ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

INDEPENDENT AUDITORS' REPORT

To the shareholders of OJSC Rosinter Restaurants Holding

We have audited the accompanying consolidated financial statements of OJSC Rosinter Restaurants Holding and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 2 to the consolidated financial statements which indicates that the Group had a deficit on equity of US dollars 23,848 thousand as of 31 December 2006 and, as of that date, the Group's current liabilities exceeded its current assets by US dollars 41,464 thousand. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLC

8 May 2007

OJSC Rosinter Restaurants Holding
Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

OJSC ROSINTER RESTAURANTS HOLDING

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8 May 2007

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED BALANCE SHEETS

(All amounts are in thousands of US dollars)

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	62,739	53,016
Intangible assets	**5**	6,105	3,963
Long-term loans due from related parties	**12**	240	-
Deferred income tax asset	**15**	4,908	2,841
Other non-current assets		1,584	1,499
		75,576	**61,319**
Current assets			
Inventories	**7**	4,345	3,245
Prepayments and receivables	**8**	9,991	24,932
Short-term loans		151	12
Short-term loans due from related parties	**12**	1,835	1,601
Receivables from related parties	**12**	1,713	1,985
Cash and cash equivalents	**9**	6,223	3,322
		24,258	**35,097**
TOTAL ASSETS		**99,834**	**96,416**
EQUITY AND LIABILITIES			
Share capital	**10**	58,545	85,214
Additional paid- in capital	**10**	14,523	10,138
Accumulated losses		(99,509)	(120,447)
Translation difference		2,593	2,380
TOTAL DEFICIT ON EQUITY		**(23,848)**	**(22,715)**
Non-current liabilities			
Long-term debt due to related parties	**12**	1,150	415
Long-term debt	**13**	38,684	44,924
Finance lease liabilities	**14**	294	-
Long-term liabilities under partnership agreements	**11**	14,597	9,345
Deferred income tax liabilities	**15**	3,220	3,314
Other liabilities		15	16
		57,960	**58,014**
Current liabilities			
Trade and other payables	**16**	23,154	21,200
Short-term debt	**17**	31,774	18,576
Short-term debt due to related parties	**12**	2,098	2,918
Payables to related parties	**12**	5,176	16,273
Current portion of finance lease liabilities	**14**	362	-
Current liabilities under partnership agreements	**11**	3,158	2,150
		65,722	**61,117**
TOTAL EQUITY AND LIABILITIES		**99,834**	**96,416**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED INCOME STATEMENTS

(All amounts are in thousands of US dollars, except for earnings per share)

	Notes	December 31, 2006	December 31, 2005
Revenue	**18**	**218,626**	**165,712**
Cost of sales	**19**	(137,901)	(106,607)
Gross profit		**80,725**	**59,105**
Selling, general and administrative expenses	**20**	(62,734)	(49,239)
Foreign exchange gains/(losses), net		672	(644)
Other gains/(losses), net	**21**	(6,089)	(591)
Profit from operating activities		**12,574**	**8,631**
Financial income	**22**	705	1,086
Financial expense	**22**	(12,152)	(9,238)
Profit before income tax		**1,127**	**479**
Income tax (expense) / benefit	**15**	(348)	120
Net profit for the year		**779**	**599**
Earnings per share, basic and diluted, US dollars	**10**	**0.08**	**0.06**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are in thousands of US dollars)

	Share capital	*Addition paid-in capital*	*Accumulated losses*	*Translation difference*	***Total Equity***
At January 1, 2005	**85,214**	**-**	**(93,387)**	**-**	**(8,173)**
Effect of exchange rate changes	-	-	-	2,380	**2,380**
Total income for the year recognised directly in equity	-	-	-	**2,380**	**2,380**
Net profit	-	-	599		**599**
Total income for the year	-	-	**599**	**2,380**	**2,979**
Additional paid-in capital contribution *(Note 10)*		10,138			**10,138**
Distribution to parent company *(Note 10)*	-	-	(27,659)	-	**(27,659)**
At December 31, 2005	**85,214**	**10,138**	**(120,447)**	**2,380**	**(22,715)**
Effect of exchange rate changes	-	-	-	213	**213**
Total income for the year recognised directly in equity	-	-	-	**213**	**213**
Net profit	-	-	779	-	**779**
Total income for the year	-	-	**779**	**213**	**992**
Decrease in share capital *(Note 10)*	(26,669)	-	26,669	-	-
Additional paid-in capital contribution *(Note 10)*	-	4,385	-	-	**4,385**
Distribution to parent company *(Note 10)*	-	-	(6,510)		**(6,510)**
At December 31, 2006	**58,545**	**14,523**	**(99,509)**	**2,593**	**(23,848)**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts are in thousands of US dollars)

	December 31,	
	2006	**2005**
Cash flow from operating activities		
Net profit for the year	779	599
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortisation	8,153	8,274
Foreign exchange (gains) / losses, net	(672)	644
Financial income *(Note 22)*	(705)	(1,086)
Financial expense *(Note 22)*	12,152	9,238
Allowance for doubtful accounts and other receivables write-off *(Note 20)*	3,574	1,274
Allowance for slow-moving and damaged items	(278)	453
Loss on disposal of non-current assets	2,371	1,336
Deferred income tax benefit	(2,024)	(959)
	23,350	**19,773**
Changes in operating assets and liabilities:		
Increase in inventories	(585)	(1,651)
Increase in prepayments, receivables and other assets	(3,787)	(21,078)
(Increase)/decrease in receivables from/payables to related parties	(1,540)	15,474
(Decrease)/increase in taxes payable	(706)	855
Increase in trade and other payables	7,230	10,185
Net cash flows from operating activities	**23,962**	**23,558**

Continued on the next page

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(All amounts are in thousands of US dollars)

	December 31, 2006	December 31, 2005
Cash flows from investing activities		
Issuance of loans to third parties	(296)	-
Proceeds from repayment of loans issued to third parties	162	-
Loans issued to related parties	(3,553)	(1,942)
Proceeds from repayment of loans issued to related parties	4,207	7,393
Purchases of property, plant and equipment	(17,908)	(18,944)
Proceeds from disposal of property, plant and equipment	3,472	1,262
Purchase of intangible assets	(2,217)	(1,339)
Proceeds from disposal of intangible assets	81	-
Interest received from bank deposit	390	1,039
Net cash flows used in investing activities	**(15,662)**	**(12,531)**
Cash flows from financing activities		
Proceeds from related party loans	1,040	2,311
Repayment of related party loans	(645)	(4,795)
Distribution to parent company	(6,510)	(27,659)
Proceeds from partners under partnership agreements *(Note 11)*	7,069	6,828
Amounts paid under partnership agreements (*Note 11)*	(6,739)	(5,029)
Proceeds from bank loans *	98,880	190,465
Repayment of bank loans *	(95,444)	(175,593)
Bank interest paid	(7,359)	(7,011)
Interest paid to related parties	(614)	(165)
Proceeds from trademark sales *(Note 21)*	15,000	-
Payments in connection with trademark sales *(Note 21)*	(14,579)	-
Proceeds from cash capital contribution *(Note 10)*	4,385	10,138
Net cash flows used in financing activities	**(5,516)**	**(10,510)**
Effect of exchange rate changes on cash and cash equivalents	117	113
Net increase in cash and cash equivalents	2,901	630
Cash and cash equivalents at beginning of year	3,322	2,692
Cash and cash equivalents at end of year	6,223	3,322

Supplementary cash flow information:

Cash paid for income tax	1,666	1,694

*The Group uses financing which, due to the short term nature of this debt (i.e. 3 to 11 months), requires repayment and reissuance several times throughout the year.

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The accompanying notes form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

OJSC Rosinter Restaurants Holding (the "Company") was registered as a Russian open joint stock company on May 24, 2004. The registered and headquarter address of the Company is at 7 Dushinskaya str., Moscow, 111024, Russia. RIG Restaurants Ltd., a limited liability company (the "Parent") (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus, owns 100% of the Company's share capital. RIG Restaurants Limited is under the ultimate control of Mr. Rostislav Ordovsky-Tanaevsky-Blanco.

OJSC Rosinter Restaurants Holding and its subsidiaries (the "Group") is the leading casual dining operator in Russia and CIS both by number of restaurants and by revenue. The Group's business is focused in serving the most popular cuisines in Russia: Italian, Japanese, American and local Russian cuisine.

The Group derives approximately 90% of its revenues from restaurant business sales:

- most of the Group's restaurants operate under its core proprietary trademarks: "IL Patio pizza pasta grill", "Planet Sushi", "American Bar and Grill", "Café Des Artistes", "Pechki-Lavochki", "El Rincon Espanol", "Moka Loka", and "1 2 3 Cafe". The Group also owns the "Santa Fe" restaurant.
- other restaurants operate under licensed trademarks: "T.G.I. Friday's", "Sibirskaya Korona" and "Benihana".

Other revenue of the Group represents revenue from the network of independent franchisees in Moscow and throughout Russia and the CIS.

The Group's principal business activities are concentrated within the Russian Federation, but it also operates in Ukraine, Belarus, Kazakhstan, Latvia, Czech Republic and Hungary. The Group also has exclusive development rights and/or registered trademarks in Azerbaijan, Kyrgyzstan, Uzbekistan, Moldova, Estonia, Lithuania, Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro.

The Group has been formed during 2004 to 2006 through a reorganization of entities under common control of the parent company, RIG Restaurants Limited (the "parent"), in which the shares of the subsidiaries were contributed into the share capital of OJSC Rosinter Restaurants Holding.

As a result of the reorganisation, these consolidated financial statements have been prepared using the pooling of interests method, and as such, the financial statements, including corresponding figures, have been presented as if transfers of ownership interests in subsidiaries had occurred at the beginning of the earliest period presented (i.e. January 1, 2005).

The consolidated financial statements of OJSC Rosinter Restaurants Holding for the year ended December 31, 2006 were authorised for issue in accordance with a resolution of the Managing Director on May 8, 2007.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and European countries. For the years ended December 31, 2006 and 2005, the revenues from the Russian market were approximately 83% and 84% of total revenues, respectively.

As of December 31, 2006 and 2005, the Group employed approximately 7,200 and 7,500 people, respectively.

1. CORPORATE INFORMATION (CONTINUED)

The Company had a controlling ownership interest, directly or indirectly, in the following principal subsidiaries:

Entity	Country of incorporation	2006 % Ownership	2005 % Ownership
ROSINTER RESTAURANTS LLC	Russia	98.00%	98.00%
CJSC Rosinter Restaurants Account	Russia	98.00%	98.00%
CJSC RBP-Zvezdochka	Russia	98.00%	98.00%
Resto Star LLC	Russia	98.00%	98.00%
Rosinter Restaurants MO LLC	Russia	98.00%	98.00%
InnCorpService LLC	Russia	98.00%	98.00%
Honored Guest LLC	Russia	100.00%	100.00%
Inkorost (Omsk) LLC	Russia	60.00%	60.00%
Rosinter Restaurants Ufa LLC	Russia	51.00%	51.00%
Rosinter Restaurants Tatarstan LLC	Russia	51.00%	51.00%
Rosinter Restaurants Togliatti LLC	Russia	51.00%	51.00%
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%
JV CJSC RosInter (Novosibirsk)	Russia	94.45%	94.45%
BelRosInter LLC	Belarus	58.59%	58.59%
Rosinter Almaty LLC	Kazakhstan	51.00%	51.00%
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%
RosInter-F LLC	Ukraine	51.00%	51.00%
AmInvest Limited	Cyprus	100.00%	99.97%
SIA Rosinter Restaurants	Latvia	51.00%	51.00%
SIA Food Service	Latvia	51.00%	51.00%
RIGS Services Limited	Cyprus	100.00%	100.00%
Rosinter Andel s.r.o.,	The Czech Republic	100.00%	100.00%
Rosinter Czech Republic, s.r.o.	The Czech Republic	100.00%	100.00%
Rosinter Hungary Kft	Hungary	100.00%	100.00%
Rosinter Oktogon Kft	Hungary	100.00%	100.00%

During 2005 and 2006, the Group opened 70 new restaurants. As of December 31, 2006, the Company operated 174 restaurants and 14 other outlets.

In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened 6 and 12 franchise restaurants in Moscow city and Moscow region in 2005 and 2006, respectively.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. As of December 31, 2006, the Group had a deficit on equity of $23,848 and its current liabilities exceeded its current assets by $41,464 as of the same date. The group made a net profit of $779 and $599 for 2006 and 2005, respectively. The group generated cash flows from operating activities of $23,962 and $23,558 in 2006 and 2005, respectively.

2. GOING CONCERN (CONTINUED)

The deficit on equity of $23,848 as of December 31, 2006 primarily resulted from distributions to RIG Restaurants Limited during 2004 to 2006 of $64,263 in the form of loans which were subsequently forgiven.

The Group's current liabilities as of December 31, 2006 of $65,722 exceeded its current assets by $41,464. The net current liability position primarily relates to short-term debt of $31,774, trade and other payables of $23,154 and short-term debt and payables to related parties of $7,274.

The Group has historically financed its operations and growth through cash flows from operations and third-party financing, a significant portion of which outstanding at December 31, 2006, is payable in 2007. Despite an expectation of continued positive cash flows from operations in 2007, the Group is dependent on refinancing its existing debt and/or raising additional cash through other debt or equity transactions to continue its operations as planned through 2007. However, there can be no assurance that such funds will be available when needed or on terms that would be acceptable to the Group. Management's plans to address these issues are discussed below.

Group management believes that it is appropriate to prepare the financial statements on a going concern basis as the Group has undertaken several initiatives aimed at improving performance and liquidity, including, but not limited to, the following:

a) In November to December 2006, 29% of the bondholders exercised their put option which resulted in approximately $11,000 having to be repaid through short term bank loans. Subsequent to December 31, 2006, these bonds were repurchased by investors in the market with a new put option exercisable May 30, 2008 and a maturity date of November 26, 2010.

b) The Group extended approximately $5,000 of Sberbank short-term debt from Q1 2007 to Q3 2007. Management believes that, if required, a further extension is likely, due to the Group's strong relationship with Sberbank. Given the Group's long-term relationship with other banks, management believes that, if required, an extension of other short-term loans is probable. In addition, the Group has $2,130 of open credit lines as of December 31, 2006 and approximately $13,000 of credit line requests pending the approval of credit committees of these banks.

c) Management has introduced enhanced operational initiatives designed to improve the Group's liquidity and its capital expenditure process. Actions implemented include, among others, an improvement in the business economics through savings in labour, food and beverage costs, and an increased franchised component in its new restaurant development plan. Based upon the Group's operating plan, management expects cash flow from operating activities for 2007 to increase over 2006.

d) If necessary, payables and short-term debts to related parties in the amount of $7,274 as of December 31, 2006 can be renegotiated and extended to 2008 or later.

Management believes that the combination of the aforementioned initiatives will provide the Group with the liquidity necessary for it to continue to finance its operations through at least June 2008.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary if such additional resources are not available and the Group is unable to continue as a going concern.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in Note 4.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interests method. Assets and liabilities were recognized using the carrying value of the predecessor companies.

As the Group has not previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1. IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in these consolidated financial statements because the Group did not exist previously.

Adoption of New and Revised International Financial Reporting Standards

The Group has adopted IFRS effective at December 31, 2006 from January 1, 2005, the date of transition to IFRS.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments"
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements".

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

Adoption of New and Revised International Financial Reporting Standards (continued)

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after January 1, 2007.

The amendment of IAS 1 "Presentation of Financial Statements - Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007.

IFRS 8 "Operating Segments" requires disclosure of information about an entity's operating segments. The provisions are effective for reporting periods beginning on or after January 1, 2009.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after June 1, 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after November 1, 2006.

IFRIC 11 addresses the issue as to whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after March 1, 2007.

IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Principles of Consolidation

Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Some of the Group's subsidiaries are incorporated in the legal form of limited liability companies (LLC) and have several participants. Each participant had a right to a dividend distribution proportional to its ownership interest. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which was determined as its proportional share of net assets reported in the Russian statutory accounts. Therefore, the minority interest in these LLCs is classified as a liability in the Group's consolidated balance sheet. The income attributed to the minority is shown as a finance expense in the consolidated income statement.

Acquisition of Subsidiaries from Parties under Common Control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interests method. The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. These financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investment in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Principles of Consolidation (continued)

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the years ended December 31, 2006 and 2005, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the period the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Other non-current assets include rent security deposits made by the restaurants.

Functional and Presentation Currency

The Group has chosen the US dollar as the presentation currency as being more convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Company and its subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). The functional currency of the subsidiaries located in other countries is other local currency. The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" (revised). As at the reporting date, the assets and liabilities of the subsidiaries which use the rouble or other local currency as the functional currency are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Equity items, other than the net profit or loss for the period that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction.
The exchange differences arising on the translation are taken directly to a separate component of equity.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Functional and Presentation Currency (continued)

Transactions in foreign currencies in the Company and each subsidiary are initially recorded in the functional currency at the rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash and cash equivalents

Cash comprises cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

Prepayments and Receivables

Prepayments and receivables, which generally have a short term, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due at the balance sheet date, was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realizable value. Cost of inventory is determined on the first-in, first-out basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated principally on a straight-line basis over the following estimated economic useful lives:

Description	Useful life, years
Leasehold improvements and buildings	Shorter of lease period or 10 years
Restaurant and small equipment	4-10 years
Office furniture and fixtures	10 years
Machinery and equipment	10 years
Motor vehicles	5-10 years
Computer and electronic equipment	4 years

Depreciation attributable to restaurants is presented in cost of sales; other depreciation is presented within selling, general and administrative expenses in the consolidated income statement.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated income statement as incurred.

Borrowing costs

Borrowing costs of the Company include interest on bank overdrafts and short-term and long-term credit facilities. Borrowing costs of the Company that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the year ended December 31, 2006 and 2005, the Group capitalized borrowing costs for leasehold improvements in the amount of $529 and $378, using the capitalization rate of 4.95% and 2.97%, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the construction and the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arose before the opening of new restaurants. Start-up expenses for new restaurants are recognised as general and other operating expense in the accounting period the related work was performed.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives from 4 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The following specific amortization terms are applied for each type of intangible asset:

The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Such franchise lump sums are amortized on a straight-line basis over the franchise contractual period of 15 years.

The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortized on a straight-line basis over the useful life period, generally from 4 to 10 years.

Software development costs are capitalized in accordance with requirements of IAS 38 at cost and are amortized on a straight-line basis over their estimated useful lives, generally five years.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue or as a fixed monthly payment and are recognized as an expense in the consolidated income statement over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Loans

Loans and credit facilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and credit facilities are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the loan.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Liabilities under the partnership agreements

The Group enters into partnership agreements with third parties (the "Partners") in respect of opening and operating the new restaurants. In accordance with the partnership agreements, the Partners have the right to obtain a share in profits of a particular restaurant or group of restaurants in return for their initial cash investments into the restaurants. The Group manages the operations of the restaurants.

The Group recognizes all assets and liabilities of the restaurant in the Group's consolidated financial statements as well as all income and expenses from their operations. In addition, the Group recognizes a liability to Partners under the partnership agreements. At initial recognition, the liability to Partners is recognised at its fair value which is equal to the initial cash investment of the Partner. Subsequently, the liability to Partners is measured at amortised cost which is calculated as the net present value of the estimated future payments to the Partner using an effective interest method and any unwinding of the discount is reflected in the income statement as a finance charge. If the estimates of the future cash payments to the Partner change, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognised as finance income or expense in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Revenue Recognition

Revenues are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable and comprises amounts received following direct sales in restaurant and amounts received or receivable from franchise holders, net of any rebates, VAT and other sales taxes.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues from restaurants

Restaurant revenues are recognized when food and beverages are served. Revenues from food distribution are recognized upon delivery to the customers. Revenues are recognized at fair value of meals and services delivered, net of value added tax charged to customers.

Franchise revenues

Franchise fees comprise continuing franchise fees, which are charged for the use of the continuing rights granted by the franchise agreements and for other services provided during the period of the agreement. Franchise fees are recognized as revenues as the rights are used or the services are provided.

Sublease revenues

The Group leases certain premises. Parts of these premises are subleased to third parties. Sublease revenues are recognized over the lease term.

Royalty income

The Group owns several trademarks and intellectual properties. Royalty income from an individual licensee is recognized as a percentage of its revenue over the period of the royalty agreement. Royalty fees are reported as royalty revenue when the fees are earned and become receivable.

Interest income

Interest is recognized using the effective interest method.

Loyalty programs

The Group operates the "Honoured Guest" and "Malina" loyalty programs to provide customers with incentives to buy its services. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer award credits. The customer can redeem the award credits for free meals or other free or discounted goods and services.

The Group recognizes the obligation to give customers free or discounted goods or services at the time of the initial sale. This obligation is measured by the cost of revenues required to settle the obligation.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided for temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recognised in equity.

Accounting Judgements and Estimates

On an on-going basis, management of the Group evaluates its estimates and assumptions. Management of the Group bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's consolidated financial statements actual results may vary from these estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of lease agreements

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is longer than 75 percent of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amounts to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

Partnership agreements

In order to raise capital for the development of its restaurants in the Moscow region, the Group has entered into a number of partnership agreements. The Group has determined that, under the terms of the partnership agreements, it maintains full control of the restaurants business while partners gain a share in the profits of the restaurants.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Accounting Judgements and Estimates (continued)

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an assets fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The Group recognized no impairment losses for the years ended December 31, 2006 and 2005 .

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on specific analysis of the major outstanding prepayments and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2006 and 2005, the allowance for doubtful accounts amounted to $2,156 and $1,575, respectively.

Allowance for slow moving and damaged inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation. As of December 31, 2006 and 2005, the allowances for obsolete inventory amounted to $1,217 and $1,453, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Estimation Uncertainty (continued)

Current Taxes

Russian tax legislation is subject to varying interpretation and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. During the years ended December 31, 2006 and 2005, the Group reduced its costs of operations by approximately $8,000 and $10,000, respectively, through the utilization of certain tax planning strategies. See also Note 23 – Contingencies.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from such estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In such an event, the assessment of future utilization of deferred tax assets must be reduced and this reduction be recognized in profit or loss.

5. INTANGIBLE ASSETS

The movement in intangible assets for the year ended December 31, 2005 was as follows:

	Franchise rights *	Exclusive rent rights **	Trademarks	Software	Total
Cost					
At January 1, 2005	573	2,546	34	604	3,757
Additions	-	610	3	724	1,337
Disposals	-	(30)	-	-	(30)
Translation difference	(77)	(230)	(23)	(130)	(460)
At December 31, 2005	496	2,896	14	1,198	4,604
Accumulated amortization					
At January 1, 2005	(145)	(164)	(18)	(83)	(410)
Charge for the year	(77)	(293)	(8)	(72)	(450)
Translation difference	112	54	24	29	219
At December 31, 2005	(110)	(403)	(2)	(126)	(641)
Net Book Value					
At January 1, 2005	**428**	**2,382**	**16**	**521**	**3,347**
At December 31, 2005	**386**	**2,493**	**12**	**1,072**	**3,963**

5. INTANGIBLE ASSETS (CONTINUED)

The movement in intangible assets for the year ended December 31, 2006 was as follows:

	Franchise rights *	Exclusive rent rights **	Trademarks	Software	Total
Cost					
At December 31, 2005	496	2,896	14	1,198	**4,604**
Additions	945	70	9	1,253	**2,277**
Disposals	(37)	(20)	(3)	(30)	**(90)**
Translation difference	45	271	-	130	**446**
At December 31, 2006	1,449	3,217	20	2,551	**7,237**
Accumulated amortization					
At December 31, 2005	(110)	(403)	(2)	(126)	**(641)**
Charge for the year	(41)	(306)	(1)	(96)	**(444)**
Translation difference	(15)	(29)	-	(3)	**(47)**
At December 31, 2006	(166)	(738)	(3)	(225)	**(1,132)**
Net Book Value					
At December 31, 2005	**386**	**2,493**	**12**	**1,072**	**3,963**
At December 31, 2006	**1,283**	**2,479**	**17**	**2,326**	**6,105**

* The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Franchise lump sums are amortized on a straight-line basis over the franchise contractual period of 15 years.

** The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortized on a straight-line basis over the period until the right expires, generally from 4 to 10 years.

6. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended December 31, 2005 was as follows:

	Leasehold improvements	Buildings	Restaurant equipment	Machinery and equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost									
At January 1,2005	26,070	5,433	10,261	6,486	2,879	3,310	523	10,165	65,127
Additions	545	507	198	-	20	45	-	17,679	18,994
Assets put into use	9,421	522	3,798	2,185	1,054	1,110	118	(18,208)	-
Disposals	(615)	(11)	(322)	(426)	(158)	(285)	(68)	(981)	(2,866)
Translation difference	(1,069)	(202)	(403)	(252)	(131)	(124)	(20)	(205)	(2,406)
At December 31, 2005	34,352	6,249	13,532	7,993	3,664	4,056	553	8,450	78,849
Accumulated Depreciation									
At January 1,2005	(9,950)	(2,171)	(2,704)	(1,800)	(1,394)	(744)	(197)	-	(18,960)
Charge for the year	(4,228)	(556)	(1,229)	(652)	(671)	(421)	(67)	-	(7,824)
Disposals	15	6	76	30	121	23	26	-	297
Translation difference	285	88	114	70	60	37	-	-	654
At December 31, 2005	(13,878)	(2,633)	(3,743)	(2,352)	(1,884)	(1,105)	(238)	-	(25,833)
Net Book Value									
At January 1,2005	**16,120**	**3,262**	**7,557**	**4,686**	**1,485**	**2,566**	**326**	**10,165**	**46,167**
At December 31, 2005	**20,474**	**3,616**	**9,789**	**5,641**	**1,780**	**2,951**	**315**	**8,450**	**53,016**

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The movement in property, plant and equipment for the year ended December 31, 2006 was as follows:

	Leasehold improvements	Buildings	Restaurant equipment	Machinery and equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost									
At December 31, 2005	34,352	6,249	13,532	7,993	3,664	4,056	553	8,450	78,849
Additions	1,340	-	853	304	191	152	27	15,884	18,751
Assets put into use	10,590	175	2,569	1,410	1,823	937	139	(17,643)	-
Disposals	(1,851)	(748)	(1,489)	(807)	(378)	(416)	(130)	(2,060)	(7,879)
Translation difference	2,761	514	905	702	320	265	53	445	5,965
At December 31, 2006	47,192	6,190	16,370	9,602	5,620	4,994	642	5,076	95,686
Accumulated Depreciation									
At December 31, 2005	(13,878)	(2,633)	(3,743)	(2,352)	(1,884)	(1,105)	(238)	-	(25,833)
Charge for the year	(3,970)	(521)	(1,088)	(799)	(829)	(452)	(50)	-	(7,709)
Disposals	703	55	617	231	237	152	52	-	2,047
Translation difference	(807)	(209)	(16)	(197)	(128)	(92)	(3)	-	(1,452)
At December 31, 2006	(17,952)	(3,308)	(4,230)	(3,117)	(2,604)	(1,497)	(239)	-	(32,948)
Net Book Value									
At December 31, 2005	**20,474**	**3,616**	**9,789**	**5,641**	**1,780**	**2,951**	**315**	**8,450**	**53,016**
At December 31, 2006	**29,240**	**2,882**	**12,140**	**6,485**	**3,016**	**3,497**	**403**	**5,076**	**62,739**

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of December 31, 2006 and 2005, certain items of property, plant and equipment with a carrying value of $14,137 and $9,705, respectively, were pledged to banks as collateral against loans to the Group.

In 2006, the Group purchased computer equipment on finance lease terms. The carrying value of the leased assets as of December 31, 2006 amounted to $940.

7. INVENTORIES

Inventories consisted of the following as of December 31:

		2006		2005
Foods, beverages, liquors and tobacco, at cost	$	3,276	$	2,480
Utensils, paper goods and other items, at cost		2,286		2,218
		5,562		4,698
Allowance for slow-moving and damaged items		(1,217)		(1,453)
Total inventories	$	**4,345**	$	**3, 245**

8. PREPAYMENTS AND RECEIVABLES

Prepayments and receivables consisted of the following as of December 31:

		2006		2005
Advances to suppliers	$	6,536	$	5,169
VAT receivable		3,349		4,131
Advances to employees		291		225
Other receivables		1,971		16,982
		12,147		26,507
Allowance for doubtful accounts		(2,156)		(1,575)
Total prepayments and receivables, net	$	**9,991**	$	**24,932**

Other receivables balance as of December 31, 2005 included $15,000 due from YUM! Restaurants International S.a.r.l., for “Rostik’s” intellectual property sold in 2005. See Note 12.

Prepayments and receivables were denominated in the following currencies as of December 31:

		2006		2005
RUR	$	7,611	$	8,428
USD		436		15,306
Other currencies		1,944		1,198
Total prepayments and receivables	$	**9,991**	$	**24,932**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31:

	2006	2005
Cash in hand	$ 2,968	$ 344
Cash at bank	620	1,705
Cash in transit	2,635	1,273
Total cash and cash equivalents	**$ 6,223**	$ **3,322**

Cash and cash equivalents were denominated in the following currencies as of December 31:

	2006	2005
RUR	$ 4,556	$ 2,402
USD	756	302
Euro	39	10
Other currencies	872	608
Total cash and cash equivalents	**$ 6,223**	**$ 3,322**

10. SHARE CAPITAL

Share Capital

The Company was established as the result of a reorganization of entities under control of the parent company, RIG Restaurants Limited. See Note 1. The Company was established as an open joint stock company in accordance with the legislation of the Russian Federation on May 24, 2004. At that time, the Company issued 10,000,000 common shares with a par value of 247 roubles per share ($8.52 USD per share at the exchange rate as of May 24, 2004).

In December 2006, the Company reduced the par value of its shares to 169.7 roubles per share, which resulted in a decrease in share capital of $26,669. This decrease of share capital was recorded as a reduction in accumulated losses. As of December 31, 2006, the Company's share capital amounted to $58,545 (translated at the historical exchange rate as of May 24, 2004).

Additional paid-in capital

During 2006 and 2005, RIG Restaurants Limited, the parent company, made cash contributions to the Company, which were recorded in the total amount of $4,385 and $10,138, respectively, as increases in additional paid-in capital.

10. SHARE CAPITAL (CONTINUED)

Distribution to parent company

In accordance with an agreement dated May 25, 2004 between the Company and the Parent company – RIG Restaurants Limited, the Company has provided financing to its parent in the amount of $27,659 and $6,510 in 2005 and 2006, respectively. The loans were subsequently forgiven, which represents a distribution to the shareholder.

Earnings per share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

		2006		**2005**
Net profit attributable to equity holders of the parent entity	$	779	$	599
Weighted average number of ordinary shares outstanding		10,000,000		10,000,000
Profit per share attributable to equity holders of the parent entity, basic and diluted (US dollars)	$	0.08	$	0.06

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

11. LIABILITIES UNDER PARTNERSHIP AGREEMENTS

The movements in liabilities under partnership agreements were as follows during the years ended December 31:

		2006		**2005**
At January 1	$	11,495	$	8,145
Increase in amounts due under partnership agreements		4,743		1,550
Payments under partnership agreements		(6,739)		(5,029)
Capital contributed by partners		7,069		6,828
Translation difference		1,187		-
At December 31	**$**	**17,755**	**$**	**11,495**

Analysed as to:

		2006		**2005**
Current portion	$	3,158	$	2,150
Long-term portion		14,597		9,345
	$	**17,755**	$	**11,495**

12. RELATED PARTIES DISCLOSURES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Short term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	Nature of relationship	Short-term loans receivables from related parties		Short-term loans payables to related parties	
		2006	2005	2006	2005
Rostik Investment Group Inc. (1,2)	Entity under common control (EUCC)	$ -	$ 1,466	$ 690	$ 690
RIG Restaurants Limited (3)	Parent company	-	-	912	1,078
Amazonit LLC (4)	EUCC	891	-	-	-
Other EUCC (5)		944	135	496	1,150
Total short-term loans receivable from / payable to related parties		**$ 1,835**	**$ 1,601**	**$ 2,098**	**$ 2,918**

(1) In December 2005, the Group provided Rostik Investment Group Inc. with a loan in the amount of $1,466, bearing interest of 11% per annum, which was repaid in April 2006.

(2) In January 1999, Rostik Investment Group Inc. provided certain Group companies with a loan in the amount of $690, bearing interest of 11% per annum and due in December 2006. In 2006, the loan agreement was renewed with the same interest rate and due date of July 1, 2007.

(3) In the period from July 2001 to June 2003, RIG Restaurants Limited provided to certain Group companies interest free loans repayable between July and December 2006. The aggregated outstanding balance as of December 31, 2005 amounted to $1,078. In 2006, the loan agreement for the outstanding loan balance of $912 was renewed with the same interest rate and is due on December 31, 2007.

(4) In December 2006, the Group provided Amazonit LLC with an interest free loan of $891 due in March 2007.

(5) The interest rate for the loans given to/received from the other EUCC varies from nil to 12% per annum.

12. RELATED PARTIES DISCLOSURES (CONTINUED)

Long-term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	Long-term loans receivables from related parties		Long-term loans payables to related parties	
	$ 2006	$ 2005	$ 2006	$ 2005
Other EUCC (5)	240	-	1,150	415
Total long term loans receivable from / payable to related parties	$ **240**	$ **-**	$ **1,150**	$ **415**

Accounts receivable from / payable to related parties consisted of the following as of December 31:

Related Parties	Nature of relationship	Receivables from related parties		Payables to related parties	
		2006	2005	2006	2005
Rostik Investment Group Inc.(6)	EUCC	$ -	$ -	$ 455	$ 12,000
RIG Restaurant Limited (Cyprus) (7)	Parent company	295	774	2,189	2,389
PBO Service LLC (8)	EUCC	43	525	183	881
Other EUCC		1,375	686	2,349	1,003
Total receivable from / payable to related parties		$ **1,713**	$ **1,985**	$ **5,176**	$ **16,273**

(6) In 2005, the Group sold the "Rostik's" intellectual property world wide to YUM! Restaurants International S.a.r.l., a third party, for consideration of $15,000.

The consideration of $15,000 and the related costs, including the cost related to compensation to Rostik Investment Group Inc., which serves as a representative of the intellectual property owner of $12,000 and third party costs of $2,579, were included in the consolidated income statement for the year ended December 31, 2005 (see Note 21).

The outstanding payable balance as of December, 31 2006, in the amount of $455, comprises rent payable and interest payable.

(7) The outstanding receivable balance results from operating expenses paid by the Group on behalf of RIG Restaurants Limited and from management services provided to RIG Restaurants Limited. The payables mainly result from management services which were provided to the Group.

(8) The outstanding receivable balance relates to royalties for using the "Rostik's" trademark prior to its transfer to a third party - YUM! Restaurants International S.a.r.l. The outstanding payable balance mainly relates to the purchases of non-current assets.

12. RELATED PARTIES DISCLOSURES (CONTINUED)

Transactions with related parties were as follows for the year ended December 31, 2005:

Related Parties	Nature of relationship	Sales and other income $ 2005	Purchases $ 2005	Interest income $ 2005	Interest expense $ 2005
Amazonit LLC (9)	EUCC	-	3,374	-	-
RosCorp LLC (10)	EUCC	-	3,370	-	-
PBO Service LLC (11)	EUCC	4,931	373	759	151
Rostik Investment Group Inc. (6)	EUCC	-	12,000	9	180
Other EUCC		40	953	227	152
Total:		$ **4,971**	$ **20,070**	$ **995**	$ **483**

Transactions with related parties were as follows for the year ended December 31, 2006:

Related Parties	Nature of relationship	Sales and other income 2006	Purchases 2006	Interest income 2006	Interest expense 2006
Amazonit LLC (9)	EUCC	$ -	$ 2,831	$ 82	$ -
RosCorp LLC (10)	EUCC	-	3,453	-	-
PBO Service LLC (11)	EUCC	496	1,380	-	-
Rostik Investment Group Inc. (6)	EUCC	-	455	80	71
Other EUCC		1,311	2,804	457	159
Total:		$ **1,807**	$ **10,923**	**$ 619**	$ **230**

(9) During, 2006 and 2005, the Group received information, management and outsourcing services in the amount of $2,831and $3,374, respectively.

(10) During 2006 and 2005, the Group purchased rent, transport and utilities services in the amount of $3,453 and $3,370, respectively.

(11) In 2005, the Group received royalty fees and management fees. In 2006, the Group purchased several types of goods and services, including property and equipment.

RIG Restaurants Limited, the Parent company, and other EUCC provided several guarantees to secure some of the Group's debts. See Notes 13 and 17.

Compensation to Key Management Personnel

Key management personnel totalled 13 persons as at December 31, 2006 and 2005. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2006	2005
Salary	$ 1,913	$ 1,884
Performance bonuses	229	321
	$ 2,142	**$ 2,205**

13. LONG-TERM DEBT

Long-term debt, at amortized cost, consisted of the following as of December 31:

	2006	2005
Bonds issued, net of issuance cost	$ 32,266	$ 39,383
International Moscow Bank	-	4,800
Ukreximbank	1,205	615
Sberbank	3,798	-
Kazkommertsbank	1,083	-
Other long-term debts	401	362
	38,753	**45,160**
Less: current portion	(69)	(236)
Total long-term debt	**$ 38,684**	**$ 44,924**

The liabilities are contractually repayable after the balance sheet date as follows:

	2006	2005
2007	$ -	$ 4,857
2008	37,949	40,038
2009	374	37
2010	276	38
2011	121	-
Less: discount adjustment	(36)	(46)
Total long-term debt	**$ 38,684**	**$ 44,924**

Long-term loans were denominated in the following currencies as of December 31:

	2006	2005
RUR	$ 36,064	$ 39,383
USD	2,221	5,533
Other currencies	399	8
Total long term loans	**$ 38,684**	**$ 44,924**

Bonds

In July 2003, Rosinter Restaurants LLC, a Group company, registered with the Federal Securities Market Commission in Russia the issue of 400,000 non-convertible bonds with a face value of 1,000 roubles each in an aggregated principal amount of 400 million Russian roubles. On July 7, 2004, the Group issued 330,371 of those bonds in an aggregated principal amount of 330 million Russian roubles. The bonds have 16 coupons payable quarterly. Interest rates for each coupon vary from 11% to 12% per annum. During 2005, the Group redeemed part of this issue. The outstanding balance as of December 31, 2005 and 2006 is 144,231 bonds in the amount of $5,010 (at the exchange rate as of December 31, 2005) and $5,477 (at the exchange rate as of December 31, 2006), respectively. The bonds are due in July 2008.

13. LONG-TERM DEBT (CONTINUED)

Bonds (continued)

In December 2005, Rosinter Restaurants LLC, a Group company, issued an additional 1,000,000 non-convertible bonds with a face value of 1,000 roubles each in an aggregated principal amount of 1,000 million Russian roubles ($34,744 at the exchange rate as of December 31, 2005). The bonds have 10 coupons payable semiannually with variable interest rates declared by the Group. The interest rate for the two coupon periods in 2006 was 11%. The interest rate for the three coupon periods ending May 2008 is 10.75%. During 2006, bondholders exercised their early redemption option, which resulted in a decrease in bonds of $10,600. The outstanding balance as of December 31, 2006 is 711,495 bonds in the amount of $27,021 (at the exchange rate as of December 31, 2006). The bonds maturity date is on November 26, 2010. The bondholders have an early redemption option exercisable in May 2008.

International Moscow Bank

In May 2004, the Group obtained a loan in the amount of $4,800 bearing interest of LIBOR+7% per annum and maturing on May 12, 2007. In 2005, the average interest rate was 10.33%. The loan was secured against property, plant and equipment with a net book value of $3,196. In 2006, this loan was reclassified to short-term loans (see Note 17). The loan agreement contains covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity.

Ukreximbank

During 2005, the Group obtained an unsecured credit facility in the amount of $1,388 bearing interest of 12% per annum and maturing in 2008. The unutilized balance of the credit facility amounted to $183 and $773 as of December 31, 2006 and 2005, respectively.

Sberbank

In September 2006, the Group obtained a loan in the amount of $3,798 bearing interest of 9.2% per annum and maturing in March 2008. The loan is secured by a pledge of restaurant equipment with a net book value of $1,657.

Kazkommertsbank

During 2006, the Group obtained credit facilities in the total amount of $1,891 bearing interest of 12% per annum and maturing during 2010 and 2011. The credit facilities were secured by a pledge of restaurant equipment of Rosinter LLC Almaty, a subsidiary of the Group, with a net book value of $553. The unutilized balance of the credit facility amounted to $808 as of December 31, 2006.

14. FINANCE LEASE LIABILITIES

During 2006, the Group entered into a number of computer equipment lease agreements.The computer equipment under finance leases amounted to $940 as of December 31, 2006 (2005: nil). The leased assets are included in property, plant and equipment in the consolidated balance sheets (Note 6).

Future minimum lease payments were as follows at December 31, 2006:

	Principal	Interest	Total
2007	$ 362	$ 60	$ 422
2008	201	99	300
2009	93	94	187
Less: current portion	(362)	(60)	(422)
	$ 294	**$ 193**	**$ 487**

In the year ended December 31, 2006, the average interest rate was 9.28%.

15. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Current tax	$ (2,372)	$ (839)
Deferred tax	2,024	959
Total income tax (expense) /benefit	**$** (348)	$ 120

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31:

	1 Jan-05	Differences recognition and reversal	Translation difference	31-Dec-05	Differences recognition and reversal	Translation difference	31-Dec-06
Tax effect of deductible temporary differences							
Trade and other payables	882	859	(32)	1,709	852	2	2,563
Allowance for receivables and inventory obsolescence	292	529	(20)	801	792	-	1,593
Other	330	-	1	331	295	126	752
Total deferred tax asset:	**$ 1,504**	**$ 1,388**	**$ (51)**	**$ 2,841**	**$ 1,939**	**$ 128**	**$ 4,908**
Tax effect of taxable temporary differences							
Property, plant and equipment	(2,678)	102	(4)	(2,580)	-	(14)	(2,594)
Trade and other receivables	-	(19)	-	(19)	(112)	(2)	(133)
Other	(223)	(512)	20	(715)	197	25	(493)
Total deferred tax (liability):	**$ (2,901)**	**$ (429)**	**$ 16**	**$ (3,314)**	**$ 85**	**$ 9**	**$ (3,220)**
Net deferred tax asset / (liability)	**$ (1,397)**	**$ 959**	**$ (36)**	**$ (473)**	**$ 2,024**	**$ 137**	**$ 1,688**

15. INCOME TAX (CONTINUED)

The recognition and reversals of temporary differences, as presented in the table above, primarily relate to the depreciation of property, plant and equipment in excess of the depreciation for tax purposes, impairment of receivables, and provisions to write inventory down to net realizable value.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to $15,824 and $48,912 for the years ended December 31, 2006 and 2005 respectively.

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in 2005 and 2006. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual (expense)/benefit recorded in the Group's income statement:

		2006		2005
Profit before income tax	$	1,127	$	479
At Russian statutory income tax rate of 24%		(270)		(115)
Effect of differences in tax rates in countries other than the Russian Federation		1,036		1,440
Effect of non-deductible expenses and other non-temporary differences		(1,114)		(1,205)
Income tax (expense)/benefit reported in the consolidated income statement	**$**	**(348)**	**$**	**120**

16. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of December 31:

		2006		2005
Trade creditors	**$**	7,821	**$**	7,480
Accrued salaries		5,216		4,640
Output VAT and other taxes payable		4,276		2,123
Interest payable to banks		294		639
Advances received		1,472		1,388
Other liabilities		4,075		4,930
Total trade and other payables	**$**	**23,154**	**$**	**21,200**

Trade and other payables were denominated in the following currencies as of December 31:

		2006		2005
RUR	$	18,558	$	16,461
USD		1,017		1,722
Other currencies		3,579		3,017
Total trade and other payables	**$**	**23,154**	**$**	**21,200**

17. SHORT-TERM DEBT

Short-term debt consisted of the following as of December 31:

	2006	2005
Sberbank	$ 6,076	$ 2,537
Bank Societe` General Vostok (BSGV)	5,000	4,000
Citibank	-	1,494
Alfa Bank	3,418	4,364
UralSib	8,000	5,000
Kazkommerzbank	-	918
International Moscow Bank *(Note 13)*	4,800	-
Amsterdam TB	4,000	-
Other	411	27
Current portion of long-term loans *(Note 13)*	69	236
Total short-term debt	**$ 31,774**	**$ 18,576**

Short-term debt was denominated in the following currencies as of December 31:

	2006	2005
RUR	$ 9,821	$ 5,859
USD	21,800	11,736
Other currencies	153	981
Total short term loans	**$ 31,774**	**$ 18,576**

Sberbank

In December 2004, the Group entered into a loan agreement amounting to $2,500 bearing interest of 10.5% per annum, which matured in June 2006. The loan was secured by a pledge of the Group's restaurant equipment with a net book value of $2,692.

In December 2005, the Group entered into a revolving credit facility in the total amount of 155 million roubles ($5,385 at the exchange rate as of December 31, 2005), bearing interest of 12% per annum and maturing in December 2006. The revolving credit facility was secured by a pledge of the Group's restaurant equipment with a net book value of $5,612. The unutilized balance of the credit facility amounted to $5,348 as of December 31, 2005.

In July 2006, the Group renewed the revolving credit facility for the total amount of 190 million roubles ($7,215 at the exchange rate as of December 31, 2006), bearing interest of 9.5% per annum and maturing in tranches during January to April 2007. The credit facility was secured by a pledge of restaurant and office equipment and furniture with a net book value of $3,212. The unutilized balance of the credit facility amounted to $1,139 as of December 31, 2006.

Bank Societe General Vostok (BSGV)

In November 2005, the Group entered into an unsecured revolving credit facility agreement in the amount of $5,000, bearing interest of LIBOR+6% per annum, which matured in February 2006. In November 2006, the Group entered into a new revolving credit facility agreement in the amount of $5,000 bearing interest of LIBOR+5% per annum and maturing in March 2007 with an implicit extension to November 2007. The unutilized balance of the credit facilities amounted to nil and $1,000 as of December 31, 2006 and 2005, respectively.

17. SHORT-TERM DEBT (CONTINUED)

Citibank

In April 2005, the Group entered into a number of credit facility agreements aggregating 43 million roubles bearing interest of 9.25% per annum, which matured in January 2006. These credit facilities were secured by a guarantee of RIG Restaurants Limited, the parent company, as of December 31, 2005.

Alfa Bank

In September 2005, the Group entered into two credit facility agreements. The first credit facility amounting to 85.6 million roubles ($2,975 at the exchange rate as of December 31, 2005), bore interest of 14% per annum and matured in March 2006. This credit facility was guaranteed by RIG Restaurants Limited, the parent company. The second credit facility amounted to 128.6 million roubles ($4,467 at the exchange rate as of December 31, 2005), bore interest of 14.75% per annum and matured in November 2006. This credit facility was guaranteed by RIG Restaurants Limited and was secured by a pledge of the “Planet Sushi” trademark. The unutilized balance of the credit facilities amounted to $3,078 as of December 31, 2005.

In December 2006, the Group entered into another restricted non-revolving credit facility agreement, amounting to 300 million roubles ($11,393 at the exchange rate as of December 31, 2006) for repayment of bonds relating to the early put option, bearing interest of 11.5% per annum and maturing in June 2007. This credit facility is secured by a guarantee of RIG Restaurants Limited, the parent company.

UralSib

In August 2005, the Group entered into a credit facility agreement amounting to $5,000 bearing interest of 8.8% per annum and maturing in February 2006. The loan was secured by a pledge of part of a building provided by VAKO LLC, a related party, with a net book value of $5,025 and by a guarantee of RIG Restaurants Limited, the parent company, and OJSC Institute Stekla, an entity under common control, as of December 31, 2005. The unutilized balance of the credit facility amounted to nil as of December 31, 2005.

In December 2006, the Group entered into a new credit facility agreement amounting to $8,000 bearing interest of 10% per annum and maturing in December 2007. The loan is secured by a pledge of restaurant equipment with a net book value of $4,815. The unutilized balance of the credit facility amounted to nil as of December 31, 2006.

Kazkommerzbank

During 2005, the Group entered into a number of unsecured credit facility agreements in the total amount of 123 million tenge ($918 at the exchange rate as of December 31, 2005) bearing interest of 12%. The debt was repaid in 2006. The unutilized balances of the credit facilities amounted to nil as of December 31, 2005.

Amsterdam TB

In August 2006, the Group entered into a loan agreement amounting to $4,000 bearing interest of Libor + 3.7% per annum and maturing in November 2007. The loan is guaranteed by RIG Restaurants Limited, the parent company, as of December 31, 2006. The loan agreement contains covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity.

18. REVENUE

Revenue for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Revenue from restaurants	$ 202,330	$ 150,757
Sublease services and other services	3,686	3,895
Franchise revenue	2,913	1,246
Royalties *(Note 12)*	160	3,701
Other	9,537	6,113
Total	**$ 218,626**	**$ 165,712**

Royalties represent payments made by PBO Service LLC, an entity under common control, for the use of the "Rostik's" trademark. Royalty payments significantly decreased in 2006 due to the sale of the "Rostik's" Intellectual Property to YUM! Restaurants International S.a.r.l.

19. COST OF SALES

The following expenses were included in cost of sales for the years ended December 31:

	2006	2005
Food and beverages	$ 58,593	$ 44,773
Payroll and related taxes	39,074	30,373
Rent	23,992	16,095
Loyalty programs discounts	5,659	5,132
Restaurant equipment depreciation	6,222	6,826
Utilities	4,361	3,408
Total	**$ 137,901**	**$ 106,607**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2006	2005
Payroll and related taxes	$ 14,546	$ 10,436
Advertising	6,060	3,408
Start-up expenses for new restaurants	5,744	7,675
Rent	5,009	4,937
Financial and legal services	4,883	4,803
Materials	4,608	3,841
Increase in the allowance for doubtful accounts and other receivables write-off	3,574	1,274
Other services	3,298	2,923
Maintenance and repair services	2,823	1,456
Depreciation and amortization	1,931	1,448
Transportation services	1,449	1,071
Utilities	1,229	1,301
Bank services	1,202	800
Laundry and sanitary control	781	269
Franchising fee	708	953
Other expenses	4,889	2,644
Total	**$ 62,734**	**$ 49,239**

21. OTHER GAINS / LOSSES, NET

Gains and losses for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Loss on disposal of non-current assets	2,371	915
Other gains and losses	3,718	(324)
Total	**$ 6,089**	**$ 591**

Included in the loss on disposal of non-current assets is the gain on the sale of the Rostik trademark amounting to consideration of $15,000 less costs of $12,000 (see Note 12) and other related expenses of $2,579.

Other losses amounting to $3,718 for the year ended December 31, 2006 mainly result from the closure of certain restaurants and the cancellation of lease agreements.

22. FINANCIAL (INCOME)/EXPENSES

The following (income)/expenses were included in financial (income)/expenses for the years ended December 31:

	2006	2005
Interest income	$ (705)	$ (1,086)
Total financial income:	**$ (705)**	**$ (1,086)**

	2006	2005
Interest expense	$ 7,409	$ 7,688
Increase in amounts due under partnership agreements	4,743	1,550
Total financial expenses:	**$ 12,152**	**$ 9,238**

23. COMMITMNENT AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position or operating results.

Russian Federation Tax and Regulatory Environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable.

23. COMMITMNENT AND CONTINGENCIES (CONTINUED)

Russian Federation Tax and Regulatory Environment (continued)

The Group utilized certain tax planning strategies providing tax savings to the Group that reduced its costs of operations in 2005 and 2006 (see Note 4 - Estimation Uncertainty). Management have substantially eliminated these tax planning strategies with effect from December 31, 2006. While management believes that its interpretation of the relevant legislation is appropriate, these tax planning strategies may be challenged by the Russian tax authorities. Thus, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2006. The amount of possible liabilities that could be incurred in the event that the tax authorities challenge the Group's position on certain tax matters and certain tax practices at December 31, 2006 could include the amount of the aforementioned tax savings, and fines, penalties and interest assessed, if any. As of December 31, 2006 and 2005, management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained.

Operating lease commitments

The Group has entered into a number of commercial lease agreements for its restaurants' premises. The nominal amount of minimum rentals payable under the non-cancellable leases as at December 31 were as follows:

	2006	2005
Within one year	$ 19,920	$ 17,993
After one year but not more than five years	63,120	54,996
More than five years	41,966	38,559
Total minimum rental payables:	**$ 125,006**	**$ 111,548**

24. FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations include those related to market movements in interest rates, foreign exchange rates and credit risk. The Group's risk management policies in relation to these risks are as follows.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term credit facilities. The majority of interest rates on long-term credit facilities of the Group are fixed and these are disclosed in Note 13.

The Group has no significant exposure to interest rate risk since the majority of its loans and bonds have a clearly defined stable interest rate, other than short-term credit facilities which expose the Group to the risk of refinancing at different interest rates. The Group does not hedge its interest rate risk.

Currency Risk

Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has no significant exposure to foreign currencies as the major part of the Group's operations and borrowings are made in Russian roubles.

Credit Risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The carrying amount of other receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Fair value of financial instruments

Fair values of cash and cash equivalents, receivables, trade and other payables and short –term debts approximate their carrying amounts due to their short maturity. The fair values of the long-term debts have been determined by using the fair values of comparable debts, which are based on cash flows discounted using market interest rates. The carrying amounts of the long-term debts amount to $38,648, while their fair values amount to $38,684 as of December 31, 2006. These comparisons support the Company's assessment that the fair values of long-term debts approximate the carrying values.