 6,808 thousand (net of repayment of USD 2,888 thousand) made during 2010 under the credit facility agreement with HSBC Bank Kazakhstan JSC and Raiffeisen Bank International AG (Austria).

The Group entered into interest rate swap agreements with HSBC Bank Plc (UK) which is a condition of the credit facility agreement. Under the interest swap agreements, the Group pays a fixed rate equal to 2.67%-2.85% plus 4.75%-5.75% instead of a floating interest rate of 3m LIBOR plus 4.75%-5.75% on the notional amount. The loss on swap derivative instruments represents an adjustment of the fair value of the interest rate swap instruments which was recognized as a liability in the amount of USD 558 thousand and USD 232 thousand as at 31 December 2010 and 2009, respectively.

#### 1.1.5 Other (loss) / gain

Other gain of USD 1,160 thousand during 2009 is mainly related to the acquisition of 49.9% interest in Chagala Zere Malls while no such gains were made during 2010.

### 1.2 Profit before income tax

As a result of the factors described above, our profit before income tax increased by 13.4%, from US\$ 4,662 thousand during fiscal 2009 to US\$ 5,288 thousand during fiscal 2010. The major reasons for this increase and set-offs for the above, are the following:

- increase of revenue by USD 3,718 thousand;
- increase of utilities, cleaning and maintenance expenses by USD 947 thousand;
- increase of salaries and employee benefits by USD 1,844 thousand;
- increase of depreciation and amortization expenses by USD 1,416 thousand;
- decrease of impairment losses by USD 3,360 thousand;
- increase of finance expenses by USD 1,323 thousand;
- decrease of other (loss) / gain by USD 1,180 thousand.

### 1.3 Income tax

Income tax expense / (benefit) includes a current income tax expense in the amount of USD 1,994 thousand and deferred tax expense in the amount of USD 694 thousand.

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Current income tax expense	1,994	261
Deferred income tax benefit, net	(694)	(2,821)
<b>Income tax expense / (benefit)</b>	<b>1,300</b>	<b>(2,560)</b>

Current income tax expense is measured at the amount expected to be paid to the taxation authorities. Current income tax expense increased due to an increase of the taxable income in Caspi Limited LLP.

Deferred income tax benefit, net, mainly represents a temporary difference between accounting and tax depreciation due to the revaluation of land and buildings and the tax effect of the losses carry-forwards.

On 1 January 2009 a new tax code became effective. According to the new tax code, the corporate income tax rate was reduced from 30% to 20% for 2009, 17.5% for 2010 and 15% for 2011. The deferred tax assets and liabilities were calculated using the 15% rate since that was the future rate that was most likely be applicable. However, due to the economic crisis, the reduction of corporate income tax for 2010-2011 was cancelled. As a result, the deferred tax previously provided was adjusted to reflect additional changes to the tax code with recognition of deferred tax expenses.

As a result, movements in deferred tax balances were as follows:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
<b>1 January</b>	(4,158)	(6,093)
Recognised in Consolidated income statement:		
Opening balance restatement due to change of statutory tax rate	122	(245)
Deferred income tax benefit, net	572	3,066
	<b>694</b>	<b>2,821</b>
Recognised in Consolidated Statement of changes in equity:		
Opening balance restatement due to change of statutory tax rate	(1,941)	147
Deferred tax due to revaluation of property, plant and equipment	(4,823)	(2,173)
	<b>(6,764)</b>	<b>(2,026)</b>
Foreign currency translation	(25)	1,140
<b>31 December</b>	<b>(10,253)</b>	<b>(4,158)</b>

#### 1.4 Net profit for the year

As a result of the above, during the twelve months ended the 31 December 2010 we experienced a net profit of USD 3,988 thousand compared to a net profit of USD 7,222 thousand during the twelve months ended the 31 December 2009.

The earnings per share decreased from USD 0.08 per share for 2009 to USD 0.05 for 2010. The number of shares (4 shares = 1 GDR) outstanding remains unchanged at 85,027 thousand.

## 2 ASSETS

### 2.1 Non-Current Assets

The following table represents the overview of non-current assets as at 31 December 2010 and 2009:

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>	<b>31 December 2009</b>	<b>% Change</b>
Property, plant and equipment	141 864	106 043	33.8%
Intangible assets	604	664	-9.0%
Capital work in progress	21 155	21 571	-1.9%
Long term prepayments	3 089	5 066	-39.0%
Investment in an associate	47	-	n/a
Deferred transaction costs	402	1 165	-65.5%
Restricted cash	40	34	17.6%
Goodwill	2 182	2 165	0.8%
Deferred tax asset	3 477	2 163	60.7%
<b>Non-Current Assets</b>	<b>172 860</b>	<b>138 871</b>	<b>24.5%</b>

### 2.1.1 Property, plant and equipment

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charges.

Fair value of land is determined by an independent appraiser, KPMG, by reference to market-based evidence while fair value of buildings is determined by using the income approach which is based on determination of expected profit from the object of valuation. All other equipment is measured at cost less accumulated depreciation and impairment charges.

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>	<b>31 December 2009</b>
Land	25 137	21 506
Buildings	106 748	75 119
Furniture and equipment	9 979	9 418
<b>TOTAL</b>	<b>141 864</b>	<b>106 043</b>

The following represents changes in property, plant and equipment during 2010:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>
Purchase of new furniture and equipment, including additions to buildings	2 126
Revaluation	27 827
Impairment, disposals and depreciations	(7 280)
New assets put into operation (transfers from capital work in progress)	13 148

Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement.

A revaluation deficit is recognized in the income statement as impairment, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. The details of the impairment are indicated in Note 2.1.2 above.

### 2.1.2 Capital work in progress

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.

The following represents changes in capital work in progress during 2010:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>
Additions	12 732
New assets put into operation (transfers to property, plant and equipment)	(13 148)

Capital work in progress is related to the following projects under construction

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>
Caspi Limited LLP	
Ural residence building	11 017
Masterplan	6 276
Camp (office, canteen, dormitory)	2 169
Other	146
Aktau Development Company LLP	
Caspian Star (apartments and offices)	899
Bautino Development Company LLP	
RCP Camp	188
Other projects	460
<b>TOTAL</b>	<b>21 155</b>

### 2.1.3 Long term prepayments

Long term prepayments as at 31 December 2010 in the amount of USD 3,089 thousand are mainly related to construction works and the acquisition of premises and equipment for the Ural Residence.

### 2.1.4 Deferred transaction costs

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 are amortized during the whole period of credit or capitalized during the construction and expensed afterwards.

Deferred transaction costs as at 31 December 2010 in the amount of USD 402 thousand are mainly related to the construction of the Ural Residence.

### 2.1.5 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized.

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. 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:

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>	<b>31 December 2009</b>
Bautino Development Company LLP	1 628	1 616
Bayan Limited LLP	278	275
Chagala Aksai LLP	277	274
<b>TOTAL</b>	<b>2 182</b>	<b>2 165</b>

The increase in goodwill compared to 2010 is due to foreign exchange rate translation difference.

## 2.2 Current Assets

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>	<b>31 December 2009</b>	<b>% Change</b>
Inventories	2 975	2 588	15.0%
Trade receivables	6 739	5 331	26.4%
Taxes prepaid	3 632	3 426	6.0%
Other prepayments	384	538	-28.6%
Cash and cash equivalents	13 582	9 482	43.2%
Due from related parties outside the group	74	323	-77.1%
<b>Current Assets</b>	<b>27 386</b>	<b>21 688</b>	<b>26.3%</b>

### 2.2.1 Inventories

Inventories amortization increased from USD 2,588 thousand as at 31 December 2009 to USD 2,975 thousand as at 31 December 2010. This 15% increase is mainly due to the launch of the following new operations:

- accommodation facilities in Uralsk;
- apart-hotel in Aktau;
- refurbished premises in Aksai and Atyrau.

### 2.2.2 Trade receivables

Trade accounts receivable increased from USD 5,331 thousand as at 31 December 2009 to USD 6,739 thousand as at 31 December 2010. This 26.4% increase was mainly due to an increase of sales. As a result, 48% of receivables as at 31 December 2010 were not due while 41% were overdue by less than 30 days.

The Group's major part of trade receivables are USD denominated.

### 2.2.3 Taxes prepaid

The major part of taxes prepaid represents the VAT recoverable. As at 31 December 2010 and 2009, the VAT recoverable was USD 3,173 thousand and USD 3,083 thousand, respectively. 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.

### 2.2.4 Other prepayments

Other prepayments represent prepayments for goods and services required for providing the operational services for hotels, apartments, offices, restaurants and other facilities.

## 3 **Liquidity and capital resources**

### 3.1 **Liquidity**

The Group's primary source of liquidity is provided by the Group's operating and financing activities. Our capital resources consisted primarily of funds we have borrowed from banks and the sale of our services. As at 31 December 2010 we had cash of USD 13,582 thousand. We earned a profit of USD 3,988 thousand and USD 7,222 thousand for the year ended 31 December 2010 and 2009, respectively. Our current assets exceeded our current liabilities by USD 19,013 thousand and USD 14,759 thousand as at the year ended 31 December 2010 and 2009, respectively.

The following table sets forth key items from the Group's consolidated statements of cash flows for the years ended 31 December 2010 and 2009:

<i>In thousands of US Dollars</i>	<b>Year 2010</b>	<b>Year 2009</b>
Net cash from operating activities	9 229	8 072
Net cash used in investing activities	(11 865)	(17 515)
Net cash from financing activities	6 733	11 179
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>4 097</b>	<b>1 736</b>

#### 3.1.1 Net cash from operating activities

In fiscal 2010, net cash provided by operating activities was USD 9,229 thousand compared to net cash provided by operating activities of USD 8,072 thousand in fiscal 2009. This increase in net cash provided by operating activities primarily occurred due to an increase in sales.

### 3.1.2 Net cash used in investing activities

Net cash used in investing activities during the twelve months ended 31 December 2010 was USD 11,865 thousand.

The cash outflows in investing activity during the twelve months ended 31 December 2010 mainly occurred due to construction of or building work on the following:

- Ural Residence in Atyrau,
- refurbishment to an office and 7 apartments in Atyrau,
- RCP Camp Phase 1 in Bautino,
- apartment building in Uralsk.

By comparison, during the twelve months ended 31 December, 2009, we used net cash in investing activities of USD 17,515 thousand. The cash outflows in investing activity during the twelve months ended 31 December 2009 mainly occurred due to construction of or building work on the following:

- Ural Residence in Atyrau,
- sport and leisure complex in Atyrau,
- apart-hotel complex in Aktau,
- hotel complex phase 3 in Bautino,
- RCP Camp Phase 1 in Bautino,
- apartments building in Uralsk,
- building refurbished into a laundry in Aksai.

### 3.1.3 Net cash from financing activities

Net cash provided by financing activities during the twelve months ended 31 December 2010 was USD 6,733 thousand compared to net cash provided by financing activities of USD 11,179 thousand in fiscal 2009. The net cash inflow occurred due to net proceeds received by the Group under the Credit Facility Agreement with HSBC Bank Kazakhstan and Raiffeisen Bank International AG (Austria).

## 3.2 Current Liabilities

Current liabilities primarily consisted of the current portion of long-term borrowings, trade accounts payable, taxes payable and other payables and accruals.

Trade accounts payable represents 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.

The balances of trade accounts payable, taxes payable and other payables and accruals were relatively at the same level during 2010 and 2009. As at 31 December 2010 the total of trade accounts payable, taxes payable and other payables and accruals was USD 2,776 thousand while as at 31 December 2009 the total was USD 2,869 thousand.

## 3.3 Non-current Liabilities

As at 31 December 2010 and 2009, the non-current liabilities were USD 34,368 thousand and USD 22,896 thousand, respectively.

This increase is mainly due to net cash of USD 6,733 thousand provided by financing activities during the twelve months ended 31 December 2010 (see Notes 4.1.3 and 4.4.2) and recognition of additional deferred tax liability due to revaluation of buildings and changes in the future tax rates (see Note 2.3).

## 3.4 Capital resources

### 3.4.1 Capital commitments, capital expenditures and future projects

As at 31 December 2010, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately USD 9,901 thousand which represents a decrease of USD 74 thousand (net of VAT) compared to the previous period.

The Group estimates that its current projects will require a total investment of approximately USD 15,500 thousand (including USD 12,000 thousand for completion of construction of the Ural Residence and USD 3,500 thousand for construction of the four floors of office building in Atyrau). The Group plans to use a mixture of debt, equity, revenues and other internally generated cash to finance this construction work.

The Group's management is aware of the fact that Kazakhstan's economy is vulnerable to marked downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in instability in the capital markets, 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 currently 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 (2-3 years) and long term (over the next 4-5 years) plans.

### 3.4.2 Long-term borrowings

On 12 June 2008, the Group entered into the credit facility agreement with HSBC Bank Kazakhstan JSC and Raiffeisen Zentralbank Osterreich AG (Austria), which was amended and restated on 21 October 2008 and 9 October 2009. The total amount of the credit facility was USD 53,500 thousand. On 22 November 2010, the additional amendment and restatement agreement was signed in order to decrease the total amount of the credit facility to USD 34,307 thousand and replace one of the lenders - Raiffeisen Zentralbank Osterreich AG (Austria) by another lender - Raiffeisen Bank International AG (Austria). As at 31 December 2010 the credit amount received was USD 29,359 thousand out of total credit facility where USD 2,758 thousand was repaid during 2010. The undrawn portion of the credit facility was USD 4,948 thousand.

The long-term borrowings also include the non-interest bearing loan obtained from Agip. As at 31 December 2010 and 2009, the debt payable to Agip was USD 387 thousand and USD 517 thousand, respectively.

Long-term loans and borrowings are repayable as follows:

<i>In thousands of US Dollars</i>	<b>31 December 2010</b>	<b>31 December 2009</b>
Maturity up to 1 year	5 435	3 079
<b>Total current portion</b>	<b>5 435</b>	<b>3 079</b>
Maturity between 1 and 2 years	5 656	3 798
Maturity between 2 and 5 years	14 940	11 107
Maturity over 5 years	957	1 839
<b>Total long-term portion</b>	<b>21 553</b>	<b>16 744</b>
<b>Total long-term borrowings</b>	<b>26 988</b>	<b>19 823</b>

## 4 Recent/Subsequent events

After 31 December 2010, the Group has undertaken the following upgrades and developments:

a) *Caspi Limited LLP, Atyrau*

Ural Residence – under construction.

b) *Caspi Limited LLP, Atyrau*

Office building - under construction.

c) *Caspi Limited LLP, Atyrau*

Other projects - include the refurbishment of some of the older buildings and the change of use in one building from an office to 11 apartments.

## 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 free to contact myself or our Chief Financial Officer, Yermek Kudabayev.

Francisco Parrilla  
Chief Executive Officer