
CONNECTED TRANSACTIONS

Following the completion of the Listing, the transactions described below will constitute connected transactions of the Company for the purposes of Chapter 14A of the Listing Rules. Upon Listing, the non-exempt transactions would, in the absence of a waiver from the Stock Exchange, be subject to the continuing connected transactions requirements imposed by Chapter 14A of the Listing Rules.

A Exempt connected transactions

1 Exempt one-off connected transaction with Petropavlovsk

Deed of Non-Competition

The Deed of Non-Competition was entered into between Petropavlovsk and the Company. A description of the Deed is contained in the section headed “Relationship with Petropavlovsk” in this prospectus. No consideration is payable by either party under the Deed. Accordingly, any transaction contemplated under that Deed constitutes a de minimis continuing connected transaction and is exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

2 Exempt connected transactions with persons other than Petropavlovsk

Lease with Asian-Pacific Bank

As noted below, Asian-Pacific Bank is a connected person of the Group. Asian-Pacific Bank has entered into a lease with a subsidiary of the Group, LLC KS GOK, in respect of office space at Birobidjan, Russia (“Asian-Pacific Lease”). There is limited suitable office space in Birobidjan, and the Directors consider that LLC KS GOK has capacity to rent the premises, and further, that this is an economically efficient use of the premises, having regard to comparable market rent rates in the area.

The lease payments are based upon rent and rates paid per area occupied, plus overheads. The Asian-Pacific Lease has only been in place for part of 2009, as the building was under construction for most of the year. Asian-Pacific Bank paid US\$23,000 in rent last year. The expected rent for the next three years is US\$100,000 for each year. The applicable percentage ratios for this transaction are less than 5 per cent. and the annual consideration is less than HK\$1,000,000. Accordingly, this transaction is exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Listing Rule 14A.33(3).

B Non-exempt continuing connected transactions with Petropavlovsk

Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and therefore a connected person pursuant to Listing Rule 14A.11(1). Furthermore, Petropavlovsk’s subsidiaries are also connected persons of the Company as they are associates of Petropavlovsk. Accordingly, transactions between the Group and Petropavlovsk, and between the Group and Petropavlovsk’s subsidiaries, are connected transactions for the purpose of Chapter 14A of the Listing Rules.

Going forward, a number of the services described below will be recharged at cost plus a 10 per cent. mark up. The Directors consider that 10 per cent. is a reasonable margin to apply to

CONNECTED TRANSACTIONS

services provided between the Group and the Petropavlovsk Group, having regard to the nature of the services, the difficulty in sourcing third party suppliers and current market conditions. Further detail is provided in relation to the basis for this recharge at the end of this sub-section.

1 Shared Services Agreement

The Group procures certain services from Petropavlovsk, and provides certain services to Petropavlovsk (“Shared Services”). In anticipation of the Listing and in order to streamline such continuing connected transactions, the Company and Petropavlovsk have entered into an agreement in respect of Shared Services (the “Shared Services Agreement”) before Listing, for a term of three years effective from the Listing Date. The Shared Services Agreement is intended to provide an overarching framework for provision of the shared services. The Shared Services comprise:

- (i) Shared office space: the Group will continue to share office space with Petropavlovsk in London and in respect of certain of its operations in Russia.
 - a. The Group will share office space in Moscow with CJSC PHM Engineering, a subsidiary of Petropavlovsk, and therefore a connected person of the Company. CJSC PHM Engineering has entered into a lease with a third party landlord in respect of the premises in Moscow. The Group will also procure certain engineering services described in detail under the paragraph entitled “Technical Services Agreement” from CJSC PHM Engineering. The Directors consider that it is helpful if part of the Group continues to share office space with CJSC PHM Engineering because this is convenient from an administration perspective. The amount payable by the Group to CJSC PHM Engineering is calculated based upon the rent payable by CJSC PHM Engineering to the landlord under the lease, pro rated with reference to the area occupied by the Group as a proportion of the total area under the lease plus a mark up of 10 per cent..
 - b. The Group has entered into a lease with a third party landlord in respect of premises in Moscow. The Group provides office space within those premises to Petropavlovsk’s accounting team responsible for Petropavlovsk’s compliance with IFRS. Petropavlovsk requires the office space because it does not currently have the space to accommodate its IFRS team. The amount payable by Petropavlovsk to the Group is calculated based upon the rent payable by the Group to the landlord under the lease, pro rated with reference to the area occupied by Petropavlovsk’s IFRS team as a proportion of the total area under the lease, plus a mark up of 10 per cent. The Directors consider that it is economically efficient to provide space to Petropavlovsk on this basis because the Group does not require that space for itself. The Directors also consider that this arrangement is fair and reasonable because the Group and Petropavlovsk share certain communication services in Moscow, and the amount payable by Petropavlovsk is fair and reasonable.
 - c. The Group has entered into a lease with a third party landlord in respect of premises in the Amur Region. The Group provides part of the premises to

CONNECTED TRANSACTIONS

OJSC Pokrovskiy Rudnik, a subsidiary within the Petropavlovsk Group, and therefore a connected person of the Company. The amount payable by OJSC Pokrovskiy Rudnik to the Group is calculated based upon the rent payable by the Group to the landlord under the lease, pro rated with reference to the area occupied by OJSC Pokrovskiy Rudnik as a proportion of the total area under the lease, plus a mark up of 10 per cent.. The Directors consider that it is economically efficient to provide office space to OJSC Pokrovskiy Rudnik on this basis because the Group does not require that space for itself. Furthermore, the Directors consider that this arrangement is fair and reasonable because the Group and OJSC Pokrovskiy Rudnik share certain communication services in the Amur Region, and the amount payable by OJSC Pokrovskiy Rudnik is fair and reasonable.

- d. Olekminsky Rudnik, a subsidiary within the Group, owns certain premises in the Amur Region. Olekminsky Rudnik will lease part of the premises to LLC GDK Odolgo, a subsidiary within the Petropavlovsk Group, and therefore a connected person of the Company. LLC GDK Odolgo requires premises in the Amur Region and there are no available practical alternative premises which are suitable. Olekminsky Rudnik has additional space to rent within its premises, and the Directors consider that renting this space to LLC GDK Odolgo is an economically efficient use of part of the premises. The rent payable by LLC GDK Odolgo to Olekminsky Rudnik has been negotiated on an arm's length basis and is fair and reasonable.
- (ii) Legal services: Petropavlovsk has provided, and will continue to provide legal services to the Group. Legal services are recharged based on actual time spent completing work for the Group plus a mark-up of 10 per cent.. The Directors consider that the Group should continue to procure legal services from Petropavlovsk, because the Petropavlovsk in-house legal team has a good understanding of the Group and it is more cost effective to procure legal services from Petropavlovsk than obtaining external legal support or building an in-house legal team within the Group.
- (iii) Management and IT services: The Group has, and will continue to procure management and IT services from MC Petropavlovsk, a subsidiary within the Petropavlovsk Group. Management services are charged to the Group based on time spent by specialists, applied over their full payroll cost plus a proportionate share of overheads. The Directors consider that MC Petropavlovsk has a good understanding of the Group's business, developed over the past few years, and that this historical knowledge could not be provided as efficiently by a third party intending to provide the same management services. Historically, Petropavlovsk has provided information technology services to the Group, principally in relation to network servers used by the Group to conduct its office and administrative activities. Since the networks of Petropavlovsk and the Group overlap to a certain extent, the Directors consider that it is more efficient to continue to procure these information technology services from Petropavlovsk, rather than to obtain the same services from a third party. The information technology services provided by Petropavlovsk will be recharged at cost plus 10 per cent. to the Company based on time spent by specialists plus overheads. A recharge will also apply if the

CONNECTED TRANSACTIONS

Company purchases any information technology equipment through Petropavlovsk.

- (iv) Administrative services, including HR and back-office support: The Directors consider that it is cost efficient to procure these services from MC Petropavlovsk, as opposed to procuring the services from third parties or developing that function within the Group, because the Group is recharged at cost plus 10 per cent. which is a reasonable price. Finally, the Group and MC Petropavlovsk have certain shared communication systems and this provides an additional cost incentive for the Group to procure both management and administrative services from MC Petropavlovsk.
- (v) Equipment lease: The Group owns a spectrometer which it leases to LLC NPGF Regis, a subsidiary of Petropavlovsk and therefore a connected person of the Company. The spectrometer is used to analyse mineral samples extracted by Petropavlovsk. The spectrometer is leased by the Group to LLC NPGF Regis on an arm's length basis at the rate of 84,370 Roubles per month. This arrangement is due to expire in October 2010, subject to an agreed extension of the term.

The historical figures and projected aggregate annual caps for the Shared Services are set out in the table below:

Historical Pricing (US\$ '000)				Annual cap (US\$ '000)		
2007	2008	2009	6 months ended 30 June 2010	2010	2011	2012
1,757	1,475	1,599	549	2,035	2,035	2,035

The Directors have had regard to two factors in setting the annual caps. The first factor is the historical value of Shared Services procured by the Group from Petropavlovsk during the Track Record Period. The second factor is that the proposed operations of the Group for the coming three years, including production at the Kuranakh Project and development of Stage 1 of the K&S project, are likely to result in a moderate increase in the Group's requirements for Shared Services.

Under the proposed terms of the Shared Services Agreement, if the amounts payable exceed the annual caps, the agreement will be suspended and/or reduced to a level where such annual cap is not exceeded, pending the annual cap being re-set at a higher level in accordance with the Listing Rules. If the Company and Petropavlovsk reasonably anticipate that the amounts payable are likely to exceed the annual cap, then they must use their reasonable endeavours to reduce the Shared Services provided with a view to securing compliance with the Listing Rules. If a reduction is required, the parties will ensure that any interruption to the Group's operations is minimised.

2 Technical Services Agreement

The Group has, and will procure certain technical services from Petropavlovsk. The reasons for this are described in the section headed "Relationship with Petropavlovsk" in this prospectus. In order to streamline such continuing connected transactions, the

CONNECTED TRANSACTIONS

Group and Petropavlovsk have entered into a technical services agreement (the “Technical Services Agreement”) before Listing for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk’s provision of technical services to the Group.

Prior to the merger of Aricom and Petropavlovsk, Aricom procured technical services from Petropavlovsk on a “cost plus margin” basis. The independent directors of Aricom considered that this was a reasonable arm’s length basis on which technical services could be procured. The Group has adopted a similar approach set out below, and the Directors consider that it represents reasonable arm’s length terms.

The technical services comprise:

- (i) Construction services: the Group has procured, and will continue to procure, some of its construction services from LLC Kapstroj. LLC Kapstroj is a subsidiary of Petropavlovsk, and therefore it is a connected person of the Company. The Group procured LLC Kapstroj’s services for construction at the Kuranakh Project because there were limited alternatives to procure construction services within the Amur Region where the Kuranakh Project is located. Further, the Group was able to procure the services on favourable terms. The Group intends to procure LLC Kapstroj’s services in respect of certain construction work at K&S. Going forward, the Group will procure construction services from LLC Kapstroj at cost plus a 10 per cent. margin, and the Directors consider that this is a reasonable margin to apply and represents arm’s length terms. The cost base of construction services reflects direct costs for services, including salary, plus overhead cost. Overhead cost is calculated on the proportion of time spent by Kapstroj in providing construction services to the Group during the relevant financial year, or on such other reasonable basis agreed between the parties, except to the extent such apportionment is in contravention of Russian laws and regulations, including Russian accounting standards;
- (ii) Engineering & Design services: The Group has, and will continue to procure certain engineering and design services from CJSC PHM Engineering and OJSC Irgiredmet, both of which are subsidiaries of Petropavlovsk, and therefore connected persons of the Company. Both entities will provide engineering services to the Group in respect of K&S. In addition, OJSC Irgiredmet provides research services to the Group. The Group has previously engaged CJSC PHM Engineering and OJSC Irgiredmet, and considers both entities to be preferred service providers in comparison to third parties, because of the quality of engineering and laboratory services provided and their knowledge of the Group’s operations. Both CJSC PHM Engineering and OJSC Irgiredmet provide their services to the Group at cost plus a 10 per cent. mark up. The Directors consider that this is a reasonable margin to apply and represents arm’s length terms. The cost base of engineering and design services reflects direct costs for services plus overhead cost. Direct costs, in particular the salary expense for engineers and design specialists, represent the largest component of the cost base. Overhead cost is calculated on the proportion of time spent by CJSC PHM Engineering or OJSC Irgiredmet, as the case may be, in providing engineering and design

CONNECTED TRANSACTIONS

services to the Group during the relevant financial year, or on such other reasonable basis agreed between the relevant parties, except to the extent such apportionment is in contravention of Russian laws and regulations, including Russian accounting standards; and

- (iii) Exploration & Geological services: Both LLC NPGF Regis (“Regis”) and CJSC ZRK Dalgeologia (“Dalgeologia”) are subsidiaries of Petropavlovsk and therefore connected persons of the Company. The Group will continue to procure exploration and geological services from Regis and Dalgeologia in respect of identifying ore bodies and engineering services for final feasibility studies. The Group will also procure services in respect of core drilling and geophysical studies of boreholes. As discussed in the section headed “Relationship with Petropavlovsk” in this prospectus, the Group would find it problematic to procure exploration services from third parties because, with the exception of Dalgeophysica, it is very difficult to find an alternative and viable third party supplier operating within the area where the Group’s assets are located. The Group could develop its own internal exploration function, but the Directors consider that it is more cost effective to obtain exploration services from Regis and Dalgeologia. Further, the Group has been satisfied with the quality of services it has received to date and both Regis and Dalgeologia have developed a good understanding of the Group’s operations, which would take a third party some time to develop. Regis and Dalgeologia provide exploration and geological services to the Group at cost plus a 10 per cent. mark up. The Directors consider that this is a reasonable margin to apply and represents arm’s length terms. The cost base of exploration and geological services reflects direct costs for services, including salary, plus overhead cost. Overhead cost is calculated on the proportion of time spent by Regis or Dalgeologia, as the case may be, in providing exploration and geological services to the Group during the relevant financial year, or on such other reasonable basis agreed between the relevant parties, except to the extent such apportionment is in contravention of Russian laws and regulations, including RAS.

The aggregate annual cap (in US\$ millions) for the aggregate value of Technical Services is set out in the table below:

Historical Pricing (US\$ '000)				Annual cap (US\$ '000)		
2007	2008	2009	6 months ended 30 June 2010	2010	2011	2012
26,811	49,040	29,716	12,830	42,000	42,000	42,000

In setting the annual caps the Directors consider that the Group’s demand for technical services is expected to increase substantially from historical levels. This is due in part to fluctuation in the business activity of the Group. The increase can also be attributed to the Company’s expected requirements for additional technical services as it commences development of the K&S project. Although the Company is taking steps to procure third party services (for example, the proposed EPC contract between the Company and CNEEC as described in the section headed “Relationship with Petropavlovsk” in this prospectus) the

CONNECTED TRANSACTIONS

scale of the K&S project is larger than the Kuranakh Project which the Company has recently undertaken. Accordingly, the Company reasonably expects that it may require additional technical services, and this is reflected in the annual caps.

Under the proposed terms of the Technical Services Agreement, if the amounts payable exceed the annual caps, the Technical Services Agreement will be suspended and/or reduced to a level where such annual cap is not exceeded, pending the annual cap being re-set at a higher level in accordance with the Listing Rules. If the Company and Petropavlovsk reasonably anticipate that the amounts payable are likely to exceed the annual cap, then they must use their reasonable endeavours to reduce the Technical Services provided with a view to securing compliance with the Listing Rules. If a reduction is required, the parties must ensure that any interruption to the Group's operations is minimised.

3 Helicopter Lease Agreement between LLC GMMC and MC Petropavlovsk

(i) Description of transaction and connected person

LLC GMMC (a subsidiary of the Company) provides MC Petropavlovsk with helicopter services pursuant to a helicopter lease agreement ("Helicopter Lease Agreement"). Under the Helicopter Lease Agreement, LLC GMMC leases its helicopter to MC Petropavlovsk for use in Petropavlovsk's operations. MC Petropavlovsk is a subsidiary of Petropavlovsk, and therefore it is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Although the Petropavlovsk Group owns two helicopters, it is still necessary for it to procure helicopter services from the Group. This is because at various times one or both of the helicopters may be under repair and maintenance. This arrangement provides the Petropavlovsk Group with continuous access to a helicopter service.

(ii) Pricing basis and annual caps

The terms and conditions of the Helicopter Lease Agreement are no more favourable to MC Petropavlovsk than those that would be offered to independent third parties. The agreement has been in place for a year, with MC Petropavlovsk paying US\$900,000 for helicopter services provided in 2009. The Helicopter Lease Agreement has been amended and varied pursuant to a deed of variation to ensure compliance with Chapter 14A of the Listing Rules and, under the terms of the amended agreement, the amount charged to MC Petropavlovsk is calculated on the total cost, including amortisation and overheads plus a margin of 10 per cent., attributable to actual flight time. The annual cap for the year ending 31 December 2010, 31 December 2011 and 31 December 2012 is US\$1,000,000 for each year. In setting the annual caps, the Directors have had regard to two factors. First, the value of services provided to MC Petropavlovsk in 2009. Second, MC Petropavlovsk's expected demand for helicopter services for the next three years, as advised to the Company by MC Petropavlovsk.

4 Helicopter services provided by MC Petropavlovsk to the Group

(i) Description of transaction and connected person

The Group and MC Petropavlovsk have entered into an agreement relating to the provision of helicopter services ("Helicopter Services Agreement"). The Helicopter

CONNECTED TRANSACTIONS

Services Agreement is a continuing connected transaction. Under the agreement, MC Petropavlovsk provides the Group with the use of its helicopter. The use of a helicopter is critical for the Group's business due to the distances between the Group's assets and offices. The Group owns a helicopter and, as noted above in item 3, it provides a helicopter service to the Petropavlovsk Group. The reason the Group procures a helicopter service from the Petropavlovsk Group under the present arrangement is to ensure that it has continuous access to a helicopter service. This will be relevant where the Group's own helicopter is under repair and maintenance, or where the Group's personnel require an extended service.

(ii) Pricing basis and annual caps

MC Petropavlovsk will recharge the Company for total cost, including amortisation and overheads plus a margin of 10 per cent., attributable to actual flight time. Historically, the Group has procured helicopter services from MC Petropavlovsk, and those services were included as part of recharged management services. The annual caps for the year ending 31 December 2010, 31 December 2011 and 31 December 2012 is US\$2,000,000 for each year.

The Directors have set the annual caps based on two factors. First, the Group's previous use of helicopter services during the Track Record Period, including the frequency and duration of helicopter flights. Second, the Group's expected requirements for helicopter services, having regard to the Group's planned activities in areas that are only accessible by helicopter.

Basis for recharge at cost plus 10 per cent. mark up

The above continuing connected transactions (also listed below) are recharged at cost plus 10 per cent.:

- a) Shared Services: legal services; management and information technology; administrative services;
- b) all Technical Services: Construction services; Engineering and Design services; and Exploration and Geological Services.
- c) Helicopter services provided by the Group to Petropavlovsk Group;
- d) Helicopter services received by the Group from the Petropavlovsk Group.

These services are recharged at cost plus 10 per cent. because the Company considers that this represents a commercial arm's length basis on which to procure these services. Prior to the merger of Aricom and Petropavlovsk (then known as Peter Hambro Mining), a similar recharge approach was applied for services procured by Aricom from Petropavlovsk, while Aricom was an independent stand alone entity. The independent directors of Aricom considered that this was a reasonable arm's length basis on which services could be procured. The Company believes that services recharged at cost plus a 10 per cent. margin also represents a reasonable arm's length basis on which the relevant services will be provided or procured after Listing.

CONNECTED TRANSACTIONS

C Non-exempt continuing connected transactions with persons other than Petropavlovsk

1 Agreement for the use of an aircraft owned by a connected person

(i) Description of the transaction and connected person

The Group uses an aircraft owned by Millennium Implementation Limited. Millennium Implementation Limited is a company associated with Dr Maslovskiy and is a connected person of the Company. The arrangement assists directors and employees to visit the locations of the Group's major operations quickly. During the Track Record Period, no written agreement was entered into between the Group and Millennium Implementation Limited because the service was provided on a cost basis.

The Company and Millennium Implementation Limited intend to enter into an agreement (the "Aircraft Agreement") prior to Listing under which the Company agrees to reimburse Millennium Implementation Limited for the use of the aircraft by the Group.

(ii) Pricing basis and annual caps

The cost paid by the Company will be based on a fixed hourly charge which includes fixed cost and variable cost components. The hourly charge is multiplied by the number of hours flown. The annual caps represent the Directors' best estimate of travel requirements for the next three years. The annual caps for the three years ending 31 December 2010, 31 December 2011 and 31 December 2012, shall not exceed US\$1,000,000.

In setting the annual caps, the Directors have had regard to two factors. First, the number of flights taken during the Track Record Period, including the duration of those flights. Second, the planned activities and operations of the Group.

2 Banking services arrangement with OJSC Asian-Pacific Bank

(i) Description of transaction and connected person

The Group has, and will continue to maintain bank deposits with OJSC Asian-Pacific Bank ("Asian-Pacific Bank") on commercial terms ("Banking Arrangements"). Asian-Pacific Bank provides a range of services to corporate clients including: settlement and cash services; commercial lending; bank guarantees; factoring; leasing; services for foreign economic activity and operations with precious metals. Asian-Pacific Bank has received the following Moody's Credit Ratings:

- Long Term Rating B3
- Outlook: Stable
- Short Term Rating: Not Prime
- Bank Financial Strength: E+

For further information on the various ratings please see the section headed "Definitions" in this prospectus.

CONNECTED TRANSACTIONS

As of 1 July 2010, Asian-Pacific Bank had total assets of 31,465,676,000 Roubles; after-tax profits of 341,574,000 Roubles and 4,410,656,000 Roubles in equity. Asian-Pacific Bank's current ratio as of 30 June 2010 was 1.163. The following table sets out the three largest shareholders of Asian-Pacific Bank:

	Shareholder	Percentage shareholding
1	PPFIN Holding	67.59%
2	East Capital Financials Fund AB	17.9%
3	International Finance Corporation	6.9%

Asian-Pacific Bank's principal place of business is 225, Amurskaya Street, Blagoveshensk, Amur Region, and it has a network of 9 branches in the following areas: Vladivostok, Primorski Krai; Ulan-Ude, Republic of Buryatia; Khabarovsk, Khabarovsk Territory; Yakutsk, the Republic of Sakha; Chita, the Zabaikalye Territory; Irkutsk, the Irkutsk Region; Moscow; Petropavlovsk, Kamchatski Krai; and Magadan, the Magadan Region.

Asian-Pacific Bank is authorised to conduct banking activities under General Licence No. 1810 issued by the Central Bank of the Russian Federation on 7 May 2010. In Russia, banks and banking activity is regulated under Federal law No 395-1 (1990) "On banks and banking activities" and the Federal law No. 86-FZ (dated 2002) "On the Central bank of the Russian Federation (the Bank of Russia)". Under Russian law, banking operations may only be carried out under a licence issued by the Central Bank of the Russian Federation. In particular, Asian-Pacific Bank is authorised to perform bank operations in Roubles and foreign currency, including receiving deposits from individuals and legal entities. Asian Pacific Bank is a participant in the deposit insurance system in Russia.

The Group maintains an appropriate treasury management policy to ensure that its surplus funds are invested under a range of suitable options, including by deposit with various financial institutions. The Group elects to deposit a portion of its surplus funds with Asian-Pacific Bank for two reasons.

First, Asian-Pacific Bank offers a competitive deposit rate of 5.75 per cent. in respect of US\$ deposits which is higher than the rate offered by other banks in which the Company maintains deposits. The Directors consider that the deposit rate offered by Asian-Pacific Bank represents normal commercial terms, having regard to Asian-Pacific Bank's credit rating, and also in comparison to the deposit rates offered by other unconnected banks in Russia. The deposit rate offered by Asian-Pacific Bank to the Group is on commercial terms and reflects the prevailing deposit rate offered by Asian-Pacific Bank to third parties. The Group is not subject to a maximum or minimum daily balance requirement in respect of amounts deposited with Asian-Pacific Bank, nor is the Group required to provide security to Asian-Pacific Bank.

Second, Asian-Pacific Bank is located in Blagoveshchensk in the Amur Region. It is one of the most established banks in the Amur Region, and accordingly it is familiar with the area in which the Group's operations are located. For example, Asian-Pacific Bank has automated teller machines located on site at the Group's

CONNECTED TRANSACTIONS

projects. Pavel Maslovskiy and Peter Hambro each hold a 25 per cent. interest in the company, V.M.H.Y. Holdings Limited, a 98 per cent. shareholder of the Russian company PPFIN Holding, which in turn holds a 67.6 per cent. interest in Asian-Pacific Bank. The interests of Dr Maslovskiy and Mr Hambro are aggregated under Listing Rule 14A.11, with the result that Asian-Pacific Bank is a connected person of the Company. Accordingly, the Banking Arrangements are classified as a continuing connected transaction for the purposes of the Listing Rules.

(ii) Historical amounts and proposed annual caps

The year end bank balances maintained by the Group with Asian-Pacific Bank for the previous 3 years as at 31 December of each previous year, and the projected cap for the period of one year commencing from the Listing Date, representing the maximum amount deposited by the Group with Asian-Pacific Bank are described in the table below:

	Historical figures (US\$ '000)			Annual cap (US\$ '000)
	2007	2008	2009	Period of 1 year from Listing Date
Deposit	11,078	19,298	817	30,000

In setting the annual caps, the Directors have had regard to two factors. The first factor is the historical levels of deposits maintained with Asian-Pacific Bank. Although the historical deposits have varied significantly over the past three years the Directors have also had regard to the maximum deposit balances placed by the Group with Asian-Pacific Bank at any one time during the Track Record Period and these balances are consistent with the annual caps. The historical deposits have reflected the amount of surplus cash in the Group which in turn is dependent upon the short term business plan of the Group and its liquidity requirements. In 2009, following the merger between Aricom and Petropavlovsk, Aricom became a wholly owned subsidiary of the Petropavlovsk Group. The decline in the year end deposit balance for 2009 reflects a revised cash management policy which applied in respect of the implementation of Aricom as a wholly owned subsidiary with the Petropavlovsk Group, rather than a standalone entity. The second factor that the Directors considered is the planned operations of the Group for the period in which the annual cap applies, and the cash requirements related to those operations including expected capital expenditure. There is a direct relationship between the Group's activities and its deposit requirements, because as the Group's activities increase, so does its requirement to have cash readily available to conduct those activities. Accordingly, because the Group's activities are expected to increase over the period in which the annual cap applies, the Directors expect that the Group will require larger deposit balances with Asian-Pacific Bank.

The Directors believe that maintaining a rolling deposit with Asian-Pacific Bank of an amount up to the annual cap of US\$30 million will enable the Group to meet its anticipated day to day working capital requirements and to procure supplies and capital expenditure from vendors located in the Russian Far East, while also earning a competitive deposit rate, which is in the best interests of the Group.

CONNECTED TRANSACTIONS

Accordingly the proposed annual cap has been determined independently of the expected Global Offering and Pre-IPO proceeds. The annual cap of US\$30 million represents only approximately 9.0% of the net proceeds of the Global Offering (based on an Offer Price of HK\$2.60, being the midpoint of the indicative Offer Price range, assuming that the Over-allotment Option is not exercised and excluding the Sale Shares sold by the Selling Shareholder) and approximately 3.3% of Asian-Pacific Bank's total liabilities.

The Sole Sponsor confirms that in its view, the banking services arrangement with Asia-Pacific Bank is in the ordinary course and usual course of business of the Company, on normal commercial terms, fair and reasonable and that the annual caps for these transactions set out above are fair and reasonable. In relation to listing proceeds, the Sole Sponsor notes that while some listing proceeds may be deposited with Asian-Pacific Bank, the Annual Caps will prevent the entirety of the listing proceeds from being deposited with Asian-Pacific Bank. Furthermore, the Sole Sponsor considers that the use of the cash deposits of the Group with Asian-Pacific Bank is a matter for the Asian-Pacific Bank to decide in the exercise of its ordinary commercial discretion as is the case with ordinary course banking arrangements.

3 Services agreement between Giproruda and OJSC Apatit

(i) Description of transaction

OJSC PhosAgro ("PhosAgro") holds a 25 per cent. interest in Giproruda, a subsidiary of the Company. Accordingly, PhosAgro is a connected person of the Company. Apatit, a subsidiary of PhosAgro, is also a connected person of the Company because it is an associate of PhosAgro for the purposes of Chapter 14A.

Apatit procures mine design services from Giproruda in respect of its mining operations located in the west of Russia ("Apatit Services Agreements"). The Apatit Services Agreements are continuing connected transactions. Giproruda provides the services on similar terms to those it would provide to a third party, and the services are typical of the services it provides to other third parties.

The Company will re-comply with Rules 14A.35(3) and 14A.35(4) in the event the services provided under the Apatit Services Agreements will exceed the annual caps set out below.

(ii) Pricing basis and annual caps

The historical prices for engineering services provided to Apatit for the previous three years are described in the table below, together with the expected caps for the next three years.

	Historical figures (US\$ '000)			Annual cap (US\$ '000)		
	2007	2008	2009	2010	2011	2012
Services provided	849	2,271	2,974	5,000	5,000	5,000

In setting the caps, the Directors have had regard to two factors. First, the nature of the mine design services provided to Apatit by Giproruda and the historical rise in value of the services provided. Second, Apatit's expected service requirements

CONNECTED TRANSACTIONS

having regard to discussions between Giproruda and Apatit, and also based on Apatit's known and proposed operations.

Amounts paid to and received from Petropavlovsk during the Track Record Period

The following table sets out the total figures for the Track Record Period in respect of the amounts paid to Petropavlovsk pursuant to the arrangements described above.

Track Record Period (US\$'000)		
2007	2008	2009
28,458	50,358	30,195

Likewise, amounts received from Petropavlovsk during the Track Record Period and pursuant to the continuing connected transactions described above, is set out below.

Track Record Period (US\$'000)		
2007	2008	2009
110	157	1,920

Application for waiver

The Directors, including the Independent Non-Executive Directors, consider that the non-exempt continuing connected transactions described above in sections B and C were, and will be, entered into in the ordinary and usual course of business, on commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole. As the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules, except for the profit ratio) for each of the Shared Services Agreement; Technical Services Agreement; Helicopter Lease Agreement; Helicopter Services Agreement; Aircraft Agreement; Banking Services Arrangement; and the Apatit Services Agreements, are expected to be more than 5 per cent., such transactions are therefore subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 and 14A.47 to 14A.54 of the Listing Rules.

However, as the above non-exempt continuing connected transactions are expected to continue on a recurring basis and extend over a period of time, the Directors consider that compliance with the announcement and independent Shareholders' approval requirements (where applicable) would be impractical and would impose unnecessary administrative costs upon the Company. Accordingly, the Company has applied to and received from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the non-exempt continuing connected transactions described above for the duration of the period in which the relevant annual caps apply. The Company undertakes to comply with the relevant requirements under Rule 14A, including complying with the annual caps and annual review.

Confirmation from the Directors

The Directors confirm that the non-exempt continuing connected transactions set out above, and for which a waiver from the announcement and independent shareholders' approval requirements of Chapter 14A has been obtained, are in the ordinary and usual course of business of the Company, on normal commercial terms, are fair and

CONNECTED TRANSACTIONS

reasonable and are in the interests of the Company and the Shareholders as a whole. In addition, the Directors confirm that the annual caps for these transactions set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Confirmation from the Sole Sponsor

For the purposes of Rule 14A.42(3), the Sole Sponsor confirms that the non-exempt continuing connected transactions set out above, and for which a waiver from the announcement and independent shareholders' approval requirements of Chapter 14A has been obtained, are in the ordinary and usual course of business of the Company, on normal commercial terms, are fair and reasonable and in the interests of the shareholders as a whole. In addition, the Sole Sponsor confirms that the annual caps for these transactions set out above are fair and reasonable and in the interests of the Shareholders as a whole.