

GAUCHO GRILL LTD
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



GAUCHO GRILL LTD
COMPANY INFORMATION

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GAUCHO GRILL LTD
COMPANY INFORMATION

DIRECTORS

Z Godik
C McLean

SECRETARY

C McLean

COMPANY NUMBER

93289

REGISTERED OFFICE

335 and 337 Fulham Road
Chelsea
London
SW10 9TW

AUDITORS

Horwath Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London EC4Y 8EH

BANKERS

Royal Bank of Scotland
62/63 Threadneedle Street
London
EC2R 8LA

**GAUCHO GRILL LTD
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005**

The directors present their report and financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company during the year was that of an intermediate holding company and provider of services to its subsidiaries.

The directors believe that the company will continue to trade profitably in the coming year.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5. No dividends were declared and paid during the year. The directors do not recommend the payment of a dividend.

DIRECTORS

The following directors who held office during the year were:

Z Godik	
S Coulthard	(resigned 28 February 2006)
C McLean	(appointed 15 December 2005)

The directors had no interest in the share capital of the company at any time during the year. The interests of the directors in the parent companies are disclosed in the accounts of those companies.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish the company's auditors are aware of that information.

AUDITORS

In accordance with section 385 of the Companies Act 1985 a resolution proposing the reappointment of Horwath Clark Whitehill as auditors to the company will be put to the Annual General Meeting.

By Order of the Board

Director



28 July 2006

GAUCHO GRILL LTD
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2005

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group at the end of the year and of the profit or loss of the group for the period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GAUCHO GRILL LTD

We have audited the accounts of Gaucho Grill Ltd for the year ended 31 December 2005 set out on pages 5 to 12. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Unqualified opinion

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended and
- have been properly prepared in accordance with the Companies Act 1985.

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP
Chartered Accountants and
Registered Auditors
28 July 2006

GAUCHO GRILL LTD
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Income		171,133	757,366
Administrative expenses		<u>(162,576)</u>	<u>(726,301)</u>
OPERATING PROFIT	2	8,557	31,065
Cost of fundamental reorganisation	4	<u>(1,198,420)</u>	<u>(2,078,415)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(1,189,863)	(2,047,350)
Interest paid		-	(2,233)
Other interest receivable and similar income	3	<u>1,468</u>	<u>1,988</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,188,395)	(2,047,595)
Tax on loss on ordinary activities	6	<u>6,855</u>	<u>32,651</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	13	<u>(1,181,540)</u>	<u>(2,014,944)</u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains or losses for the period, other than the profit and loss.

The notes on page 7 to 12 form part of these financial statements.

GAUCHO GRILL LTD
BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	£	2005 £	2004 £
FIXED ASSETS				
Tangible assets	8	2,640		5,440
Investments	7	<u>6,921,229</u>		<u>6,908,815</u>
			6,923,869	<u>6,914,255</u>
CURRENT ASSETS				
Debtors	9	6,834,987		7,136,482
Bank		<u>19,031</u>		-
		6,854,018		7,136,482
CREDITORS: amounts falling due within one year	10	<u>(1,030,751)</u>		<u>(122,061)</u>
NET CURRENT ASSETS			5,823,267	7,014,421
NET ASSETS			<u>12,747,136</u>	<u>13,928,676</u>
CAPITAL AND RESERVES				
Called up share capital	11		6,593,209	6,593,209
Profit and loss account	12		(18,972,986)	(17,791,446)
Share premium account	12		23,082,856	23,082,856
Capital redemption reserve	12		1,731,195	1,731,195
Other capital reserves	12		<u>312,862</u>	<u>312,862</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS	13		<u>12,747,136</u>	<u>13,928,676</u>

Approved by the Board on
and signed on its behalf:

- Director



28 July 2006

The notes on pages 7 to 12 form part of these financial statements.

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. ACCOUNTING POLICIES

a) Accounting Convention

The financial statements are prepared under the historical cost convention.

b) Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

c) Cashflow

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cashflow statement on the grounds that its parent company prepares consolidated financial statements.

d) Turnover

Turnover represents management fees raised to its subsidiary company.

e) Investments

Investments are stated at cost less amounts written off.

f) Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Motor vehicles	30% per annum
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g) Leasing

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

h) Deferred Taxation

FRS 19 (Deferred Taxation) has been adopted for these accounts. In accordance with the standard full provision is made, at the rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted at the balance sheet date, in respect of timing differences which have arisen but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the accounts. Deferred tax is measured on a non-discounted basis.

i) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

j) Pre-opening expenses

In accordance with UITF Abstract 24 the company writes-off pre-opening expenses as incurred.

k) Pension Costs

The company pays contributions to employees' personal pension schemes. The charge in the accounts represents amounts paid in the year.

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

2. OPERATING PROFIT	2005	2004
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	400	262
Operating lease rentals	7,141	17,500
Auditors' remuneration	<u>22,000</u>	<u>7,379</u>

3. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest received from group companies	-	-
Other interest	<u>1,468</u>	<u>1,988</u>
	<u>1,468</u>	<u>1,988</u>

Interest was not charged on loans owed by fellow subsidiary undertakings as the directors considered the loans to be irrecoverable.

4. FUNDAMENTAL REORGANISATION

As part of the groups restructuring, a loan was written off which was due from Pan European Restaurants Limited of £1,223,760 and a loan of Gaucho Grills was forgiven by Gaucho NL of £25,340

5. DIRECTORS' EMOLUMENTS

Directors' emoluments (for services to the company and its subsidiaries)		
Remuneration	-	<u>522,256</u>
	-	<u>522,256</u>
Remuneration of highest paid director	-	<u>350,000</u>

No directors accrue benefits under company pension schemes.

Upon the company's restructuring, the director's service contracts were transferred to the new ultimate parent company Gaucho Grill Holdings Limited.

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

6. TAXATION	2005 £	2004 £
a) Analysis of tax charge for the period		
Based on the assessable profit for the year:		
U.K. corporation tax at 30% (2004 30%)	-	17,022
Adjustment for prior years	<u>(6,855)</u>	<u>(49,673)</u>
	<u>(6,855)</u>	<u>(32,651)</u>
b) Factors affecting the tax charge		
The tax charge for the period differs to the standard rate of corporation tax in the UK (30%) as explained below:		
Profit on ordinary activities before tax	<u>(1,188,395)</u>	<u>(2,047,595)</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(356,519)	(616,279)
Effects of:		
Group relief surrendered	(12,737)	-
Capital allowances in excess of depreciation	(2,036)	(1,056)
Permanent differences	371,292	632,357
Losses b/f utilised	<u>-</u>	<u>(49,673)</u>
	<u>-</u>	<u>(32,651)</u>

7. FIXED ASSET INVESTMENTS

				Shares in subsidiary undertakings £
Cost				
At 1 January 2005 and 31 December 2005				<u>6,908,815</u>
	Country of registration and of operation	Holding	Proportion of voting rights and shares held	Nature of business
Gioma (UK) Limited	England	Ordinary shares	100%	Restaurateur/ Holding Company

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

7. FIXED ASSET INVESTMENTS (CONTINUED)

These accounts present information about the company as an individual undertaking and not about its group. The company is exempt from producing consolidated accounts under section 228 of the Companies Act 1985 because it is included in the consolidated accounts of a larger group.

8. TANGIBLE FIXED ASSETS

	Motor Vehicles £	Fixtures and Fittings £	Total £
Cost At 1 January 2005	24,000	3,385	27,385
Disposals	(24,000)	-	(24,000)
At 31 December 2005	-	3,385	3,385
Depreciation At 1 January 2005	(21,600)	(345)	(21,945)
Disposals	21,600	-	21,600
Charge for the year	-	(400)	(400)
At 31 December 2005	-	(745)	(745)
Net Book Value			
At 31 December 2005	-	2,640	2,640
<i>At 31 December 2004</i>	<i>2,400</i>	<i>3,040</i>	<i>5,440</i>

9. DEBTORS

	2005 £	2004 £
Amounts owed by group undertakings	6,804,361	7,088,172
Other debtors	18,495	41,742
Prepayments and accrued income	12,131	6,568
	6,834,987	7,136,482

10. CREDITORS: amounts falling due within one year

Amounts owed to group undertakings	986,872	46,208
Taxation payable	14,852	48,533
Accruals and deferred income	29,027	27,320
	1,030,751	122,061

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

11. SHARE CAPITAL	2005 £	2004 £
Authorised		
Equity shares		
89,000,000 Ordinary shares of 10p each	<u>8,900,000</u>	<u>8,900,000</u>
Allotted, called up and fully paid		
Equity shares		
65,932,094 Ordinary shares of 10p each	<u>6,593,209</u>	<u>6,593,209</u>

12. RESERVES

	Share premium account £	Capital redemption reserve £	Other capital reserves £	Profit and loss account £
At 1 January 2005	23,082,856	1,731,195	312,862	(17,791,446)
Retained profit for the year	-	-	-	(1,181,540)
At 31 December 2005	<u>23,082,856</u>	<u>1,731,195</u>	<u>312,862</u>	<u>(18,972,986)</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	2005 £	2004 £
Profit/(loss) for the financial year	(1,181,540)	(2,014,944)
Opening shareholders' funds	<u>13,928,676</u>	<u>15,943,620</u>
Closing shareholders' funds	<u>12,747,136</u>	<u>13,928,676</u>

14. FINANCIAL COMMITMENTS

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as follows:

	Other 2005	2004
Expires in one year	2,620	-
Expires one to two years	<u>-</u>	<u>7,860</u>

15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The ultimate parent company and controlling entity is Gaucho Grill Holdings Limited a company incorporated in the United Kingdom. During the year the company's controlling entity Pan European Restaurants Limited was acquired by Inhoco 4065 Limited a company owned by Gaucho Grill Holdings Limited (formerly Inhoco 4070 Limited).

Copies of the financial statements of Gaucho Grill Holdings Limited are available from the company's registered office 335 and 337 Fulham Road, London, SW10 9TW.

GAUCHO GRILL LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by paragraph 3(c) of the Financial Reporting Standard No. 8 not to disclose related party transactions.

Zeev Godik, director, owed the company £18,455 (including interest, charged at base rate) at the year-end.

17. GUARANTEES

Gaucha Grill Ltd has provided cross guarantees and debentures for bank loans and financing advanced to other companies within the group – Gaucha Grill Holdings Limited, Inhoco 4065 Limited, Pan European Restaurants Limited, Gioma (UK) Limited and Lundi Finance BV.

GAUCHO GRILL LTD
DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £	2004 £
INCOME	171,133	757,366
ADMINISTRATIVE EXPENSES	<u>(162,576)</u>	<u>(726,301)</u>
OPERATING PROFIT	8,557	31,065
Cost of fundamental reorganisation	<u>(1,198,420)</u>	<u>(2,078,415)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST	(1,189,863)	(2,047,350)
INTEREST PAID		
Interest paid	-	(2,233)
INTEREST RECEIVABLE AND SIMILAR INCOME	<u>1,468</u>	<u>1,988</u>
LOSS BEFORE TAXATION	<u>(1,188,395)</u>	<u>(2,047,595)</u>

GAUCHO GRILL LTD
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2005

ADMINISTRATIVE EXPENSES	2005 £	2004 £
Directors remuneration	-	466,087
Directors national insurance contributions	-	56,169
Rent re operating leases	7,141	17,500
Insurance	17,607	-
Other staff costs	2,424	5,310
Repairs and maintenance and occupancy	5,755	2,851
Printing, postage and stationery and telephone	21,930	24,892
Advertising	32,754	64,964
Legal and professional	35,132	-
Audit fees	22,000	7,379
Sundry expenses	3,493	61,933
Depreciation	400	262
Car costs	13,940	13,954
	<u>162,576</u>	<u>721,301</u>