

**OJSC Rosinter Restaurants Holding**

Consolidated Financial Statements

*For the year ended December 31, 2007*

OJSC Rosinter Restaurants Holding

Consolidated Financial Statements

*For the year ended December 31, 2007*

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## 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 sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year 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**

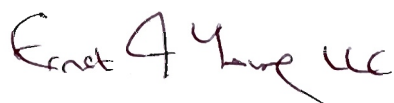
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



May 12, 2008

OJSC Rosinter Restaurants Holding  
Consolidated Balance Sheet at December 31, 2007

*(All amounts are in thousands of US dollars)*

	Notes	December 31, 2007	December 31, 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	7	80,373	62,739
Intangible assets	6	7,105	6,105
Goodwill	5	739	–
Long-term loans due from related parties	14	368	240
Deferred income tax asset	17	3,894	3,729
Other non-current assets		2,314	1,584
		<b>94,793</b>	<b>74,397</b>
<b>Current assets</b>			
Inventories	8	6,232	4,345
Advances paid	9	5,366	5,398
VAT and other taxes recoverable		4,751	3,349
Trade and other receivables	10	2,988	1,244
Short-term loans		410	151
Short-term loans due from related parties	14	18,572	1,835
Receivables from related parties	14	6,783	1,713
Cash and cash equivalents	11	8,037	6,223
		<b>53,139</b>	<b>24,258</b>
<b>TOTAL ASSETS</b>		<b>147,932</b>	<b>98,655</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	12	71,847	58,545
Additional paid-in capital	12	14,886	14,523
Share premium	12	46,698	–
Treasury shares	12	(8,608)	–
Accumulated losses		(93,543)	(99,509)
Translation difference		4,002	2,593
<b>TOTAL EQUITY</b>		<b>35,282</b>	<b>(23,848)</b>
<b>Non-current liabilities</b>			
Long-term debt due to related parties	14	1,046	1,150
Long-term debt	15	278	38,684
Finance lease liabilities	16	334	294
Long-term liabilities to partners	13	–	14,597
Deferred income tax liabilities	17	1,592	2,041
Other liabilities		–	15
		<b>3,250</b>	<b>56,781</b>
<b>Current liabilities</b>			
Trade and other payables	18	33,516	23,154
Short-term debt	19	5,284	31,705
Current portion of long-term debt	19	51,681	69
Short-term debt due to related parties	14	233	2,098
Payables to related parties	14	2,827	5,176
Income tax payable		1,418	–
Current portion of finance lease liabilities	16	363	362
Current liabilities to partners	13	14,078	3,158
		<b>109,400</b>	<b>65,722</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>147,932</b>	<b>98,655</b>

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

OJSC Rosinter Restaurants Holding  
Consolidated Income Statement  
For the year ended December 31, 2007

*(all amounts are in thousands of us dollars, except for earnings per share)*

	Notes	2007	2006
<b>Revenue</b>	20	268,216	218,626
Cost of sales	21	(170,008)	(137,901)
<b>Gross profit</b>		<b>98,208</b>	<b>80,725</b>
Selling, general and administrative expenses	22	(73,826)	(62,734)
Other gains	24	3,933	1,743
Other losses	24	(6,326)	(7,832)
Foreign exchange gains/(losses), net		729	672
<b>Profit from operating activities</b>		<b>22,718</b>	<b>12,574</b>
Financial income	25	1,385	705
Financial expense	25	(13,905)	(12,152)
<b>Profit before income tax</b>		<b>10,198</b>	<b>1,127</b>
Income tax expense	17	(4,232)	(348)
<b>Net profit for the year</b>		<b>5,966</b>	<b>779</b>
<b>Earnings per share, basic and diluted, US dollars</b>	12	<b>0.53</b>	<b>0.08</b>

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

OJSC Rosinter Restaurants Holding  
Consolidated Cash Flow Statement  
*(All amounts are in thousands of US dollars)*

	Notes	2007	2006**
<b>Cash flow from operating activities</b>			
Net profit for the year		5,966	779
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortisation		9,197	8,153
Foreign exchange gains, net		(729)	(672)
Financial income	25	(1,385)	(705)
Financial expense	25	13,905	12,152
Allowance for impairment of advances paid, taxes recoverable and receivables	22	(110)	3,574
Allowance for impairment of inventories		187	(278)
Loss on disposal of non-current assets	24	1,660	2,371
Deferred income tax benefit	17	(450)	(2,024)
Gain on disposal of subsidiaries	24	(988)	–
		<b>27,253</b>	<b>23,350</b>
Changes in operating assets and liabilities:			
Increase in inventories		(2,581)	(585)
Increase in advances, taxes recoverable, receivables and other non-current assets		(3,046)	(3,787)
Increase in receivables from/payables to related parties, net		(5,887)	(2,151)
Increase in trade and other payables		10,729	6,524
<b>Net cash flows from operating activities</b>		<b>26,468</b>	<b>23,351</b>
<b>Cash flows from investing activities</b>			
Issuance of loans to third parties		(2,394)	(296)
Proceeds from repayment of loans issued to third parties		2,012	162
Loans issued to related parties		(27,982)	(3,553)
Proceeds from repayment of loans issued to related parties		11,551	4,207
Purchases of property and equipment		(24,627)	(17,908)
Proceeds from disposal of property and equipment		476	3,472
Purchase of intangible assets		(1,193)	(2,217)
Proceeds from disposal of intangible assets		43	81
Interest received from bank deposit		629	390
Interest received from loans issued to related parties		498	849
Reacquisition of treasury shares	12	(8,608)	–
Acquisition of a subsidiary, net of cost acquired	5	(39)	–
<b>Net cash flows used in investing activities</b>		<b>(49,634)</b>	<b>(14,813)</b>

*Continued on the next page*

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

**OJSC Rosinter Restaurants Holding**  
**Consolidated Cash Flow Statement (continued)**

*(All amounts are in thousands of US dollars)*

	Notes	2007	2006**
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital		60,000	–
Proceeds from related party loans		–	1,040
Repayment of related party loans		(1,064)	(645)
Distribution to the Parent		–	(6,510)
Proceeds from partners	13	4,570	7,069
Amounts paid to partners	13	(15,041)	(6,739)
Payment to acquire ownership interest in subsidiaries from partners	25	(1,667)	–
Proceeds from bank loans *		66,501	98,880
Repayment of bank loans *		(82,398)	(95,444)
Bank interest paid		(6,816)	(7,359)
Interest paid to related parties		(476)	(614)
Proceeds from trademark sales		–	15,000
Payments in connection with trademark sales		–	(14,579)
Proceeds from cash capital contribution	12	363	4,385
Repayment of lease obligations		(534)	(238)
<b>Net cash flows from/ (used) in financing activities</b>		<b>23,438</b>	<b>(5,754)</b>
Effect of exchange rate changes on cash and cash equivalents		1,542	117
Net increase in cash and cash equivalents		1,814	2,901
<b>Cash and cash equivalents at beginning of the year</b>		<b>6,223</b>	<b>3,322</b>
<b>Cash and cash equivalents at end of the year</b>		<b>8,037</b>	<b>6,223</b>
<b>Supplementary cash flow information:</b>			
Cash paid for income tax		3,939	1,666
Non-cash related party loan payable settlement		(912)	–

\*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.

\*\* The Group reclassified interest received from loans issued to related parties and repayment of lease obligations from net cash flows from operating activities to net cash flows used in investing activities and net cash flows used in financing activities, respectively, in the consolidated cash flow statement for the year ended December 31, 2006.

*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	Additional paid-in capital	Share premium	Treasury shares	Accumulated losses	Translation difference	Total Equity
<b>At January 1, 2006</b>	<b>85,214</b>	<b>10,138</b>	–	–	<b>(120,447)</b>	<b>2,380</b>	<b>(22,715)</b>
Effect of exchange rate changes	–	–	–	–	–	213	<b>213</b>
<b>Total income for the year recognised directly inequity</b>	–	–	–	–	–	<b>213</b>	<b>213</b>
Net profit	–	–	–	–	779	–	<b>779</b>
<b>Total income for the year</b>	–	–	–	–	<b>779</b>	<b>213</b>	<b>992</b>
Decrease in share capital <i>(Note 12)</i>	(26,669)	–	–	–	26,669	–	–
Additional paid-in capital contribution <i>(Note 12)</i>	–	4,385	–	–	–	–	<b>4,385</b>
Distribution to the Parent company	–	–	–	–	(6,510)	–	<b>(6,510)</b>
<b>At December 31, 2006</b>	<b>58,545</b>	<b>14,523</b>	–	–	<b>(99,509)</b>	<b>2,593</b>	<b>(23,848)</b>
Effect of exchange rate changes	–	–	–	–	–	1,409	<b>1,409</b>
<b>Total income for the year recognised directly in equity</b>	–	–	–	–	–	<b>1,409</b>	<b>1,409</b>
Net profit	–	–	–	–	5,966	–	<b>5,966</b>
<b>Total income for the year</b>	–	–	–	–	<b>5,966</b>	–	<b>5,966</b>
Issue of share capital, net of issuance cost <i>(Note 12)</i>	13,302	–	46,698	–	–	–	<b>60,000</b>
Additional paid-in capital contribution <i>(Note 12)</i>	–	363	–	–	–	–	<b>363</b>
Treasury shares bought back <i>(Note 12)</i>	–	–	–	(8,608)	–	–	<b>(8,608)</b>
<b>At December 31, 2007</b>	<b>71,847</b>	<b>14,886</b>	<b>46,698</b>	<b>(8,608)</b>	<b>(93,543)</b>	<b>4,002</b>	<b>35,282</b>

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



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements

December 31, 2007 And 2006

*(All amounts are in thousands of US dollars, unless specified otherwise)*

### 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. As of December 31, 2007, the Company’s controlling shareholder was RIG Restaurants Limited, a limited liability company (the “Parent”) (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus. 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” and “1-2-3 Café”. 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, sublease and other services, revenues from corporate cafés and from sales of semi-finished products.

The Group’s principal business activities are concentrated within the Russian Federation, but it also operates in Ukraine, Belarus, Kazakhstan, Latvia, Estonia, 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 was formed during 2004 to 2006 through a reorganization of entities under common control of the Parent, in which the shares of the subsidiaries were contributed into the share capital of the Company.

On June 2007, the Parent sold 3,125,000 ordinary shares of the Company during the Initial Public Offering for a cash consideration of \$100,000. At the same time, the Company issued and sold 2,030,457 new shares to the Parent at a price of \$29.55 per share. The nominal price of the shares issued was 169.7 Russian roubles (\$6.55 at the transaction date exchange rate). The shares of the Company sold by the Parent were admitted for trading on the Russian Trading System Stock Exchange.

The consolidated financial statements of the Company for the year ended December 31, 2007 were authorised for issue in accordance with a resolution of the CEO on May 12, 2008.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and European countries. For the years ended December 31, 2007 and 2006, the revenues from the Russian market were approximately 79% and 83% of total revenues, respectively.

As of December 31, 2007 and 2006, the Group employed approximately 7,700 and 7,200 people, respectively.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 1. Corporate Information (continued)

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

Entity	Country of incorporation	2007	2006
		% Ownership	% Ownership
Rosinter Restaurants LLC	Russia	98.70%	98.00%
Rosinter Restaurants Samara LLC	Russia	51.00%	51.00%
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%
Rosinter Restaurants Novosibirsk LLC	Russia	100.00%	94.45%
Rosinter Restaurants Ekaterinburg LLC	Russia	51.00%	51.00%
BelRosInter LLC	Belarus	58.59%	58.59%
Rosinter Almaty LLP	Kazakhstan	51.00%	51.00%
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%
SIA Rosinter Restaurants	Latvia	–	51.00%
SIA Food Service	Latvia	–	51.00%
RIGS Services Limited	Cyprus	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 2007 and 2006, the Group opened 42 and 18 new restaurants, respectively. In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened 16 and 12 franchise restaurants in Moscow city and Moscow region in 2007 and 2006, respectively. As of December 31, 2007, the Group operated 232 restaurants and 5 other outlets.

### 2. Going Concern

These consolidated 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.

The Group's current liabilities as of December 31, 2007 of \$109,400 exceeded its current assets by \$56,261. The net current liability position primarily results from bonds payable in the total amount of \$39,971 with a maturity date of November 26, 2010 and liabilities to partners in the amount of \$14,078. The bonds were reclassified from long-term to short-term debt due to an early redemption option exercisable in May 2008 (see Note 15). Liabilities to partners were reclassified from long-term to short-term liabilities as the Group has the intention to settle such liabilities during 2008.

Group management believes that it is appropriate to prepare the financial statements on a going concern basis due to the following:

- The Group has \$13,950 of open credit lines as of December 31, 2007 and approximately \$9,000 of credit line requests pending the approval of credit committees of these banks.
- The Group generates significant operating cash flows. In 2007 and 2006, the Group generated \$26,468 and \$23,351 of net cash from operating activities, respectively. The Group is expecting such cash flows to increase in 2008 in line with the growth in the overall business activity.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 2. Going Concern (continued)

- Management expects that the bonds will not be settled in May 2008, as bondholders view them as attractive investments due to the following:
  - On May 14, 2007, the Company met the requirements of the Russian stock exchange commission and received a B rating for its bonds giving more liquidity and transparency to the bonds;
  - During the year ended December 31, 2007, the Company demonstrated growth in revenue, profits and cash flows;
  - The Group became public and had an IPO in 2007.
- Liabilities to partners were reclassified to current liabilities based on management intention to settle these liabilities during 2008. The Group has no contractual obligation to repay its liabilities to partners during 2008.
- 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.

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 the standards and interpretations prescribed by the IASB.

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 recognised using the carrying value of the predecessor companies.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 3. Basis of Preparation of Financial Statements (continued)

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007.

#### *Adoption of New and Revised International Financial Reporting Standards*

The Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007:

- IFRS 7 “Financial Instruments: Disclosures” (“IFRS 7”);
- IAS 1 (amended 2005) “Presentation of Financial Statements - Capital Disclosures” (“IAS 1 (amended)”);
- IFRIC 8 “Scope of IFRS 2” (“IFRIC 8”);
- IFRIC 9 “Reassessment of Embedded Derivatives” (“IFRIC 9”);
- IFRIC 10 “Interim Financial Reporting and Impairment” (“IFRIC 10”).

IFRS 7 requires disclosures that enable users to the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in these consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

Upon application of the Amendment to IAS 1 (amended), the Group changed the format of presentation of disclosures relating to the objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

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 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.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, this interpretation had no impact on the financial position of the Group.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 3. Basis of Preparation of Financial Statements (continued)

#### Changes in Accounting Policies (continued)

There were no significant effects of these changes in policies on these consolidated financial statements. However, the adoption of IFRS 7 significantly affects the disclosures relating to financial instruments as presented in the Note 27 of these consolidated financial statements.

#### *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 8 “Operating Segments” (“IFRS 8”);
- IFRS 2 “Share-based Payments” (“IFRS 2”) – Vesting Conditions and Cancellations;
- IFRS 3R “Business Combinations” (“IFRS 3R”) and IAS 27R “Consolidated and Separate Financial Statements” (“IAS 27R”);
- IAS 1 “Presentation of Financial Statements” – Revised;
- Amendments to IAS 32 and IAS 1 “Puttable Financial Instruments” (“Amendments to IAS 32 and IAS 1”);
- IAS 23 “Borrowing Costs” – Revised (“IAS 23 (revised)”);
- IFRIC 11 “IFRS 2 - Group and Treasury Share Transactions (“IFRIC 11”);
- IFRIC 12 “Service Concession Arrangements” (“IFRIC 12”);
- IFRIC 13 “Customer Loyalty Programmes” (“IFRIC 13”);
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (“IFRIC 14”).

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

The amendment to IFRS 2 was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The revised IFRS 3R and IAS 27R were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 3. Basis of Preparation of Financial Statements (continued)

#### Changes in Accounting Policies (continued)

IAS 1 “Presentation of Financial Statements” has been revised to enhance the usefulness of information presented in the financial statements and must be applied for annual reporting periods that commence on or after January 1, 2009.

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 (revised) eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. IAS 23 (revised) becomes effective for annual periods beginning on or after January 1, 2009.

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 public-to-private service concession arrangements. An entity shall apply this interpretation for annual periods beginning on or after January 1, 2008.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transactions. The consideration received in the sales transactions is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. An entity shall apply this interpretation for annual periods beginning on or after July 1, 2008.

IFRIC 14 addresses how to assess the limit under IAS 19 “Employee Benefits”, on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. An entity shall apply this interpretation for annual periods beginning on or after January 1, 2008.

The Group plans to apply standards and interpretations not yet effective for annual periods beginning on or after their effective dates.

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.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates

#### Principles of Consolidation

##### *Subsidiaries*

The consolidated financial statements of the Group comprise the financial statements of the Company and its 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.

##### *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, its share of movements in reserves is recognised in equity and its share of the net assets of associates is included in the consolidated balance sheet. 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.

##### *Interest in Joint Ventures*

The Group's interest in joint venture which is jointly controlled entity is accounted for using the equity method of accounting until the date on which the Group ceases to have joint control over the joint venture. When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise its share of the profit of the joint venture from the transaction until it resells the assets to an independent party.

#### Investments and Other Financial Assets

Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" 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 recognised 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 market place.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Investments and Other Financial Assets (continued)

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 profit and loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. During the years ended December 31, 2007 and 2006, 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 years ended December 31, 2007 and 2006, 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.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. As at December 31, 2007 and 2006, the Group had no available-for-sale financial assets.

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.



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 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 recorded as foreign currency exchange gains or losses in the period in which they arise. 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 and cash equivalents comprise cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

#### Receivables

Receivables, which generally have a short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts. Impaired debts are derecognised when they are assessed as uncollectible.

#### Value Added Tax

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

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.

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

#### 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.

#### Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Goodwill (continued)

Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. As at the acquisition date any goodwill acquired in acquisitions is allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Property and Equipment

Property 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 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 on property and equipment principally on a straight-line basis from the time the assets are available for use, over the following estimated economic useful lives:

<b>Description</b>	<b>Useful life, years</b>
Leasehold improvements	10
Buildings	30
Restaurant equipment	4-10
Computer equipment and electronics	4
Office furniture and fixtures	10
Vehicles	5-10

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. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognised.

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 if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance, and the assets replaced are derecognised. Gains and losses arising from the retirement or disposal of property and equipment are included in the consolidated income statement as incurred.

Assets under construction are stated at cost which includes cost of construction and equipment and other direct costs. Assets under construction are not depreciated until the constructed or installed asset is ready for its intended use.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### **Borrowing Costs**

Borrowing costs of the Group include interest on bank overdrafts, short-term, long-term credit facilities and bonds. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the year ended December 31, 2007 and 2006, the Group capitalised borrowing costs for leasehold improvements in the amount of \$225 and \$529, using the capitalization rate of 9.96% and 8.93%, respectively.

#### **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 arise 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 capitalised in accordance with requirements of IAS 38 "Intangible assets" 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.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Leases (continued)

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 with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

#### Loans and Borrowings

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.

##### *Dividends*

Dividends are recognised when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the balance sheet date but before approval of the financial statements are not recognised as a liability at the balance sheet date in accordance with IAS 10 "Events After the Balance Sheet Date".

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Equity (continued)

##### *Treasury Shares*

Own equity instruments which are reacquired by the Group (“treasury shares”) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are not recognised as a financial asset regardless of the reason for which they are reacquired.

#### Liabilities to Partners

Before 2007, the Group entered 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 recognises 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 recognises a liability to partners under the partnership agreements.

Some of the Group's subsidiaries in Russia and CIS are incorporated in the legal form of limited liability companies (LLC) and have several participants (or partners). Each participant has a right to a dividend distribution proportional to its ownership interest. In addition to the contribution to the charter capital the partners provide LLCs with interest-bearing or interest-free loans which are linked to their ownership interest in a LLC. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which is determined as its proportional share of net assets reported in the local statutory accounts. Therefore, the partners' interest in these LLCs and loans provided are classified as a liability to partners in the Group's consolidated balance sheet.

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. The income attributed to the partners is presented as a finance expense in the consolidated income statement.

The differences between the carrying values of partners liabilities relating to acquired ownership interest and the consideration paid to acquire ownership interest are recognized as financial expense. During the years ended December 31, 2007 and 2006, such financial expense amounted to \$1,667 and nil, respectively.

#### 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 comprise 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 recognised:

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Revenue Recognition (continued)

##### *Revenues from Restaurants*

Restaurant revenues are recognised when food and beverages are served. Revenues from food distribution are recognised upon delivery to the customers. Revenues are recognised 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 recognised 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 recognised over the lease term.

##### *Royalty Income*

The Group owns several trademarks and intellectual properties. Royalty income from an individual licensee is recognised 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 recognised using the effective interest method.

#### Employee Benefits

The Company accrues for the employees' compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the balance sheet date.

Under provision of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Group by the application of a regressive rate (from 26% to 2%) to the annual gross remuneration of each employee. The Group allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund varies from 20% to 2% depending on the annual gross salary of each employee. The Group's contributions relating to UST are expensed in the year to which they relate. Total contributions for UST amounted to \$11,729 and \$8,027 during the years ended 31 December 2007 and 2006, respectively, and they were classified as payroll expenses in these consolidated financial statements.

#### Loyalty Programmes

The Group uses the "Honoured Guest" and "Malina" loyalty programmes to build brand loyalty, retain its valuable customers and increase sales volume. The programmes are designed to reward customers for past purchases and to provide them with incentives to make future purchases. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer loyalty award credits.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Loyalty Programmes (continued)

The “Honoured Guest” programme operates in Russian regions and a customer can redeem the award credits as they are granted for free meals. The “Malina” programme operates in Moscow region and a customer using this programme can redeem the award credits as they are granted only for getting goods and services listed in a special catalogue and provided by a programme operator.

The Group recognises revenue as the gross consideration paid by customers and recognizes awards as a component of cost of revenue.

#### Taxes

##### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

##### *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.

##### *Unified Tax on Imputed Income*

Certain restaurants of the Group’s subsidiaries located outside the Moscow region with restaurants meeting specified criteria are subject to unified tax on imputed income paid instead of corporate income tax, value added tax, property tax and unified social tax. According to the Russian Tax Code companies engaged in restaurant and catering services are subject to unified tax if a trading area of a restaurant does not exceed 150 square metres. For the years ended December 31, 2007 and 2006, the share of revenues subject to unified tax on imputed income amounted to approximately 13% and 11%, respectively. Imputed income is calculated as a fixed amount of imputed income per square meter of a trading area specified by the Russian Tax Code and respective regional/local authorities. Unified tax on imputed income is fixed at 15% of imputed income.

The Group recognizes the unified tax on imputed income as other general and administrative expenses in its consolidated income statement. For the years ended December 31, 2007 and 2006, the unified tax on imputed income amounted to \$111 and \$128, respectively.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### 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.

#### *Operating Lease Terms*

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. When determining the lease term, the Group includes the option periods which relate to its preferential right to renew the lease agreement under the Civil Code of the Russian Federation provided the Group has complied with the lease agreement terms (all other conditions being equal). Preferential right arises if the lessor refused to enter into a lease agreement with the lessee for a new term, but within one year from the date of expiration of the lease agreement with the lessee entered into a lease agreement with a third party. In such case the lessee is entitled to claim through the court the transfer to him of the rights and responsibilities under such an agreement and compensation of damages caused by refusal to renew the lease agreement and/or to claim above damages only. Preferential right does not exist if the lessor decides not to continue leasing the property.

#### *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.

#### *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:



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Accounting Judgements and Estimates (continued)

##### *Useful Lives of Property and Equipment*

The Group assesses the remaining useful lives of items of property 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 and equipment and on depreciation recognised in profit or loss.

##### *Impairment of Property 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 recognised no impairment losses for the years ended December 31, 2007 and 2006.

##### *Impairment of Goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007 and 2006 was \$739 and nil, respectively.

##### *Fair Values of Assets and Liabilities Acquired in Business Combinations*

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

##### *Allowance for Impairment of Advances Paid, Taxes Recoverable and Receivables*

Management maintains an allowance for impairment for doubtful advances paid and receivables to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group, inability of franchisees to settle their debts and unrecoverable taxes. When evaluating the adequacy of an allowance for impairment of advances paid, taxes recoverable and receivables, management bases its estimates on specific analysis of the major outstanding prepayments, taxes recoverable and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers or franchisees were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2007 and 2006, the allowance for impairment of advances paid, taxes recoverable and receivables amounted to \$1,540 and \$2,156, respectively.

##### *Allowance for Impairment of 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, 2007 and 2006, the allowances for impairment of inventory amounted to \$1,509 and \$1,217, respectively.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 4. Significant Accounting Policies and Estimates (continued)

#### Accounting Judgements and Estimates (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, 2007, 2006 and 2005, the Group reduced its costs of operations by approximately \$800, \$8,000 and \$10,000, respectively, through the utilization of certain tax planning strategies. Other possible uncertain tax positions amounted to \$1,300 at December 31, 2007. See also Note 26 – Commitments and Contingencies.

##### *Deferred Tax Assets*

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised 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 recognised in profit or loss.

### 5. Business Combinations

On May 25, 2007, the Group acquired a 100% ownership interest in Mister Lee LLC ("Mister Lee"), a Russian limited liability company, for cash consideration of 1,000,000 Russian roubles (\$39 at the exchange rate at the date of transaction). The acquisition resulted in excess of the purchase price over the fair value of the net liabilities assumed of \$778, which was recorded as goodwill in the amount of \$739. Net profit of Mister Lee was included in the Group's consolidated income statement from the date of acquisition in the amount of \$63.

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### 6. Intangible Assets

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

	Franchise rights	Exclusive rent rights	Trade marks *	Software	Total
<b>Cost</b>					
At December 31, 2005	496	2,896	14	1,198	<b>4,604</b>
Additions	98	70	856	1,253	<b>2,277</b>
Disposals	(37)	(20)	(3)	(30)	<b>(90)</b>
Translation difference	45	271	–	130	<b>446</b>
At December 31, 2006	<b>602</b>	<b>3,217</b>	<b>867</b>	<b>2,551</b>	<b>7,237</b>
<b>Accumulated amortization</b>					
At December 31, 2005	(110)	(403)	(2)	(126)	<b>(641)</b>
Charge for the year	(32)	(306)	(10)	(96)	<b>(444)</b>
Translation difference	(15)	(29)	–	(3)	<b>(47)</b>
At December 31, 2006	<b>(157)</b>	<b>(738)</b>	<b>(12)</b>	<b>(225)</b>	<b>(1,132)</b>
<b>Net Book Value</b>					
At December 31, 2005	<b>386</b>	<b>2,493</b>	<b>12</b>	<b>1,072</b>	<b>3,963</b>
At December 31, 2006	<b>445</b>	<b>2,479</b>	<b>855</b>	<b>2,326</b>	<b>6,105</b>

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### 6. Intangible Assets (continued)

The movement in intangible assets for the year ended December 31, 2007 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks*	Software	Total
<b>Cost</b>					
At December 31, 2006	602	3,217	867	2,551	<b>7,237</b>
Additions	83	–	14	1,104	<b>1,201</b>
Disposals	(165)	–	–	(90)	<b>(255)</b>
Translation difference	47	322	1	236	<b>606</b>
At December 31, 2007	<u>567</u>	<u>3,539</u>	<u>882</u>	<u>3,801</u>	<b><u>8,789</u></b>
<b>Accumulated amortization</b>					
At December 31, 2006	(157)	(738)	(12)	(225)	<b>(1,132)</b>
Charge for the year	(55)	(318)	(57)	(123)	<b>(553)</b>
Disposals	40	–	–	82	<b>122</b>
Translation difference	(12)	(73)	–	(36)	<b>(121)</b>
At December 31, 2007	<u>(184)</u>	<u>(1,129)</u>	<u>(69)</u>	<u>(302)</u>	<b><u>(1,684)</u></b>
<b>Net Book Value</b>					
At December 31, 2006	<u>445</u>	<u>2,479</u>	<u>855</u>	<u>2,326</u>	<b><u>6,105</u></b>
At December 31, 2007	<u>383</u>	<u>2,410</u>	<u>813</u>	<u>3,499</u>	<b><u>7,105</u></b>

\* Trademark “El Rincon Espanol” was reclassified retrospectively from “Franchise right” to “Trademarks”. This reclassification did not have an impact on the amount of depreciation expense for all periods presented.

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### 7. Property and Equipment

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

	<b>Buildings and Leasehold improvements</b>	<b>Restaurant equipment</b>	<b>Computer equipment and electronics</b>	<b>Office furniture and fixtures</b>	<b>Vehicles</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>							
At December 31, 2005 as previously reported	40,601	21,525	3,664	4,056	553	8,450	<b>78,849</b>
Reclassifications	3,763	(3,663)	147	(275)	28	–	–
At December 31, 2005 as reclassified	44,364	17,862	3,811	3,781	581	8,450	<b>78,849</b>
Additions	2,054	498	193	95	27	15,884	<b>18,751</b>
Assets put into use	10,765	3,979	1,823	937	139	(17,643)	–
Disposals	(2,599)	(2,296)	(378)	(416)	(130)	(2,060)	<b>(7,879)</b>
Translation difference	3,986	897	327	255	55	445	<b>5,965</b>
At December 31, 2006	<b>58,570</b>	<b>20,940</b>	<b>5,776</b>	<b>4,652</b>	<b>672</b>	<b>5,076</b>	<b>95,686</b>
<b>Accumulated Depreciation</b>							
At December 31, 2005 as previously reported	(16,511)	(6,095)	(1,884)	(1,105)	(238)	–	<b>(25,833)</b>
Reclassifications	(1,081)	1,147	(33)	(28)	(5)	–	–
At December 31, 2005 as reclassified	(17,592)	(4,948)	(1,917)	(1,133)	(243)	–	<b>(25,833)</b>
Charge for the year	(4,943)	(1,446)	(845)	(422)	(53)	–	<b>(7,709)</b>
Disposals	758	848	237	152	52	–	<b>2,047</b>
Translation difference	(1,029)	(224)	(123)	(73)	(3)	–	<b>(1,452)</b>
At December 31, 2006	<b>(22,806)</b>	<b>(5,770)</b>	<b>(2,648)</b>	<b>(1,476)</b>	<b>(247)</b>	<b>–</b>	<b>(32,947)</b>
<b>Net Book Value</b>							
At December 31, 2005 as previously reported	<b>24,090</b>	<b>15,430</b>	<b>1,780</b>	<b>2,951</b>	<b>315</b>	<b>8,450</b>	<b>53,016</b>
Reclassifications	<b>2,682</b>	<b>(2,516)</b>	<b>114</b>	<b>(303)</b>	<b>23</b>	<b>–</b>	<b>–</b>
At December 31, 2005 as reclassified	<b>26,772</b>	<b>12,914</b>	<b>1,894</b>	<b>2,648</b>	<b>338</b>	<b>8,450</b>	<b>53,016</b>
At December 31, 2006	<b>35,764</b>	<b>15,170</b>	<b>3,128</b>	<b>3,176</b>	<b>425</b>	<b>5,076</b>	<b>62,739</b>

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### 7. Property and Equipment (continued)

The movement in property and equipment for the year ended December 31, 2007 was as follows:

	<b>Buildings and Leasehold improvements</b>	<b>Restaurant equipment</b>	<b>Computer equipment and electronics</b>	<b>Office furniture and fixtures</b>	<b>Vehicles</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>							
At December 31, 2006	58,570	20,940	5,776	4,652	672	5,076	<b>95,686</b>
Additions	2,016	1,927	157	358	43	23,170	<b>27,671</b>
Assets put into use	9,986	3,081	828	979	396	(15,270)	–
Disposals	(6,436)	(4,182)	(675)	(792)	(78)	(2,015)	<b>(14,178)</b>
Translation difference	4,596	1,196	478	330	60	464	<b>7,124</b>
At December 31, 2007	<b>68,732</b>	<b>22,962</b>	<b>6,564</b>	<b>5,527</b>	<b>1,093</b>	<b>11,425</b>	<b>116,303</b>
<b>Accumulated Depreciation</b>							
At December 31, 2006	(22,806)	(5,770)	(2,648)	(1,476)	(247)	–	<b>(32,947)</b>
Charge for the year	(5,539)	(1,393)	(1,158)	(491)	(63)	–	<b>(8,644)</b>
Disposals	5,110	1,735	540	351	45	–	<b>7,781</b>
Translation difference	(1,452)	(235)	(265)	(150)	(18)	–	<b>(2,120)</b>
At December 31, 2007	<b>(24,687)</b>	<b>(5,663)</b>	<b>(3,531)</b>	<b>(1,766)</b>	<b>(283)</b>	<b>–</b>	<b>(35,930)</b>
<b>Net Book Value</b>							
At December 31, 2006	<b>35,764</b>	<b>15,170</b>	<b>3,128</b>	<b>3,176</b>	<b>425</b>	<b>5,076</b>	<b>62,739</b>
At December 31, 2007	<b>44,045</b>	<b>17,299</b>	<b>3,033</b>	<b>3,761</b>	<b>810</b>	<b>11,425</b>	<b>80,373</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 7. Property and Equipment (continued)

As of December 31, 2007 and 2006, certain items of property and equipment with a carrying value of \$5,988 and \$14,137, respectively, were pledged to banks as collateral against loans to the Group.

In 2006, the Group purchased computer equipment on finance lease terms. In 2007, the Group entered into a number of finance lease contracts for motor vehicles. The carrying value of the leased assets as of December 31, 2007 and 2006 amounted to \$1,020 and \$940, respectively.

Certain items from restaurant equipment were reclassified into other groups of property and equipment which better represent the nature of these items. Further, the Group combined leasehold improvements and buildings. Such classification changes had no effect on previously reported net income of prior periods.

### 8. Inventories

Inventories consisted of the following as of December 31:

	<b>2007</b>	<b>2006</b>
Foods, beverages, liquors and tobacco, at cost	4,377	3,276
Utensils, paper goods and other items, at cost	3,364	2,286
	7,741	5,562
Allowance for slow-moving and damaged items	(1,509)	(1,217)
<b>Total inventories, net</b>	<b>6,232</b>	<b>4,345</b>

### 9. Advances Paid

Advances paid consisted of the following as of December 31:

	<b>2007</b>	<b>2006</b>
Advances to suppliers	5,853	6,536
Advances to employees	827	291
	6,680	6,827
Allowance for doubtful accounts	(1,314)	(1,429)
<b>Total prepayments, net</b>	<b>5,366</b>	<b>5,398</b>

As at December 31, 2007 and 2006, advances to suppliers at nominal value of \$1,314 and \$1,429, respectively, were impaired and fully provided for. Movements in the allowance for impairment of advances paid were as follows:

	<b>2007</b>	<b>2006</b>
At January 1	1,429	1,288
Charge for the year	718	2
Amounts written off	(603)	-
Unused amounts reversed	(348)	-
Translation difference	118	139
<b>At December 31</b>	<b>1,314</b>	<b>1,429</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 10. Trade and Other Receivables

Receivables consisted of the following as of December 31:

	<b>2007</b>	<b>2006</b>
Trade receivables	2,176	1,292
Other receivables	1,038	679
	3,214	1,971
Allowance for doubtful accounts	(226)	(727)
<b>Total receivables, net</b>	<b>2,988</b>	<b>1,244</b>

Trade and other receivables are non-interest bearing and are generally on 10-30 days terms.

As at December 31, 2007 and 2006, trade and other receivables at nominal value of \$226 and \$727, respectively, were impaired and fully provided for. Movements in the provision for impairment of trade and other receivables were as follows:

	<b>2007</b>	<b>2006</b>
At January 1	727	287
Charge for the year	231	408
Amounts written off	(87)	–
Unused amounts reversed	(676)	–
Translation difference	31	32
<b>At December 31</b>	<b>226</b>	<b>727</b>

As at December 31, the aging analysis of trade and other receivables is presented below:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>		
			<b>&lt;3 months</b>	<b>3-6 months</b>	<b>&gt;6 months</b>
Trade receivables	2,084	1,173	791	108	12
Other receivables	904	710	88	68	38
<b>2007</b>	<b>2,988</b>	<b>1,883</b>	<b>879</b>	<b>176</b>	<b>50</b>
Trade receivables	819	382	393	39	5
Other receivables	425	400	11	9	5
<b>2006</b>	<b>1,244</b>	<b>782</b>	<b>404</b>	<b>48</b>	<b>10</b>

### 11. Cash and Cash Equivalents

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

	<b>2007</b>	<b>2006</b>
Cash in hand	3,746	2,754
Cash in transit	3,362	2,642
Cash at bank	418	620
Short-term deposits	511	207
<b>Total cash and cash equivalents</b>	<b>8,037</b>	<b>6,223</b>



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 12. Share Capital

#### *Share Capital and Share Premium*

The Company was established as the result of a reorganization of entities under control of the Parent company, RIG Restaurants Limited. 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 Russian roubles per share (8.52 US dollars 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 Russian 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. There were no other transactions with own shares during 2006.

On June 1, 2007, the Company issued and sold 2,030,457 new shares with a nominal value of 169.7 Russian roubles per share (\$6.55 at the transaction date exchange rate) to the Parent at the price of \$29.55 for the total amount of \$60,000 (refer to Note 1). The excess of cash consideration over nominal value of shares issued was recognised as share premium. On December 27, 2007, the Group bought back 146,970 shares from the Parent at a price of \$58.57 for the amount of \$8,608. These shares were accounted for as treasury shares. The authorized and issued share capital of the Company as of December 31, 2007 and 2006 comprised 12,030,457 and 10,000,000 shares, respectively. All issued shares were fully paid.

As of December 31, 2007 and 2006, the outstanding share capital comprised of 11,883,487 and 10,000,000 shares, respectively.

#### *Additional Paid-in Capital*

During 2007 and 2006, RIG Restaurants Limited, the Parent company, made cash contributions to the Company, which were recorded in the total amount of \$363 and \$4,385, respectively, as increases in additional paid-in capital.

#### *Distribution to Parent*

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

#### *Earnings per Share*

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

	<b>2007</b>	<b>2006</b>
Net profit attributable to equity holders of the Parent	5,966	779
Weighted average number of ordinary shares outstanding	11,187,641	10,000,000
Profit per share attributable to equity holders of the Parent, basic and diluted (US dollars)	<u>0.53</u>	<u>0.08</u>

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

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 13. Liabilities to Partners

The movements in liabilities to partners were as follows during the years ended December 31:

	<b>2007</b>	<b>2006</b>
At January 1	17,755	11,495
Increase in amounts due to partners <i>(Note 25)</i>	5,490	4,743
Payments to partners	(15,041)	(6,739)
Capital contributed by partners in cash	4,570	7,069
Capital contributed by partners in property and equipment	839	–
Liabilities to partners in Baltic subsidiaries disposed of during the year <i>(Notes 14, 24)</i>	(225)	–
Translation difference	690	1,187
<b>At December 31</b>	<b>14,078</b>	<b>17,755</b>

Analysed as to:

	<b>2007</b>	<b>2006</b>
Current portion	14,078	3,158
Long-term portion	–	14,597
<b>Total liabilities to partners</b>	<b>14,078</b>	<b>17,755</b>

### 14. 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:

<b>Related Parties</b>	<b>Nature of relationship</b>	<b>Short-term loans receivable from related parties</b>		<b>Short-term loans payable to related parties</b>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Hodler Finance S.A. (1)	Entity under common control (EUCC)	9,166	–	–	–
OJSC Birulevo (2)	EUCC	3,076	–	–	–
National QSR Network LLC (3)	EUCC	3,056	–	–	13
Rostik Investment Group Inc. (4)	EUCC	2,801	–	–	690
Amazonit LLC (5)	EUCC	–	891	–	–
Other EUCC (6)		473	944	233	1,395
<b>Total short-term loans receivable from /payable to related parties</b>		<b>18,572</b>	<b>1,835</b>	<b>233</b>	<b>2,098</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 14. Related Parties Disclosures (continued)

(1) On December 10, 2007, the Group issued a rouble-denominated unsecured loan to Hodler Finance S.A. for \$9,166 (at the exchange rate as of December 31, 2007), bearing interest of 12% per annum and maturing on June 10, 2008.

(2) On October 10, 2007, the Group issued a rouble-denominated unsecured loan to OJSC Birulevo for \$3,076 (at the exchange rate as of December 31, 2007), bearing interest of 12% per annum. The loan was fully repaid by the Group on January 17, 2008.

(3) On October 3, 2007 and November 2, 2007, the Group issued two rouble-denominated unsecured loans to National QSR Network LLC for \$1,528 each (at the exchange rate as of December 31, 2007), bearing interest of 11% per annum and maturing on March 31, 2008. From January 1, 2008, the interest rate was increased to 14%.

(4) On December 24, 2007, the Group provided Rostik Investment Group Inc. with an unsecured rouble denominated loan in the total amount of \$2,801 (at the exchange rate as of December 31, 2007), bearing interest of 14% per annum and maturing on December 25, 2008.

In January 1999, Rostik Investment Group Inc. provided one of the Group companies with a loan for \$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. During the year ended December 31, 2007, the loan was fully repaid.

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

(6) The interest rate for the loans given to/received from the other EUCC varies from 11% to 14% per annum.

(7) In May 2007, the Group provided a US dollar-denominated loan to Mr. Rostislav Ordovsky-Tanaevsky Blanco amounted to \$4,300 bearing 9% interest per annum and maturing in July 2007. In July 2007, the loan was fully repaid to the Group.

(8) In June 2007 the Group issued three US dollar-denominated unsecured loans to B & V Holding Company N.V., an entity controlled by key management personnel, for \$3,311, bearing interest of 13% per annum and maturing on July 5, 2007. In July 2007, the loans were fully repaid to the Group.

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

<b>Related Parties</b>	<b>Long-term loans receivable from related parties</b>		<b>Long-term loans payable to related parties</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Other EUCC (6)	368	240	1,046	1,150
<b>Total long-term loans receivable from / payable to related parties</b>	<b>368</b>	<b>240</b>	<b>1,046</b>	<b>1,150</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 14. Related Parties Disclosures (continued)

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

<b>Related Parties</b>	<b>Nature of relationship</b>	<b>Receivables from related parties</b>		<b>Payables to related parties</b>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Rostik Investment Group Inc. (9)	EUCC	3,195	–	106	455
RIG Restaurant Limited (Cyprus) (10)	Parent company	1,273	295	669	2,189
National QSR Network LLC (11)	EUCC	497	187	–	23
Russian Caramel Restaurants LLC (12)	EUCC	158	21	–	4
Loyalty Partners Vostok LLC (13)	Other related party	–	53	1,048	609
Other EUCC		1,660	1,157	1004	1,896
<b>Total receivable from / payable to related parties</b>		<b>6,783</b>	<b>1,713</b>	<b>2,827</b>	<b>5,176</b>

(9) In 2007, the Group sold its interest in Baltic subsidiaries to Rostik Investment Group Inc. for cash consideration of \$1,621. The outstanding receivable balance is repayable during 2008.

The outstanding receivable balance in the amount of \$1,574 represents management and financial advisory services paid by the Group on behalf of Rostik Investment Group in accordance with a consultancy agreement.

The outstanding payable balance as of December 31, 2007 and 2006, in the amount of \$106 and \$455, respectively, comprises rent payable and interest payable.

(10) The outstanding receivable balance at December 31, 2007 results from operating expenses and IPO expenses paid by the Group on behalf of RIG Restaurants Limited. The outstanding receivable balance at December 31, 2006 results from operating expenses paid by the Group on behalf of RIG Restaurants Limited and from management services provided to RIG Restaurants Limited.

The outstanding payable balance at December 31, 2007 and December 31, 2006 relates to purchase of interest in Rosinter Ukraine LLC and management services provided to the Group.

(11) The outstanding receivable balance represents management and consulting services provided by the Group to National QSR Network LLC.

(12) The outstanding receivable balance represents management and consulting services provided by the Group to Russian Caramel Restaurants LLC.

(13) The outstanding payable balance to Loyalty Partners Vostok LLC represents services related to the “Malina” customer loyalty program provided to the Group. The ultimate controlling shareholder holds director position in Loyalty Partners Vostok LLC.

As at December 31, 2007 and 2006, receivables from related parties at nominal value of \$43 and nil, respectively, were impaired and fully provided for.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 14. Related Parties Disclosures (continued)

As at December 31, the aging analysis of receivables from related parties is presented below:

	Total	Neither past due nor impaired	Past due but not impaired		
			<3 months	3-6 months	>6 months
<b>2007</b>	<b>6,783</b>	<b>5,721</b>	<b>1,012</b>	<b>–</b>	<b>50</b>
<b>2006</b>	<b>1,713</b>	<b>1,713</b>	<b>–</b>	<b>–</b>	<b>–</b>

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

Related Parties	Nature of relationship	Revenue and other gains	Purchases	Interest income	Interest expense
		2006	2006	2006	2006
Amazonit LLC (14)	EUCC	–	2,831	82	–
RosCorp LLC (15)	EUCC	–	3,453	–	–
PBO Service LLC (16)	EUCC	496	1,380	–	–
Other EUCC		1,311	3,259	537	230
<b>Total</b>		<b>1,807</b>	<b>10,923</b>	<b>619</b>	<b>230</b>

Transactions with related parties were as follows for the year ended December 31, 2007:

Related Parties	Nature of relationship	Revenue and other gains	Purchases	Interest income	Interest expense
		2007	2007	2007	2007
RIG Restaurant Limited	Parent company	–	–	283	–
National QSR Network LLC (17)	EUCC	1,988	62	57	–
Omsk QSR Network LLC (18)	EUCC	2,409	27	–	–
Russian Caramel Restaurants LLC (19)	EUCC	645	–	–	–
RosCorp LLC (15)	EUCC	20	3,853	–	–
Loyalty Partners Vostok LLC (13, 20)	Other related party	–	1,417	–	–
Rostik Aero LLC (21)	EUCC	–	987	–	–
Other EUCC		1,386	2,278	359	227
<b>Total</b>		<b>6,448</b>	<b>8,624</b>	<b>699</b>	<b>227</b>

(14) During 2006, the Group received information, management and outsourcing services in the amount of \$2,831.

(15) During 2007 and 2006, the Group purchased rent, transport and utilities services in the amount of \$3,853 and \$3,453, respectively.

(16) In 2006, the Group purchased several types of goods and services, including property and equipment.

(17) During 2007, the Group rendered management, consulting and accounting services in the amount of \$1,937.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 14. Related Parties Disclosures (continued)

(18) During 2007, the Group rendered management, consulting and accounting services and sold semi-finished product.

(19) During 2007, the Group rendered management, consulting and accounting services in the amount of \$580.

(20) During 2007, the Group received services related to participation in the “Malina” customer loyalty programme.

(21) During 2007, Rostik Aero LLC provided the Group with premises for fees of \$987.

On December 27, 2007 the Group reacquired 146,970 own shares from the Parent company for the amount of \$8,608 (see Note 12).

#### *Compensation to Key Management Personnel*

Key management personnel totalled 15 and 13 persons as at December 31, 2007 and 2006, respectively. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	<b>2007</b>	<b>2006</b>
Salary	2,119	1,913
Performance bonuses	1,878	229
	<b>3,997</b>	<b>2,142</b>

The Group’s contributions relating to social taxes for key management personnel amounted to \$125 and \$98 during the years ended December 31, 2007 and 2006, respectively.

### 15. Long-Term Debt

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

	<b>2007</b>	<b>2006</b>
Bonds issued, net of issuance cost	45,680	32,266
Saving Bank of the Russian Federation (Sberbank)	4,074	3,798
Ukreximbank	1,228	1,205
Kazkommertsbank	–	1,083
Other long-term debts	977	401
	<b>51,959</b>	<b>38,753</b>
Less: current portion	(51,681)	(69)
<b>Total long-term debt</b>	<b>278</b>	<b>38,684</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 15. Long-Term Debt (continued)

#### 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 Russian 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 10% to 12% per annum. The outstanding balance at December 31, 2007 and 2006 is 144,243 bonds in the amount of \$5,878 (at the exchange rate at December 31, 2007) and 144,231 bonds in the amount of \$5,477 (at the exchange rate at December 31, 2006), respectively. The bonds are due in July 2008.

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 Russian roubles each in an aggregated principal amount of 1,000 million Russian roubles. The bonds have 10 coupons payable semi-annually 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 third 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 at December 31, 2007 and 2006 represented 981,142 bonds in the amount of \$39,971 (at the exchange rate at December 31, 2007) and 711,495 bonds in the amount of \$27,021 (at the exchange rate at December 31, 2006). The bonds will mature on November 26, 2010. The bondholders have an early redemption option exercisable in May 2008.

#### Sberbank

In September 2006, the Group obtained a loan in the amount of 100 million Russian roubles 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 \$1,362. The loan was fully repaid on March 17, 2008.

#### 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 July 2008. The credit facility is secured by a pledge of restaurant equipment with a carrying value of \$689. The unutilized balance of the credit facility amounted to \$160 and \$183 at December 31, 2007 and 2006, respectively.

#### 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 carrying value of \$553 at December 31, 2006. The unutilized balance of the credit facility amounted \$808 at December 31, 2006. During the year ended December 31, 2007, the Group fully repaid the debt.

### 16. Finance Lease Liabilities

During 2007 and 2006, the Group entered into a number of finance lease agreements for motor vehicles and computer equipment. The leased assets under these agreements are included in property and equipment in the consolidated balance sheets in the amount of \$1,020 and \$940 as of December 31, 2007 and 2006, respectively. Depreciation of property and equipment under the finance lease contracts for 2007 and 2006 amounted to \$248 and \$43, respectively. Finance charges for the year ended December 31, 2007 and 2006 amounted to \$183 and \$5, respectively, and are included in interest expense in the consolidated statement of income.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 16. Finance Lease Liabilities (continued)

Future minimum lease payments together with the present value of the net minimum lease payments were as follows at December 31:

	2007		2006	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	482	363	422	362
After one year but not more than five years	383	334	487	294
Total minimum lease payment	865	697	909	656
Less amounts representing finance charges	(168)	–	(253)	–
<b>Present value of minimum lease payments</b>	<b>697</b>	<b>697</b>	<b>656</b>	<b>656</b>

In the year ended December 31, 2007, the interest rate varied from 9.28% to 12.78%. In the year ended December 31, 2006, the interest rate was 9.28%.

### 17. Income Tax

The Group's provision for income tax for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Current tax	(4,682)	(2,372)
Deferred tax	450	2,024
<b>Total income tax expense</b>	<b>(4,232)</b>	<b>(348)</b>

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, 2006:

	December 31, 2005	Differences recognition and reversal	Translation difference	December 31, 2006
<b>Tax effect of deductible temporary differences</b>				
Trade and other payables	1,681	609	(14)	2,276
Allowance for impairment of receivables and inventory	38	376	–	414
Carryforward of unused tax losses	28	243	16	287
Other	331	295	126	752
<b>Total deferred tax asset:</b>	<b>2,078</b>	<b>1,523</b>	<b>128</b>	<b>3,729</b>
<b>Tax effect of taxable temporary differences</b>				
Property and equipment	(1,817)	416	(14)	(1,415)
Trade and other receivables	(19)	(112)	(2)	(133)
Other	(715)	197	25	(493)
<b>Total deferred tax (liability):</b>	<b>(2,551)</b>	<b>501</b>	<b>9</b>	<b>(2,041)</b>
<b>Net deferred tax asset / (liability)</b>	<b>(473)</b>	<b>2,024</b>	<b>137</b>	<b>1,688</b>



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 17. Income Tax (continued)

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2007:

	December 31, 2006	Differences recognition and reversal	Deferred tax of disposed entities	Translation difference	December 31, 2007
<b>Tax effect of deductible temporary differences</b>					
Trade and other payables	2,276	339	–	165	2,780
Allowance for impairment of receivables and inventory	414	(54)	(15)	53	398
Carryforward of unused tax losses	287	233	–	(9)	511
Other	752	(540)	(33)	26	205
<b>Total deferred tax asset:</b>	<b>3,729</b>	<b>(22)</b>	<b>(48)</b>	<b>235</b>	<b>3,894</b>
<b>Tax effect of taxable temporary differences</b>					
Property and equipment	(1,415)	239	–	(90)	(1,266)
Trade and other receivables	(133)	(253)	–	65	(321)
Other	(493)	486	–	2	(5)
<b>Total deferred tax (liability):</b>	<b>(2,041)</b>	<b>472</b>	<b>–</b>	<b>(23)</b>	<b>(1,592)</b>
<b>Net deferred tax asset / (liability)</b>	<b>1,688</b>	<b>450</b>	<b>(48)</b>	<b>212</b>	<b>2,302</b>

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

As of December 31, 2005 and 2006, the Group netted off deferred tax assets and deferred tax liabilities relating to Rosinter Restaurants LLC where it had a legally enforceable right to set off. This change has no effect on previously reported net income.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to \$3,168 and \$11,477 as of December 31, 2007 and 2006, respectively. The Group had no intention to declare dividends on accumulated profits as of December 31, 2006 and therefore did not recognize any related deferred tax liability as of that date. On November 22, 2007 the Group adopted a new dividend policy whereby accumulated profits of subsidiaries which are not required for reinvestment into business would be distributed to the Parent.

As of December 31, 2007, the Company's subsidiary Rosinter Restaurants Novosibirsk LLC had accumulated tax losses in the amount of \$2,129, for which a deferred tax asset of \$511 was recognised. Management expects that these tax losses will be used against future taxable income. This deferred tax asset may be utilised within 9-10 years.

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in 2007 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:

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 17. Income Tax (continued)

	<b>2007</b>	<b>2006</b>
Profit before income tax	10,198	1,127
At Russian statutory income tax rate of 24%	(2,448)	(270)
Tax on dividend income related to dividend declared by subsidiaries	(1,507)	(92)
Income subject to unified tax on imputed income	1,081	591
Effect of differences in tax rates in countries other than the Russian Federation	1,858	1,036
Effect of non-deductible expenses and other non-temporary differences	(3,216)	(1,613)
<b>Income tax expense reported in the consolidated income statement</b>	<b>(4,232)</b>	<b>(348)</b>

### 18. Trade and Other Payables

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

	<b>2007</b>	<b>2006</b>
Trade creditors	12,337	7,821
Accrued salaries	9,491	5,216
Output VAT and other taxes payable	3,238	4,276
Interest payable to banks	2,444	294
Advances received	382	1,472
Other liabilities	5,624	4,075
<b>Total trade and other payables</b>	<b>33,516</b>	<b>23,154</b>

### 19. Short-Term Debt

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

	<b>2007</b>	<b>2006</b>
Sberbank	3,777	6,076
Bank Societe General Vostok (BSGV)	–	5,000
Alfa Bank	–	3,418
UralSib	–	8,000
UniCredit Bank (former International Moscow Bank)	1,507	4,800
Amsterdam TB	–	4,000
Other	–	411
	5,284	31,705
Current portion of long-term loans ( <i>Note 15</i> )	51,681	69
<b>Total short-term debt</b>	<b>56,965</b>	<b>31,774</b>

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 19. Short-Term Debt (continued)

#### **Sberbank**

In December 2005, the Group entered into a revolving credit facility agreement in the total amount of 155 million Russian roubles, bearing interest of 12% per annum and maturing in December 2006. In July 2006, the Group renewed the revolving credit facility agreement for the total amount of 190 million Russian 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 carrying value of \$3,212. The unutilized balance of the credit facility amounted to \$1,139 at December 31, 2006. In December 2007, the Group renewed the revolving credit facility agreement for the amount of 190 million Russian roubles (\$7,741 at the exchange rate as of December 31, 2007) bearing interest of 9.0% per annum and maturing in January 2008. To secure the debt, the Group pledged its restaurant and office equipment and furniture with a carrying value of \$1,839. The unutilized balance of the credit facility amounted to \$3,964 at December 31, 2007. The credit facility was fully repaid on January 10, 2008.

#### **BSGV**

In November 2006, the Group entered into a revolving credit facility agreement in the amount of \$5,000 bearing interest of LIBOR plus 5% per annum and maturing in March 2007 with an implicit extension to November 2007. During the year ended December 31, 2007, the Group fully repaid the debt.

#### **Alfa Bank**

In December 2006, the Group entered into a restricted non-revolving credit facility agreement, amounting to 300 million Russian 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 was secured by a guarantee of RIG Restaurants Limited, the Parent. During the year ended December 31, 2007, the Group fully repaid the debt.

#### **UralSib**

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

#### **UniCredit Bank (International Moscow Bank)**

In May 2004, the Group obtained a loan in the amount of \$4,800 bearing interest of LIBOR plus 7% per annum and maturing on May 12, 2007. In 2006, this loan was reclassified to short-term loans. The loan agreement contained covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity. The debt was repaid in May 2007.

In May 2007, the Group obtained a credit facility in the amount of 130 million Russian roubles (\$5,296 at the exchange rate as of December 31, 2007) bearing interest from 9.5% to 12% per annum and maturing in November 2008. The loan is secured by a pledge of restaurant equipment with a net book value of \$2,098. The unutilized balance of the credit facility amounted to \$3,789 as of December 31, 2007.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 19. Short-Term Debt (continued)

#### Amsterdam TB

In August 2006, the Group entered into a credit facility agreement amounting to \$4,000 bearing interest of LIBOR plus 3.7% per annum and maturing in August 2009. The loan was guaranteed by RIG Restaurants Limited, the Parent company. The loan agreement contained covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity. The unutilized balance of the credit facility amounted to \$4,000 as of December 31, 2007.

#### Promsvyazbank

In June 2007, the Group entered into a credit facility agreement amounting to 50 million Russian roubles (\$2,037 at the exchange rate as of December 31, 2007) bearing interest of 11% per annum and maturing in June 2008. The unutilized balance of the credit facility amounted to \$2,037 as of December 31, 2007.

### 20. Revenue

Revenue for the years ended December 31, 2007 and 2006 consisted of the following

	2007	2006
Revenue from restaurants	240,318	202,330
Revenue from corporate cafes	6,547	2,647
Franchise revenue	5,871	2,913
Sales of semi-finished products to franchisees	4,764	3,111
Sublease services and other services	4,083	3,686
Other services	6,633	3,939
<b>Total revenue</b>	<b>268,216</b>	<b>218,626</b>

### 21. Cost of Sales

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

	2007	2006
Food and beverages	72,559	58,593
Payroll and related taxes	52,435	39,074
Rent ( <i>Note 23</i> )	29,066	23,992
Customer loyalty programmes	2,374	5,659
Restaurant equipment depreciation	7,009	6,222
Utilities	6,565	4,361
<b>Total cost of sales</b>	<b>170,008</b>	<b>137,901</b>

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### 22. Selling, General and Administrative Expenses

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

	2007	2006
Payroll and related taxes	24,137	14,546
Advertising	9,031	6,060
Materials	5,258	4,608
Start-up expenses for new restaurants	5,117	5,744
Rent (Note 23)	5,092	5,009
Maintenance and repair services	4,095	2,823
Other services	3,345	3,298
Laundry and sanitary control	3,262	781
Depreciation and amortization	2,188	1,931
Transportation services	1,858	1,449
Franchising fee	1,700	708
Financial and legal services	1,637	4,883
Bank services	1,650	1,202
Utilities	826	1,229
Allowance for impairment of advances paid, taxes recoverable and receivables	(110)	3,574
Other expenses	4,740	4,889
<b>Total selling, general and administrative expenses</b>	<b>73,826</b>	<b>62,734</b>

#### 23. Rent Expenses

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

	2007	2006
Rent premises minimum lease payment	32,525	27,936
Rent premises contingent lease payment	1,633	1,065
<b>Total rent expenses</b>	<b>34,158</b>	<b>29,001</b>

#### 24. Other (Gains)/Losses

Gains and losses for the years ended December 31, 2007 and 2006 consisted of the following:

	2007	2006
Gain on disposal of subsidiaries	(988)	–
Other gains	(2,945)	(1,743)
<b>Total other gains</b>	<b>(3,933)</b>	<b>(1,743)</b>
Loss on disposal of non-current assets	1,660	2,371
Other losses	4,666	5,461
<b>Total other losses</b>	<b>6,326</b>	<b>7,832</b>

Gain on disposal of subsidiaries related to the disposal of the Group's interest in SIA Rosinter Restaurants, including its subsidiaries, SIA Food Service and OU Rosinter Restaurants to Rostik Investment Group Inc., a related party (refer to Note 14). The net assets of these disposed subsidiaries were \$633 at the date of disposal comprising primarily property and equipment, trade and other payables and debts.

Other gains primarily related to insurance coverage, accounts payable balances write off and other miscellaneous gains.

Other losses mainly resulted from the closure of certain restaurants and other one-off expenses.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 25. Financial (Income)/Expenses

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

	2007	2006
Interest income	(1,385)	(705)
<b>Total financial income</b>	<b>(1,385)</b>	<b>(705)</b>
	2007	2006
Interest expense	6,748	7,409
Increase in amounts due to partners ( <i>Note 13</i> )	5,490	4,743
Excess of cash paid over book value of liability to partners relating to ownership interest acquired in subsidiaries	1,667	–
<b>Total financial expenses</b>	<b>13,905</b>	<b>12,152</b>

During the year ended December 31, 2007, the Group bought ownership interest in its Siberian subsidiaries from partners for \$1,667. The carrying value of liabilities to partners relating to this interest amounted to nil which represented the partners' share in net assets of subsidiaries at the date of acquisition.

### 26. Commitments 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, fines, 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.

The Group utilized certain tax planning strategies providing tax savings to the Group that reduced its costs of operations in 2006 (refer to 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, 2007. 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, 2007 could include the amount of the aforementioned tax savings, and fines, penalties and interest assessed, if any. As of December 31, 2007 and 2006, 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.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 26. Commitments and Contingencies (continued)

#### Operating Lease Commitments

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

	<u>2007</u>	<u>2006</u>
Within one year	27,018	19,920
After one year but not more than five years	83,122	63,120
More than five years	40,224	41,966
<b>Total minimum rental payables:</b>	<b><u>150,364</u></b>	<b><u>125,006</u></b>

#### Joint Venture with Costa Limited

In December 2007, the Group entered into a joint venture agreement with Costa Limited (Costa) which operates coffee houses in the United Kingdom and other countries. On or before May 15, 2008, the Group should contribute \$3,000 to the capital of the joint venture. Further, the Group should provide the joint venture with a \$2,000 interest bearing credit facility on or before October 15, 2008.

### 27. Financial Risk Management Objectives and Policies

Financial instruments carried on the balance sheet comprise loans given, finance lease liabilities, trade and other payables, bank loans, bonds and liabilities to partners. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash and short-term deposits, which arise directly from its operations.

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, credit risk and liquidity 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. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. 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 15.

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 (refer to Note 19). The Group does not hedge its interest rate risk.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 27. Financial Risk Management Objectives and Policies (continued)

#### Currency Risk

The Group's exposure to currency risk primarily related to its US dollar denominated intercompany balances and external debts of its Russian subsidiaries.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk. However, management believes that the Group significantly mitigated its currency risk at December 31, 2007 as all its external US dollar denominated debts were repaid during 2007.

The table below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	<b>Increase/(decrease) in US dollar rate</b>	<b>Effect on profit before tax</b>
<b>As at 31 December 2007</b>		
US dollar/Russian ruble	7.0%	(53)
US dollar/Russian ruble	(7.0%)	53
<b>As at 31 December 2006</b>		
US dollar/Russian ruble	7.0%	(751)
US dollar/Russian ruble	(7.0%)	751

#### 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 loans due from related parties and receivables. The carrying amount of loans due from related parties and receivables, net of allowance for impairment, represents the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The Group deposits available cash with several Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are held.



# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 27. Financial Risk Management Objectives and Policies (continued)

#### Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of financial assets and projected cash flows from operations.

The tables below summarise the maturity profile of the Group's financial liabilities at December 31, 2007 and 2006 based on contractual undiscounted payments.

December 31, 2007	Less than			Total
	3 months	3-12 months	1 to 5 years	
Long-term and short-term debt	7,858	49,109	13,235	70,202
Long-term and short-term debt due to related parties	–	233	1,046	1,279
Trade and other payables and income tax payable	34,881	53	–	34,934
Payables to related parties	–	2,827	–	2,827
Liabilities to partners	–	14,078	–	14,078
Finance leases	129	353	383	865
<b>Total</b>	<b>42,868</b>	<b>66,653</b>	<b>14,664</b>	<b>124,185</b>

December 31, 2006	Less than			Total
	3 months	3-12 months	1 to 5 years	
Long-term and short-term debt	5,286	26,489	51,082	82,857
Long-term and short-term debt due to related parties	–	2,098	1,150	3,248
Trade and other payables and income tax payable	23,065	89	–	23,154
Payables to related parties	–	5,176	–	5,176
Liabilities to partners	–	3,158	14,597	17,755
Finance leases	116	306	487	909
<b>Total</b>	<b>28,467</b>	<b>37,316</b>	<b>67,316</b>	<b>133,099</b>

#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

# OJSC Rosinter Restaurants Holding

## Notes to the consolidated financial statements (continued)

### 27. Financial Risk Management Objectives and Policies (continued)

#### Capital Management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 50% and 80%. The Group includes within net debt loans and borrowings, trade and other payables, liabilities to partners, less cash and cash equivalents. Capital includes equity.

	2007	2006
Loans and borrowings, including loans to related parties	58,522	73,706
Trade and other payables, including payables to related parties	37,761	28,345
Liabilities to partners	14,078	17,755
Cash and cash equivalents	(8,037)	(6,223)
<b>Net debt</b>	<b>102,324</b>	<b>113,583</b>
<b>Capital</b>	<b>35,282</b>	<b>(23,848)</b>
<b>Capital and net debt</b>	<b>137,606</b>	<b>89,735</b>
Gearing ratio	74%	127%

#### 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. Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2007	2006	2007	2006
<b>Financial assets</b>				
Short-term loans due from related parties	18,572	1,835	18,572	1,835
Cash and cash equivalents	8,037	6,223	8,037	6,223
Long-term loans due from related parties	368	240	368	240
Short-term loans	410	151	410	151
<b>Financial liabilities</b>				
Current portion of long-term debt	51,681	69	51,689	69
Long-term liabilities to partners	14,078	17,755	14,078	17,755
Short-term debt	5,284	31,705	5,284	31,705
Long-term debt due to related parties	1,046	1,150	1,046	1,150
Long-term debt	278	38,684	278	38,684
Finance lease liabilities	697	656	697	656
Short-term debt due to related parties	233	2,098	233	2,098

The fair value of the current portion of long-term debt which represents bonds has been determined using market price. The fair value of certain long-term debts has been determined by using the fair values of comparable debts, which are based on cash flows discounted using market interest rates. Other long-term debts bear market interest rate. The fair value of liabilities to partners has been calculated as the net present value of the estimated future payments to partners using an effective interest method.

## OJSC Rosinter Restaurants Holding

### Notes to the consolidated financial statements (continued)

#### **28. Subsequent Events**

On February 11, 2008, the Group adopted an incentive plan under which 12 senior executives and 21 other employees (the “participants”) were granted cash-settled share options. 120,600 options were allocated to the participants at the exercise price of \$58.5. Option grants vest over a number of months: 1/3<sup>rd</sup>-after initial period of 12 months from January 1, 2008, 1/3<sup>rd</sup>-after 24 months from January 1, 2008, 1/3<sup>rd</sup>-after 36 months from January 1, 2008. The maximum term of options granted is 4 years.