The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

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30 September 2010

The Directors
IRC Limited 鐵江現貨有限公司
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to IRC Limited 鐵江現貨有限公司 (formerly known as Thor Limited, the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 30 September 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Hong Kong on 4 June 2010 and on 5 August 2010 became the indirect holding company of Aricom Limited (formerly known as Aricom plc, "Aricom") and its subsidiaries (collectively the "Aricom Group").

The Group is principally engaged in the development of a vertically integrated mining, processing and marketing group concentrating on industrial commodities. The main activities of the Group are in Russia and the Group predominantly serves the Russian and Chinese markets.

The details of the Group's corporate structure are explained in the sub-section headed "Restructuring of the Group" of the section headed "History and Restructuring" in this Prospectus (the "Restructuring").

All subsidiaries have adopted 31 December as their financial year end dates. Throughout the Relevant Periods and at the date of this report, the Company has direct and indirect interests in the following subsidiaries comprising the Group:

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group At 31 December 2007	2008	2009	At 30 June 2010	At date of this report	Principal activities
Arfin Limited	Cyprus 22 August 2005	US$10,000	100%	100%	100%	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US$2,912	100%	100%	100%	100%	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$6,080	100%	100%	100%	100%	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$2,502	—	100%	100%	100%	100%	Investment holding

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group At 31 December 2007	2008	2009	At 30 June 2010	At date of this report	Principal activities
Expokom Limited (formerly Methkita Limited)	Cyprus 22 December 2005	US$158,808	100%	100%	100%	100%	100%	Investment holding
Guiner Enterprises Ltd	Cyprus 25 August 2007	US$271,080	100%	100%	100%	100%	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US$32,500	100%	100%	100%	100%	100%	Investment holding
Lapwing Limited ("Lapwing")	Cyprus 9 August 2006	EUR28,795	70.22%	99.58%	99.58%	99.58%	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US$22,740	—	100%	100%	100%	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US$3,640	100%	100%	100%	100%	100%	Investment holding
Rumier Holdings Ltd	Cyprus 3 October 2007	US$270,945	100%	100%	100%	100%	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$197	100%	100%	100%	100%	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$4,650	100%	100%	100%	100%	100%	Investment holding
Aricom	United Kingdom 12 September 2003	GBP1,315,864	100%	100%	100%	100%	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP241,481,039	100%	100%	100%	100%	100%	Investment holding
Aricom B Finance plc(a)	United Kingdom 6 October 2008	GBP2	—	100%	100%	—	—	Investment holding
Aricom B Limited(a)	United Kingdom 6 October 2008	US$100	—	100%	100%	—	—	Investment holding
Aricom B Roubles Treasury Limited(a)	United Kingdom 6 October 2008	RUR1,000	—	100%	100%	—	—	Provision of financing services for the Group
Aricom Finance UK Limited(a)	United Kingdom 28 June 2007	GBP2	100%	100%	100%	—	—	Provision of financing services for the Group
Aricom Roubles Treasury UK Limited(a)	United Kingdom 8 March 2008	RUR62,684,000	—	100%	100%	—	—	Provision of financing services for the Group
Aricom Services Limited(a)	United Kingdom 6 October 2008	US$1	—	100%	100%	—	—	Business services for the Group
Aricom Treasury UK Limited(a)	United Kingdom 28 June 2007	GBP2	100%	100%	100%	—	—	Provision of financing services for the Group
Ariti HK Limited	Hong Kong 11 February 2008	HK$1	—	100%	100%	100%	100%	Dormant
Ariva HK Limited	Hong Kong 11 March 2008	HK$1	—	100%	100%	100%	100%	Investment holding
Thorholdco Limited	Cayman Islands 18 May 2010	US$31	—	—	—	100%	100%	Investment holding

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group At 31 December 2007	2008	2009	At 30 June 2010	At date of this report	Principal activities
Thorrouble Limited	Cayman Islands 18 May 2010	RUR100,000	—	—	—	100%	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US$3,000	—	—	—	100%	100%	Provision of financing services for the Group
LLC Petropavlovsk-Iron Ore (formerly LLC Aricom)	Russia 25 August 2004	RUR10,000,000	100%	100%	100%	100%	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUR141,514,865	100%	100%	100%	100%	100%	Exploration and mining—K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUR1,378,664,935	100%	100%	100%	100%	100%	Exploration and mining—Kuranakh project
LLC Rubicon	Russia 9 January 2007	RUR100,000	100%	100%	100%	100%	100%	Development of bridge and other infrastructure projects for the Group
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")(b)	Russia 30 August 2005	RUR1,000,000	100%	100%	100%	100%	100%	Development of port for the Group
LLC TOK	Russia 3 April 2007	RUR10,000	100%	100%	100%	100%	100%	Dormant
OJSC Giproruda(c)	Russia 8 December 1992	RUR4,639	70.28%	70.28%	70.28%	70.28%	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUR780,000,000	70.22%	99.58%	99.58%	99.58%	99.58%	Exploration and mining—Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUR10,000	100%	100%	100%	100%	100%	Exploration and mining—Kostenginskoye project
LLC Orlovsko-Sokhatinsky Rudnik	Russia 3 April 2007	RUR10,000	100%	100%	100%	100%	100%	Exploration and mining—Garinskoye Flanks
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUR1,000,000	100%	100%	100%	100%	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUR10,000,000	—	—	100%	100%	100%	Procurement services
LLC Karier Ushumunskiy	Russia 15 March 2007	RUR1,000,000	100%	100%	100%	100%	100%	Coal production

(a) On 10 June 2010, these entities were sold to Petropavlovsk PLC, the ultimate holding company as part of the Restructuring. Refer to note 2 for further information on the Restructuring.
(b) CJSC is a Closed Joint Stock Company in Russia. CJSC's issued shares cannot be freely traded.
(c) OJSC is an Open Joint Stock Company in Russia. OJSC's issued shares can be freely traded.

We have acted as the auditors of the Company since its date of incorporation. No audited financial statements have been prepared for the Company as it was only incorporated on 4 June 2010. The Company's statutory financial statements will be prepared under the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

No audited financial statements have been prepared for CJSC SGMTP, LLC TOK, LLC Kostenginskiy GOK, LLC Garinskaya Infrastructure, LLC Amursnab and LLC Karier Ushumunskiy since their respective dates of incorporation as they were not subject to Russian statutory audit requirements.

No audited financial statements have been prepared for Thorholdco Limited, Thorrouble Limited and Thordollar Limited as these entities were only set up in May 2010 and have not yet commenced business since their dates of incorporation. They are not subject to statutory audit requirements.

As Aricom B Limited and Aricom B Roubles Treasury Limited were dormant for the period from incorporation to 31 December 2009, they are not subject to statutory audit requirements.

For Aricom, LLC Petropavlovsk-Iron Ore, LLC Orlovo-Sokhatinsky Rudnik, LLC KS GOK, LLC Rubicon, the audited financial statements of these subsidiaries for the year ended 31 December 2009 have not yet been prepared. The audited financial statements of Aricom for the year ended 31 December 2009 are required to be issued by 30 September 2010 unless an extension has been granted, and the extension has been applied by Aricom. For the subsidiaries incorporated in Russia, there is no statutory time limit imposed on the issue of audited financial statements.

The statutory financial statements of the other subsidiaries for the Relevant Periods, or since their respective dates of establishment or acquisition, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by Deloitte Touche Tohmatsu, Hong Kong, except for the following:

Name	Financial period	Auditors
Arfin Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Brasenose Services Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Dardanius Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Esimanor Limited	For the period from 15 March 2008 (date of incorporation) to 31 December 2008 and the year ended 31 December 2009	Deloitte Limited, Cyprus
Expokom Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus

Name	Financial period	Auditors
Guiner Enterprises Ltd	For the period from 25 August 2007 (date of incorporation) to 31 December 2008 and the year ended 31 December 2009	Deloitte Limited, Cyprus
Kapucius Services Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Lapwing	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Lucilius Investments Limited	For the period from 22 November 2008 (date of incorporation) to 31 December 2009	Deloitte Limited, Cyprus
Metellus Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Rumier Holdings Ltd	For the period from 3 October 2007 (date of incorporation) to 31 December 2008 and the year ended 31 December 2009	Deloitte Limited, Cyprus
Russian Titan Company Limited	For the year ended 31 December 2007	KPMG, Cyprus
	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Tenaviva Limited	For each of the years ended 31 December 2008 and 2009	Deloitte Limited, Cyprus
Aricom	For each of the years ended 31 December 2007 and 2008	Deloitte LLP, United Kingdom
Aricom B Finance plc	For the period from 6 October 2008 (date of incorporation) to 31 December 2009	Deloitte LLP, United Kingdom
Aricom Finance UK Limited	For the period from 28 June 2007 (date of incorporation) to 31 December 2007 and each of the years ended 31 December 2008 and 2009	Deloitte LLP, United Kingdom
Aricom Roubles Treasury UK Limited	For the period from 8 March 2008 (date of incorporation) to 31 December 2008 and year ended 31 December 2009	Deloitte LLP, United Kingdom
Aricom Treasury UK Limited	For the period from 28 June 2007 (date of incorporation) to 31 December 2007 and each of the years ended 31 December 2008 and 2009	Deloitte LLP, United Kingdom
Aricom UK Limited	For the period from 1 March 2007 (date of incorporation) to 31 December 2007 and each of the years ended 31 December 2008 and 2009	Deloitte LLP, United Kingdom
Aricom Services Limited	For the period from 6 October 2008 (date of incorporation) to 31 December 2009	Deloitte LLP, United Kingdom

Name	Financial period	Auditors
LLC Petropavlovsk-Iron Ore	For each of the years ended 31 December 2007 and 2008	Audit Project, Russia
LLC GMMC	For each of the years ended 31 December 2007, 2008 and 2009	Audit Project, Russia
OJSC Giproruda	For each of the years ended 31 December 2007, 2008 and 2009	Audit Project, Russia
LLC Olekminsky Rudnik	For each of the years ended 31 December 2007, 2008 and 2009	Audit Project, Russia
LLC Orlovo-Sokhatinsky Rudnik	For the period from 3 April 2007 (date of incorporation) to 31 December 2007 and the year ended 31 December 2008	Audit Project, Russia
LLC KS GOK	For each of the years ended 31 December 2007 and 2008	Audit Project, Russia
LLC Rubicon	For each of the years ended 31 December 2007 and 2008	Audit Project, Russia

For the purpose of preparing this report, Deloitte LLP, Chartered Accountants registered in the United Kingdom, have carried out audit procedures in accordance with International Standards on Auditing (UK and Ireland) issued by Auditing Practices Board on the consolidated financial statements of the Aricom Group for each of the years ended 31 December 2007 and 2008 which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and on the consolidated financial statements of the Aricom Group for the year ended 31 December 2009 and the six months ended 30 June 2010 which are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") (collectively referred to as the "Underlying Financial Statements").

The Financial Information set out in this report for the Relevant Periods has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of section A below, after making such adjustments as we consider appropriate for the purpose of preparing the Financial Information in accordance with HKFRS issued by the HKICPA for inclusion in the Prospectus. For the purpose of preparing this report, we have examined the Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company are responsible for preparing the Underlying Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 2 of section A below, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Company as at 30 June 2010 and of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 and of the combined results and combined cash flows of the Group for the Relevant Periods.

The comparative combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flows statements of the Group for the six months ended 30 June 2009 together with the notes thereon have been extracted from the Group's consolidated financial information for the same period (the "Interim Financial Information") which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Interim Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRS.

A. FINANCIAL INFORMATION

Combined Income Statements

	Notes	Year ended 31 December 2007	2008	2009	Six months ended 30 June 2009	2010
		US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Revenue	6	4,938	9,674	8,260	2,874	5,198
Net operating expenses	7	(23,664)	(36,956)	(40,555)	(20,713)	(22,074)
Impairment charges	10	—	(386,450)	(97,371)	(97,371)	(34,511)
		(18,726)	**(413,732)**	**(129,666)**	**(115,210)**	**(51,387)**
Share of results of an associate	20	(59)	850	—	—	—
Share of results of joint ventures	21	—	(444)	(90)	(496)	—
Net operating loss		**(18,785)**	**(413,326)**	**(129,756)**	**(115,706)**	**(51,387)**
Other gains and losses and other expenses	11	2,305	(21,223)	(13,552)	(11,717)	1,539
Financial income	12	15,197	14,119	15,145	3,651	10,743
Financial expenses	13	(602)	(588)	(10,337)	(1,430)	(11,269)
Loss before taxation		**(1,885)**	**(421,018)**	**(138,500)**	**(125,202)**	**(50,374)**
Taxation credit/(expense)	14	1,996	(5,582)	(637)	199	(1,315)
Profit/(loss) for the year/period		**111**	**(426,600)**	**(139,137)**	**(125,003)**	**(51,689)**
Profit/(loss) for the year/period attributable to:						
Equity holder of the Company		1,040	(427,377)	(139,291)	(124,920)	(51,905)
Non-controlling interests		(929)	777	154	(83)	216
		111	(426,600)	(139,137)	(125,003)	(51,689)
Earnings/(loss) per share (US cents)	16					
Basic		0.08	(24.36)	(7.66)	(6.93)	(2.77)
Diluted		0.08	(24.36)	(7.66)	(6.93)	(2.77)

Combined Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (Unaudited)	*US$'000*
Profit/(loss) for the year/period	**111**	**(426,600)**	**(139,137)**	**(125,003)**	**(51,689)**
Other comprehensive income/ (expenses)					
Exchange differences on translation of foreign operations and translation to presentation currency	2,168	(15,138)	(458)	(864)	(320)
Equity element of deferred tax arising on share options	199	—	—	—	—
Other comprehensive income/ (expenses) for the year/period (net of tax)	2,367	(15,138)	(458)	(864)	(320)
Total comprehensive income/ (expenses) for the year/period	**2,478**	**(441,738)**	**(139,595)**	**(125,867)**	**(52,009)**
Total comprehensive income/ (expenses) attributable to:					
Equity holder of the Company	3,208	(441,722)	(139,633)	(125,533)	(52,088)
Non-controlling interests	(730)	(16)	38	(334)	79
	2,478	(441,738)	(139,595)	(125,867)	(52,009)

Combined Statements of Changes in Equity

The Group

	Total attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Treasury shares	Shares to be issued[(a)]	Accumulated losses	Share-based payments reserve	Translation reserve	Other reserves	Sub-total	Non-controlling interests	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007	**816**	**263,800**	**—**	**—**	**83,798**	**(9,628)**	**9,857**	**—**	**—**	**348,643**	**178,762**	**527,405**
Profit for the year	—	—	—	—	—	1,040	—	—	—	1,040	(929)	111
Other comprehensive income for the year												
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	—	1,969	—	1,969	199	2,168
Equity element of deferred tax arising on share options	—	—	—	—	—	—	199	—	—	199	—	199
Total comprehensive income for the year	—	—	—	—	—	1,040	199	1,969	—	3,208	(730)	2,478
Revaluation of non-controlling interest	—	—	—	—	—	—	—	—	(9,246)	(9,246)	9,246	—
Acquisition of non-controlling interest (note 33(a) and (b))	—	—	—	—	—	—	—	—	42,575	42,575	(183,481)	(140,906)
Non-controlling interest at date of acquisition (note 33(c) and (d))	—	—	—	—	—	—	—	—	—	—	15,859	15,859
Option purchased over non-controlling interest (note 33(d))	—	—	—	—	—	—	—	—	(19,700)	(19,700)	—	(19,700)
Share-based payments	—	—	—	—	—	—	603	—	—	603	—	603
Directors share options exercised	—	—	—	—	—	281	(281)	—	—	—	—	—
Shares issued in respect of deferred consideration	130	102,160	—	—	(83,798)	—	—	—	—	18,492	—	18,492
Shares acquired by Employee Benefit Trust ("EBT")	33	20,223	—	(20,256)	—	—	—	—	—	—	—	—
Other shares issued	1,168	769,371	—	—	—	—	—	—	—	770,539	—	770,539
Expenses on issue of equity shares	—	(24,916)	—	—	—	—	—	—	—	(24,916)	—	(24,916)
Change in purchase consideration of LLC KS GOK (note 33(b))	—	—	—	—	—	—	—	—	(3,729)	(3,729)	(3,729)	(7,458)
Balance at 31 December 2007	**2,147**	**1,130,638**	**—**	**(20,256)**	**—**	**(8,307)**	**10,378**	**1,969**	**9,900**	**1,126,469**	**15,927**	**1,142,396**

The Group

	Total attributable to equity holders of the Company											
	Share capital	**Share premium**	**Capital reserve**	**Treasury shares**	**Shares to be issued**[(a)]	**Accumulated losses**	**Share-based payments reserve**	**Translation reserve**	**Other reserves**	**Sub-total**	**Non-controlling interests**	**Total equity**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2008	2,147	1,130,638	—	(20,256)	—	(8,307)	10,378	1,969	9,900	1,126,469	15,927	1,142,396
Loss for the year	—	—	—	—	—	(427,377)	—	—	—	(427,377)	777	(426,600)
Other comprehensive expenses for the year												
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	—	(14,345)	—	(14,345)	(793)	(15,138)
Total comprehensive expenses for the year	—	—	—	—	—	(427,377)	—	(14,345)	—	(441,722)	(16)	(441,738)
Shares acquired by EBT	22	4,523	—	(4,545)	—	—	—	—	—	—	—	—
Other shares issued	95	48,287	—	—	—	—	—	—	—	48,382	—	48,382
Expenses on issue of equity shares	—	(47)	—	—	—	—	—	—	—	(47)	—	(47)
Director's share options exercised	1	119	—	—	—	61	(61)	—	—	120	—	120
Acquisition of 29.26% non-controlling interest in Garinskoye project (note 33(f))	—	—	—	—	—	—	—	—	19,700	19,700	(11,585)	8,115
Share-based payments	—	—	—	—	—	—	638	—	—	638	—	638
Balance at 31 December 2008	**2,265**	**1,183,520**	**—**	**(24,801)**	**—**	**(435,623)**	**10,955**	**(12,376)**	**29,600**	**753,540**	**4,326**	**757,866**
Loss for the year	—	—	—	—	—	(139,291)	—	—	—	(139,291)	154	(139,137)
Other comprehensive expenses for the year												
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	—	(342)	—	(342)	(116)	(458)
Total comprehensive expenses for the year	—	—	—	—	—	(139,291)	—	(342)	—	(139,633)	38	(139,595)
Share-based payments	—	—	—	—	—	2,007	153	—	—	2,160	—	2,160
Transfer to an equity holder (note 31)	—	—	—	—	—	(46,582)	—	—	—	(46,582)	—	(46,582)
Deemed contribution from an equity holder[(b)]	—	—	6,908	—	—	—	—	—	—	6,908	—	6,908
Derecognition of EBT (note 36(b))	—	—	—	24,801	—	(211)	—	(6,007)	—	18,583	—	18,583
Balance at 31 December 2009	**2,265**	**1,183,520**	**6,908**	**—**	**—**	**(619,700)**	**11,108**	**(18,725)**	**29,600**	**594,976**	**4,364**	**599,340**

The Group

	Total attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Treasury shares	Shares to be issued[(a)]	Accumulated losses	Share-based payments reserve	Translation reserve	Other reserves	Sub-total	Non-controlling interests	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2010	2,265	1,183,520	6,908	—	—	(619,700)	11,108	(18,725)	29,600	594,976	4,364	599,340
Loss for the period	—	—	—	—	—	(51,905)	—	—	—	(51,905)	216	(51,689)
Other comprehensive expenses for the period												
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	—	(183)	—	(183)	(137)	(320)
Total comprehensive expenses for the period	—	—	—	—	—	(51,905)	—	(183)	—	(52,088)	79	(52,009)
Exercise of warrants issued	192	153,040	—	—	—	—	—	—	—	153,232	—	153,232
Capital reduction[(c)]	—	(1,336,560)	—	—	—	1,336,560	—	—	—	—	—	—
Interim dividend (note 15)	—	—	—	—	—	(644,437)	—	—	—	(644,437)	—	(644,437)
Share-based payments	—	—	—	—	—	212	—	—	—	212	—	212
Deemed contribution from an equity holder[(b)]	—	—	5,333	—	—	—	—	—	—	5,333	—	5,333
Transfer to an equity holder (note 31(c))	—	—	—	—	—	(171,613)	—	3,104	—	(168,509)	—	(168,509)
Transfer from an equity holder (note 31(a))	—	—	—	—	—	205,412	—	—	—	205,412	—	205,412
Issue of shares and combination of Aricom (note 31(b))	—	697,637	—	—	—	(260,000)	—	—	—	437,637	—	437,637
Balance at 30 June 2010	**2,457**	**697,637**	**12,241**	**—**	**—**	**(205,471)**	**11,108**	**(15,804)**	**29,600**	**531,768**	**4,443**	**536,211**
(Unaudited)												
Balance at 1 January 2009	**2,265**	**1,183,520**	**—**	**(24,801)**	**—**	**(435,623)**	**10,955**	**(12,376)**	**29,600**	**753,540**	**4,326**	**757,866**
Loss for the period	—	—	—	—	—	(124,920)	—	—	—	(124,920)	(83)	(125,003)
Other comprehensive expenses for the period												
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	—	(613)	—	(613)	(251)	(864)
Total comprehensive expenses for the period	—	—	—	—	—	(124,920)	—	(613)	—	(125,533)	(334)	(125,867)
Share-based payments	—	—	—	—	—	1,205	153	—	—	1,358	—	1,358
Transfer to an equity holder (note 31(a))	—	—	—	—	—	(46,582)	—	—	—	(46,582)	—	(46,582)
Deemed contribution from an equity holder[(b)]	—	—	1,896	—	—	—	—	—	—	1,896	—	1,896
Derecognition of EBT (note 36(b))	—	—	—	24,801	—	(211)	—	(6,007)	—	18,583	—	18,583
Balance at 30 June 2009	**2,265**	**1,183,520**	**1,896**	**—**	**—**	**(606,131)**	**11,108**	**(18,996)**	**29,600**	**603,262**	**3,992**	**607,254**

The Company

	Total attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Treasury shares	Shares to be issued[(a)]	Accumulated losses	Share-based payments reserve	Translation reserve	Other reserves	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2010	—	—	—	—	—	—	—	—	—	—
Issuance of share capital at date of incorporation	—	697,637	—	—	—	—	—	—	—	697,637
Loss for the period	—	—	—	—	—	(2,369)	—	—	—	(2,369)
Balance at 30 June 2010	**—**	**697,637**	**—**	**—**	**—**	**(2,369)**	**—**	**—**	**—**	**695,268**

(a) The amount represents deferred consideration in relation to the first 50% interest in KS GOK acquired from Malavaisa Enterprises Inc., an independent third party, in 2006 and this comprised of ordinary shares, at an amount dependent on the outcome of the valuation. The deferred consideration was accounted for in accordance with HKFRS 2 *Share-based Payment* as an equity-settled share-based payment. These ordinary shares were issued in 2007 (see note 31).

(b) The amount represents certain central administration expenses of the Group paid by the ultimate holding company. This amount is recorded in capital reserve as a deemed contribution from the ultimate holding company.

(c) On 27 May 2010, a reduction of Aricom's share capital was undertaken. In accordance with the United Kingdom Companies Act 2006, this reduction is considered to be a realised profit, and accordingly the share premium of US$1,336,560,000 was transferred to accumulated losses.

Combined Statements of Financial Position

		Group				Company
		As at 31 December			As at 30 June	As at 30 June
	Notes	2007	2008	2009	2010	2010
		US$'000	US$'000	US$'000	US$'000	US$'000
Non-current assets						
Goodwill		58	—	—	—	—
Intangible assets	18	427	613	28,690	28,540	—
Property, plant and equipment	19	561,438	442,610	404,741	445,218	—
Investment in subsidiaries	31	—	—	—	—	697,637
Interest in an associate	20	2,854	3,704	—	—	—
Interests in joint ventures	21	—	20,387	22,692	8,911	—
Deferred tax assets	22	4,879	—	—	—	—
Amount owed by an associate	20	4,288	6,368	—	—	—
Other non-current assets	23	10,934	13,737	4,173	11,362	—
		584,878	487,419	460,296	494,031	697,637
Current assets						
Inventories	24	2,015	8,481	13,033	17,050	—
Trade and other receivables	25	13,967	24,960	19,739	31,808	592
Loans due from related parties	39	65,111	—	375,384	—	—
Short-term investments	26	91,791	—	—	—	—
Cash and cash equivalents	27	406,687	257,822	18,415	25,865	—
		579,571	291,263	426,571	74,723	592
Total assets		1,164,449	778,682	886,867	568,754	698,229
Current liabilities						
Trade and other payables	28	(12,728)	(14,993)	(16,437)	(27,473)	(2,961)
Current income tax payable		(446)	(1,182)	(270)	(320)	—
Derivative financial instruments	38	—	—	(1,711)	—	—
		(13,174)	(16,175)	(18,418)	(27,793)	(2,961)
Net current assets (liabilities)		566,397	275,088	408,153	46,930	(2,369)
Total assets less current liabilities		1,151,275	762,507	868,449	540,961	695,268
Non-current liabilities						
Deferred tax liabilities	22	(5,014)	(2,422)	(1,961)	(1,834)	—
Provision for close down and restoration costs	29	(2,294)	(2,108)	(2,990)	(2,916)	—
Loans due to a related party	39	—	—	(264,158)	—	—
Other non-current liabilities	30	(1,571)	(111)	—	—	—
		(8,879)	(4,641)	(269,109)	(4,750)	—
Total liabilities		(22,053)	(20,816)	(287,527)	(32,543)	—
Net assets		**1,142,396**	**757,866**	**599,340**	**536,211**	**695,268**
Equity						
Share capital	31	2,147	2,265	2,265	2,457	—
Share premium		1,130,638	1,183,520	1,183,520	697,637	697,637
Capital reserve		—	—	6,908	12,241	—
Treasury shares	32	(20,256)	(24,801)	—	—	—
Reserves		22,247	28,179	21,983	24,904	—
Accumulated losses		(8,307)	(435,623)	(619,700)	(205,471)	(2,369)
Equity attributable to equity holder of the Company		1,126,469	753,540	594,976	531,768	695,268
Non-controlling interests		15,927	4,326	4,364	4,443	—
Total equity		**1,142,396**	**757,866**	**599,340**	**536,211**	**695,268**

Combined Cash Flow Statements

	Notes	Year ended 31 December 2007	2008	2009	Six months ended 30 June 2009	2010
		US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Operating activities						
Cash used in operations	34	(16,627)	(49,663)	(26,094)	(15,146)	(22,263)
Interest expenses paid		—	—	(1,178)	(5)	—
Income tax paid		(190)	(2,285)	(457)	(274)	(259)
Net cash used in operating activities		(16,817)	(51,948)	(27,729)	(15,425)	(22,522)
Investing activities						
Interest received		16,505	16,487	2,239	1,941	1,318
Investment management fees paid		—	(186)	—	—	—
Income received on derivative financial instruments		637	—	—	—	—
Proceeds on disposal of short-term investments		10,770	113,328	311	202	—
Proceeds on disposal of property, plant and equipment		6	98	—	—	3,713
Purchases of property, plant and equipment and intangible assets		(76,656)	(108,493)	(73,945)	(33,040)	(60,843)
Purchases of other non-current assets		—	(205)	—	—	—
Acquisition of licences, net of cash acquired	33(g)	—	(44,976)	—	—	—
Acquisition of non-controlling interests	33(a)	(11,237)	—	—	—	—
Acquisitions of subsidiaries, net of cash acquired	33(c)	(6,348)	—	—	—	—
Cash acquired upon acquisition of interest in Lapwing	33(d)	427	—	—	—	—
Purchase of short-term investments		(99,346)	(22,855)	—	—	—
Purchase of option in Lapwing	33(d)	(19,700)	—	—	—	—
Loan to Lapwing	33(d)	(27,600)	—	—	—	—
Loan advanced to Olis Constructions Limited ("Olis")	33(f)	(65,000)	—	—	—	—
Repayment of the remainder of a loan issued to Olis after completion of the acquisition of their 29.26% interest in Lapwing (excluding interest)		—	1,950	—	—	—
Advance to related parties		—	(1,011)	—	—	—
Loan issued to related parties		—	—	(176,194)	(120,117)	(6,035)
Loans advanced to an associate		(4,217)	(2,953)	—	—	—
Loans issued to employees		—	(640)	—	—	—
Joint venture registered capital contribution	21	—	(20,812)	(2,021)	—	(2,021)
Repayment of loan advanced to related parties		—	245	—	—	22,075
Net cash used in investing activities		(281,759)	(70,023)	(249,610)	(151,014)	(41,793)
Financing activities						
Dividends paid		—	—	—	—	(22,460)
Debt arrangement costs		(557)	—	(290)	(290)	—
Proceeds on issuance of ordinary shares		639,462	120	—	—	—
Share issue costs		(24,916)	(47)	—	—	—
Loans advanced from a related party		—	—	38,944	—	94,370
Net cash from/(used in) financing activities		613,989	73	38,654	(290)	71,910
Net increase/(decrease) in cash and cash equivalents for the year/period		315,413	(121,898)	(238,685)	(166,729)	7,595
Cash and cash equivalents at the beginning of year/period		89,668	406,687	257,822	257,822	18,415
Effect of foreign exchange rate changes		1,606	(26,967)	(722)	(866)	(145)
Cash and cash equivalents at the end of year/period		406,687	257,822	18,415	90,227	25,865

Notes to the Financial Information

1 General Information

Aricom is a limited liability company incorporated in the United Kingdom on 12 September 2003. Aricom's shares were listed on the Official List of the Financial Services Authority and admitted to trading on the main market of the London Stock Exchange plc on 29 October 2007. On 6 February 2009, the Independent Committees of the Board of Directors of Petropavlovsk PLC whose shares are also listed on the main market of the London Stock Exchange plc, and Aricom announced that both parties had reached agreement on the terms of a recommended all share offer to be made by Petropavlovsk PLC for the entire issued and to be issued share capital of Aricom ("the Acquisition").

The Acquisition provided for the acquisition of Aricom's shares by way of a court sanctioned scheme of arrangement under Part 26 of the United Kingdom ("UK") Companies Act 2006 involving a capital reduction of Aricom under section 135 of the UK Companies Act 2006 ("the Scheme"). The purpose of the Scheme was to enable Petropavlovsk PLC to acquire the entire issued and to be issued ordinary share capital of Aricom.

Under the terms of the Acquisition, Aricom's shareholders received one fully paid new Petropavlovsk PLC share in exchange for 16 fully paid shares of Aricom. The Acquisition was completed on 22 April 2009. On 19 May 2009, Aricom plc, which was formerly registered as a public company, re-registered under the UK Companies Act 2006 and became a private limited company under the name of Aricom Limited.

2 Basis of Presentation of Financial Information

The Company was incorporated on 4 June 2010 in Hong Kong as a wholly-owned subsidiary of Cayiron Limited (a company incorporated in the Cayman Islands) which in turn is a wholly-owned subsidiary of Petropavlovsk PLC, the ultimate holding company of Aricom.

On 14 June 2010, the Company acquired the entire issued share capital of Thorholdco Limited (a company incorporated in the Cayman Islands) from Cayiron Limited in exchange for the issue of shares to Cayiron Limited. Following receipt of the necessary Russian regulatory approvals on 23 July 2010, Thorholdco Limited acquired from Petropavlovsk PLC the entire issued share capital of Aricom, which is the indirect holding company of the Group's mineral and ilmenite assets, on 5 August 2010, for US$260,000,000, payment for which has been offset against the promissory note of the same amount owed by Petropavlovsk PLC to Thorholdco Limited. As part of this Restructuring, related party payables and receivables of the Aricom Group due to and from the subsidiaries of Petropavlovsk PLC were transferred to two subsidiary companies of Thorholdco Limited, Thorrouble Limited and Thordollar Limited, respectively. In addition, certain subsidiaries held by Aricom Limited and Aricom UK Limited, which were unrelated to the Aricom business intended to be listed on the Stock Exchange, representing shares in Aricom Finance UK Limited and Aricom Treasury UK Limited and respective subsidiaries, were sold to Petropavlovsk PLC (see note 41).

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements present the financial information of the Group throughout the Relevant Periods, or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period. The combined statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 have been prepared to present the combined assets and liabilities of the Group at the end of those reporting periods.

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of (other than business combinations involving entities under common control) during the Relevant Periods are included in the combined income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances between the group companies are eliminated in full on combination.

Non-controlling interests in the net assets of combined subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Allocation of the total comprehensive income to non-controlling interests

From 1 January 2010, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

3 Significant Accounting Policies

3.1 Introduction

The Financial Information has been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs. These policies have been consistently applied throughout the Relevant Periods except for the adoption of HKFRS 3 (revised in 2008) *Business Combinations* and HKAS 27 (revised in 2008) *Consolidated and Separate Financial Statements* which are applied from 1 January 2010. The requirements of these standards are applied prospectively, and therefore have not had an impact on previously reported financial information. The revised accounting policies are set out in note 3.3. In addition, the Financial

Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3.2 Adoption of New and Revised Standards and Interpretations

The HKICPA has issued a number of new and revised amendments and related interpretations ("HK(IFRICs)-Int") (herein collectively referred to as the "new HKFRSs") which are effective for the Group's financial year beginning on 1 January 2010. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has retrospectively applied the new HKFRSs except as set out in note 3.1 above.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations which were not yet effective during the Relevant Periods:

HKFRSs (Amendments)	Improvements to HKFRSs 2010(1)
HKAS 24 (Revised)	Related Party Disclosures(4)
HKAS 32 (Amendment)	Classification of Rights Issues(2)
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters(3)
HKFRS 9	Financial Instruments(5)
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement(4)
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments(3)

(1) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
(2) Effective for annual periods beginning on or after 1 February 2010
(3) Effective for annual periods beginning on or after 1 July 2010
(4) Effective for annual periods beginning on or after 1 January 2011
(5) Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments*: *Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the combined financial statements of the Group.

3.3 Business Combinations Not Under Common Control

Business combinations not under common control arising on acquisitions prior to 1 January 2010.

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess, after reassessment, is recognised immediately in the income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at the proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations not under common control arising on acquisitions on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 *Share-based Payment*; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

3.4 Purchases of a Non-controlling Interest in a Controlled Entity

Prior to 1 January 2010

The cost of the acquisition is measured at the aggregate of the fair values of assets given, at the date of exchange, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for shares purchased in a controlled entity, plus any costs directly attributable to the transaction. The identifiable assets, liabilities and contingent liabilities of a controlled entity are recognised at fair value at the date of the exchange transaction, but only to the extent of the proportion of equity acquired.

Goodwill arising on the purchase of shares in a controlled entity is recognised as an asset and initially measured at cost, being the excess of the additional cost of shares over the increase of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

If the increase in the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the shares purchase, the excess, after reassessment, is recognised immediately in profit or loss.

After 1 January 2010

Transactions in subsidiary equity interests between the parent and non-controlling interests (both acquisitions and disposals that do not result in a loss of control) are accounted for as equity transactions. Consequently, additional goodwill does not arise on any increase in parent interest, there is no remeasurement of net assets to fair value, and no gain or loss is recognised on any decrease in parent interest.

3.5 Acquisition of Assets

For the acquisition of mining licences effected through a non-operating corporate structure that does not represent a business, it is considered that the transactions does not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost allocated based on the fair value of the respective assets acquired.

Where the Group has control but does not own 100% of the assets, then a non-controlling interest is recognised, the assets continue to be carried at cost and changes in those values are recognised in equity.

3.6 Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Interests in joint ventures are carried in the combined statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint ventures, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the combined income statements and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in joint ventures.

3.7 Investments in subsidiaries

Investments in subsidiaries are included in the Company's statements of financial position at cost less any identified impairment losses.

3.8 Investments in Associates

An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Investments in associates are carried in the combined statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

3.9 Foreign Currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the combined financial information, the results and financial position of each Group company are expressed in United States Dollars ("US Dollars"), which is the presentation currency for the Financial Information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year/period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the year/period.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's entities which have a functional currency other than US Dollars are translated at exchange rates prevailing at the end of the reporting period date. Income and expense items are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during that year/period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised within equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.10 Goodwill

Goodwill arising on business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a business at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the combined income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.11 Intangible Assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, is capitalised and recorded on the combined statement of financial position within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project, as outlined in note 3.12 below.

Other intangible assets

Other intangible assets represent licensed intellectual property purchased in relation to the processing of titanium sponge. These intangibles are measured at cost and are amortised on a straight-line basis over their estimated useful life, which is a period of up to 10 years, but dependent upon the start-up date of the titanium sponge plant.

3.12 Property, Plant and Equipment

Non-mining assets

On initial recognition, non-mining assets are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Assets in the course of construction are capitalised in the capital construction in progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment.

Mine development costs

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as "mine development costs", this includes any property, plant and equipment acquired to undertake mining activities. Mine development costs are reclassified as "mining assets" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of mine development costs until they are reclassified as mining assets. Mine development costs are tested for impairment in accordance with the policy in note 3.13.

Deferred stripping costs incurred in the pre-production phase are capitalised as part of mine development costs, and amortised over the life of the mine.

For open pit operations the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body.

Such costs when incurred prior to the commencement of production are deferred on the statement of financial position, and charged to the profit or loss over the life of the mine. When incurred after the commencement of commercial production such costs are deferred based on the ratio obtained by dividing the tonnage of the waste mined by the quantity of the ore mined ("stripping ratio"). Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the life-of-mine ratio for each mine. Such deferred costs are then amortised in subsequent periods to the extent that the period's stripping ratio falls below the life-of-mine ratio. The life-of-mine ratio is based on the mineable reserves of the mine.

The life-of-mine waste-to-ore ratio is a function of an individual mine's pit design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical and economic parameters that impact reserves will also have an impact on the life-of-mine ratio even if they do not affect the mine's pit design. Changes to the life-of-mine ratio are accounted for prospectively.

Deferred stripping costs are included within non-current assets as "Mine development costs".

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Property, plant and equipment are depreciated using a units of production method or straight-line basis as set out below.

Mining assets where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on ore reserves, which results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 4.2.

Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Mine development costs and capital construction in progress are not depreciated, except for that property, plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Estimated useful lives of non-mining assets normally vary as set out below.

	Estimated useful life Number of years
Buildings	15-50
Plant and machinery	3-20
Vehicles	5-7
Office equipment	5-10
Computer equipment	3-5

Residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. Changes to the estimated residual values or useful lives are accounted for prospectively.

3.13 Impairment of Tangible and Intangible Assets Excluding Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Details of the assumptions used when assessing the impairment of the Group's tangible and intangible assets, and the effect of those assumptions, can be found in note 10.

3.14 Provision for Close Down and Restoration Costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provision is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provision for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at the end of each reporting period. All other costs of continuous rehabilitation are charged to the income statement as incurred.

3.15 Financial Instruments

Financial assets and financial liabilities are recognised on the Group's combined statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not hold any financial assets which meet the definition of an available-for-sale financial asset.

Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking as well as all derivatives that are not designated as effective hedging instruments. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, including transaction costs.

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial Liabilities at FVTPL

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of disposal in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedge instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Warrants not denominated in the functional currency of the issuing entity do not meet the definition of equity, and are recognised at their fair value as a liability of the entity. Changes in the fair value of the warrants are recognised in the income statement.

Other Financial Liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.16 Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials and consumables is determined on the first-in-first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Equipment and other assets may be leased to contractors under an operating lease, for use in the construction of mining properties. Income from lessees under these operating leases are set off against the cost of construction in the period to which they relate.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the combined statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 3.19).

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

3.18 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value-added taxes and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue from engineering contracts is recognised in accordance with the Group's accounting policy on engineering contracts, as set out below.

3.19 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the combined income statement in the year/period in which they are incurred.

3.20 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years/periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the combined statement of financial position method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, interest in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.21 Share-based Payments

Certain employees of the Company receive equity-settled and cash-settled share-based payments. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of an appropriate valuation model. The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at the end of each reporting period for cash-settled share-based payments.

3.22 Employee Benefit Trust

The carrying value of shares held by the EBT are recorded as treasury shares, shown as a deduction to shareholders' equity.

3.23 Retirement Benefit Costs

The Group does not operate a pension scheme. However, payments are made to defined contribution retirement benefit arrangements for certain employees and these are charged as an expense as they fall due.

3.24 Engineering Contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period. The stage of completion is measured by reference to estimates of work performed to date.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the Financial Information.

4.1 Impairment of Assets and Assessment of Cash Generating Units

The Group reviews the carrying value of its intangible assets, property, plant and equipment and interests in joint ventures to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

In assessing impairment at 31 December 2008, management concluded that the K&S project and the Garinskoye project were a single CGU for the purposes of impairment as it was expected that ore from the Garinskoye ore body would be processed through the K&S plant and there would be no market for the pre-concentrate. Subsequent to its acquisition by Petropavlovsk PLC, the development focus of Aricom has changed. It was intended that K&S would be developed first as a standalone project. Accordingly at 30 June 2009 and at 31 December 2009, K&S was assessed for impairment as a standalone CGU (see note 10).

The Garinskoye project was transferred to exploration and evaluation assets within intangible assets, to reflect that no formal decision to proceed with its development had been reached.

At 30 June 2010, management has assessed these assets for impairment with the basis consistent with that at 31 December 2009.

Changes to the assumptions underlying the assessment of the recoverable value may result in changes to impairment charges, either through further impairment charges or reversal of previously recognised impairments, which could have a significant impact on the financial information in future periods. In addition, further delays, increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to further impairment charges in the future.

4.2 Ore Reserve Estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the “JORC Code”). The JORC Code requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of closedown and restoration costs. Also, for the purpose of impairment review and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group’s financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows;
- Depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;
- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

4.3 Exploration and Evaluation Costs

The Group’s accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement.

4.4 Provision for Restoration, Rehabilitation and Environmental Costs

Costs arising from site restoration works, and the decommissioning of plant, discounted to their present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. The provision is based on estimates prepared by external consultants. Management uses its judgement and experience to provide for these costs. The ultimate costs of site restoration and decommissioning are uncertain, and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

4.5 Assumptions Related to the Valuation of Share-based Payments

In order to value options granted, the Group has made judgements as to the volatility of its own ordinary shares, the probable life of the options granted and the time of exercise of those options. Aricom has also made a judgement as to which methodology to use in valuing the options in each case.

4.6 Estimation of Percentage Completion of Engineering Contracts of OJSC Institute for Engineering of Ore Mining Enterprises Giproruda ("Giproruda")

To estimate the percentage completion of engineering contracts and therefore determine the amount of contract revenue and associated costs to recognise requires that management makes an assessment of the stage of completion of the contract activity at the end of each reporting period. The Directors consider that these estimates are made by suitably qualified project managers.

4.7 Tax Provisions

Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

4.8 Deferred Tax

Recognition of deferred tax assets requires management to assess the likelihood that future tax profits will be available which the deferred tax asset can be utilised to offset. This requires management to assess future profits of the business and the likelihood and timing of these amounts.

5 Segmental Information

HKFRS 8 *Operating Segments* requires the Group to disclose reported segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into three operating segments, Mines in Development, Engineering, and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. The Group has three reportable segments under HKFRS 8:

- Mines in Development segment ("Mines in Development"), comprising iron ore projects in the exploration and development phase. The segment includes the Kuranakh project and the K&S project, and mines in the exploration and evaluation stage including the Garinskoye project and the Bolshoi Seym project (held by an associate) as well as the Kostenginskoye and Garinskoye Flanks projects.

- Engineering segment ("Engineering"), comprising in-house engineering and scientific expertise related to Giproruda.

- Other segment ("Other") primarily includes the Group's interest in joint venture arrangements for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interest in joint venture arrangements for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the result earned by each segment without the allocation of central administration costs, central depreciation and amortisation, other gains and losses and other expenses, financial income, financial expenses and taxation.

Segment result represents the profit/(loss) generated by each segment for the purpose of monitoring segment performance.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than goodwill, deferred tax, other financial assets, loans and other receivables from related parties, and central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax, derivative financial instruments, loans payable to a related party and other financial liabilities.

The information regarding the Group's operating segments is reported below.

Year Ended 31 December 2007	Mines in Development	Engineering	Other	Combined
	US$'000	US$'000	US$'000	US$'000
Revenue				
External sales	—	4,938	—	4,938
Total revenue	**—**	**4,938**	**—**	**4,938**
Net operating expenses	**(4,169)**	**(1,210)**	**(2,173)**	**(7,552)**
Net operating expenses include:				
Depreciation and amortisation	(339)	(64)	—	(403)
Share of results of an associate	(127)	68	—	(59)
Segment result	**(4,296)**	**3,796**	**(2,173)**	**(2,673)**
Central administration				(16,062)
Central depreciation and amortisation				(50)
Other gains and losses and other expenses				2,305
Financial income				15,197
Financial expenses				(602)
Taxation credit				1,996
Profit for the year				**111**
Other segment information				
Additions to non-current assets:				
—Other additions to intangible assets	—	—	427	427
—Capital expenditure	48,269	59	5,680	54,008
—Acquisition of licenses	51,836	—	—	51,836
—Interest in an associate	2,981	—	—	2,981
Segment assets	558,807	19,726	22,411	600,944
Goodwill				58
Deferred tax assets				4,879
Central cash and cash equivalents				397,394
Financial assets				91,669
Loans and other receivables from related parties				69,505
Total assets	**558,807**	**19,726**	**22,411**	**1,164,449**
Segment liabilities	(9,179)	(2,274)	(5,586)	(17,039)
Deferred tax liabilities				(5,014)
Total liabilities	**(9,179)**	**(2,274)**	**(5,586)**	**(22,053)**

Year Ended 31 December 2008	Mines in Development	Engineering	Other	Combined
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue				
External sales	501	9,173	—	9,674
Total revenue	**501**	**9,173**	**—**	**9,674**
Net operating expenses	**(394,623)**	**(6,510)**	**(3,013)**	**(404,146)**
Net operating expenses include:				
Impairment charges	(385,448)	—	(1,002)	(386,450)
Depreciation and amortisation	(527)	(228)	—	(755)
Share of results of joint ventures	—	—	(444)	(444)
Share of results of an associate	850	—	—	850
Segment result	**(393,272)**	**2,663**	**(3,457)**	**(394,066)**
Central administration				(19,182)
Central depreciation and amortisation				(78)
Other gains and losses and other expenses				(21,223)
Financial income				14,119
Financial expenses				(588)
Taxation expense				(5,582)
Loss for the year				**(426,600)**
Other segment information				
Additions to non-current assets:				
—Other additions to intangible assets	—	—	186	186
—Capital expenditure	103,727	175	6,679	110,581
—Acquisition of licenses	53,931	—	—	53,931
Interests in joint ventures	—	—	20,812	20,812
Segment assets	467,617	17,646	51,513	536,776
Central cash and cash equivalents				241,906
Total assets	**467,617**	**17,646**	**51,513**	**778,682**
Segment liabilities	(8,834)	(1,291)	(8,269)	(18,394)
Deferred tax liabilities				(2,422)
Total liabilities	**(8,834)**	**(1,291)**	**(8,269)**	**(20,816)**

Year Ended 31 December 2009	Mines in Development	Engineering	Other	Combined
	US$'000	US$'000	US$'000	US$'000
Revenue				
External sales	—	8,260	—	8,260
Total revenue	**—**	**8,260**	**—**	**8,260**
Net operating expenses	**(106,000)**	**(7,431)**	**(1,975)**	**(115,406)**
Net operating expenses include:				
Impairment charges	(97,371)	—	—	(97,371)
Depreciation and amortisation	(376)	(169)	—	(545)
Share of results of joint ventures	—	—	(90)	(90)
Segment result	**(106,000)**	**829**	**(2,065)**	**(107,236)**
Central administration				(22,077)
Central depreciation and amortisation				(443)
Other gains and losses and other expenses				(13,552)
Financial income				15,145
Financial expenses				(10,337)
Taxation expense				(637)
Loss for the year				**(139,137)**
Other segment information				
Additions to non-current assets:				
—Other additions to intangible assets	—	—	104	104
—Capital expenditure	81,236	436	788	82,460
Interests in joint ventures	—	—	2,021	2,021
Exploration and evaluation expenditure capitalised within intangible assets	422	—	—	422
Segment assets	439,657	18,468	42,370	500,495
Central cash and cash equivalents				10,988
Loans and other receivables from related parties				375,384
Total assets	**439,657**	**18,468**	**42,370**	**886,867**
Segment liabilities	(14,909)	(2,302)	(2,486)	(19,697)
Deferred tax liabilities				(1,961)
Derivative financial instruments				(1,711)
Loans payable to a related party				(264,158)
Total liabilities	**(14,909)**	**(2,302)**	**(2,486)**	**(287,527)**

Six Months Ended 30 June 2009 (unaudited)	Mines in Development	Engineering	Other	Combined
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue				
External sales	—	2,874	—	2,874
Total revenue	**—**	**2,874**	—	**2,874**
Net operating expenses	**(102,527)**	**(3,381)**	**(175)**	**(106,083)**
Net operating expenses include:				
Impairment charges	(97,371)	—	—	(97,371)
Depreciation and amortisation	(255)	(116)	—	(371)
Share of results of joint ventures	—	—	(496)	(496)
Segment result	**(102,527)**	**(507)**	**(671)**	**(103,705)**
Central administration				(11,773)
Central depreciation and amortisation				(228)
Other gains and losses and other expenses				(11,717)
Financial income				3,651
Financial expenses				(1,430)
Taxation credit				199
Loss for the period				**(125,003)**

Six Months Ended 30 June 2010	Mines in Development	Engineering	Other	Combined
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue				
External sales	—	5,198	—	5,198
Total revenue	**—**	**5,198**	**—**	**5,198**
Net operating expenses	**(8,567)**	**(4,424)**	**(33,851)**	**(46,842)**
Net operating expenses include:				
Impairment charges	(1,459)	—	(33,052)	(34,511)
Depreciation and amortisation	(513)	(324)	(12)	(849)
Segment result	**(8,567)**	**774**	**(33,851)**	**(41,644)**
Central administration				(9,529)
Central depreciation and amortisation				(214)
Other gains and losses and other expenses				1,539
Financial income				10,743
Financial expenses				(11,269)
Taxation expense				(1,315)
Loss for the period				**(51,689)**
Other segment information				
Additions to non-current assets:				
—Capital expenditure	53,029	115	10,647	63,791
Interests in joint ventures	—	—	2,021	2,021
Exploration and evaluation expenditure capitalised within intangible assets	330	—	—	330
Segment assets	525,694	19,824	20,572	566,090
Central cash and cash equivalents				2,035
Other receivables				629
Total assets	**525,694**	**19,824**	**20,572**	**568,754**
Segment liabilities	(12,046)	(3,506)	(15,157)	(30,709)
Deferred tax liabilities				(1,834)
Total Liabilities	**(12,046)**	**(3,506)**	**(15,157)**	**(32,543)**

Revenue by geographical location[(a)]

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (Unaudited)	*US$'000*
Russia and the Commonwealth of Independent States ("CIS")	4,938	9,173	8,260	2,874	5,198
PRC	—	501	—	—	—
	4,938	**9,674**	**8,260**	**2,874**	**5,198**

(a) Based on the location to which the product was shipped or in which the services were provided.

Non-current assets by location of asset[(b)]

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Russia and CIS	570,781	451,893	428,252	484,989
PRC	4,858	29,081	31,973	8,977
UK	72	77	71	65
	575,711	**481,051**	**460,296**	**494,031**

(b) Excluding amount owed by an associate, financial assets and deferred tax assets.

Information about major customers

In each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the Group provided engineering services to a number of individual third party customers, that individually amounted to more than 10% of the Aricom Group's revenue:

For the year ended 31 December 2007 sales were made to VSK (US$1,689,000), CJSC Severo-Zapadnaya Phosphornay Kompaniya (US$968,000), National Center KPMS RK (US$938,000) and OJSC Apatit (US$849,000), respectively, comprising 34%, 20%, 19% and 17% of the total revenue.

For the year ended 31 December 2008 sales were made to LLC Tsentrogiproruda (US$2,377,000), OJSC Apatit (US$2,271,000), CJSC Severo-Zapadnaya Phosphornay Kompaniya (US$1,522,000) and National center KPMS RK (US$919,000), respectively, comprising 25%, 23%, 16% and 10% of the total revenue.

For the year ended 31 December 2009 sales were made to OJSC Apatit (US$2,974,000), OJSC Arkhangelskgeoldobycha (US$1,682,000), OJSC Kovdorskiy GOK (US$825,000) and National Center KPMS RK (US$981,000), respectively, comprising 36%, 20%, 10% and 12% of the total revenue.

During the six months period ended 30 June 2009 sales were made to OJSC Apatit (US$1,292,000 (unaudited)), OJSC Kovdorskiy GOK (US$492,000 (unaudited)), National Center KPMS RK (US$349,000 (unaudited)), respectively comprising 45%, 17% and 12% of the total revenue.

During the six months period ended 30 June 2010 sales were made to OJSC Arkhangelskgeoldobycha (US$2,282,000) and OJSC Apatit (US$1,969,000), respectively comprising 44% and 38% of the total revenue.

6 Revenue

An analysis of the Group's revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Revenue					
Sales of goods	—	501	—	—	—
Rendering of services	4,938	9,173	8,260	2,874	5,198
	4,938	9,674	8,260	2,874	5,198

7 Net Operating Expenses

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Net Operating Expenses					
Costs of sales and service costs[(a)]	3,153	6,268	5,305	2,206	3,173
Administration expenses[(b)]	20,986	30,888	35,345	19,254	19,312
Other net operating income	(475)	(200)	(95)	(747)	(411)
	23,664	36,956	40,555	20,713	22,074

(a) Cost of Sales and Service Costs

Staff costs	1,718	3,896	2,631	1,234	1,846
Materials	3	123	1	1	—
Depreciation	171	252	141	163	214
Electricity	34	10	1	1	—
Inventory written off*	—	1,170	239	239	—
Other costs	1,227	817	2,292	568	1,113
	3,153	6,268	5,305	2,206	3,173

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
(b) Administration Expenses					
Staff costs	9,257	14,591	15,223	7,440	10,823
Depreciation	282	581	847	436	637
Professional fees**	5,496	5,747	4,351	2,752	1,783
Bank charges	248	224	155	72	104
Insurance	68	156	749	547	213
Office rent	1,209	3,201	2,833	1,345	1,236
Travel and entertainment	1,594	2,403	2,105	650	1,359
Share-based payments	1,086	482	2,449	1,231	403
Office costs	563	736	998	430	615
Allowance/(reversal of allowance) for doubtful debts***	—	—	3,589	3,548	(11)
Loss on disposal of property, plant and equipment	134	201	230	256	904
Others	1,049	2,566	1,816	547	1,246
	20,986	30,888	35,345	19,254	19,312

* Inventories are valued at the lower of cost and net realisable value. At 31 December 2008 and 2009, work in progress was written down to its net realisable value resulting in a charge to the combined income statements of US$1,170,000 and US$239,000 respectively due to high costs of production associated with the start-up of operations.

** Professional fees comprise audit fees, legal fees, consulting fees and management services fees.

*** Allowance for doubtful debts of US$3,548,000 (unaudited) and US$3,589,000 were recognised in profit and loss for the six months ended 30 June 2009 and the year ended 31 December 2009, respectively. The amount represents full impairment for (i) a deposit paid in advance for construction of apartments, which is considered not recoverable as the contractor has been declared bankrupt; and (ii) a trade debtor at Giproruda and a deposit paid for the acquisition of a railway locomotive which did not proceed as the counter parties were in financial difficulties.

8 Auditors' Remuneration

The analysis of auditors' remuneration is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Fees payable to Aricom's auditors for the annual audit of Aricom and consolidated financial statements	260	334	—	—	—
Fees payable to Aricom's auditors and its associates for the audit of the non-statutory consolidated financial information of Aricom Limited[(a)]	—	—	—	—	289
Fees payable to Aricom's auditors for the audit of previous years' financial information	71	88	—	—	—
Fees payable to Aricom's auditors and their associates for the audit of subsidiary statutory accounts pursuant to legislation	42	103	105	—	—
Component of parent entity group audit fee allocated to Aricom[(b)]	—	—	228	—	—
Total audit fees	373	525	333	—	289
Tax services	230	64	29	29	4
Fees for reporting accountants services[(c)]	1,056	—	—	—	—
Other services pursuant to legislation—interim review fee	51	84	24	—	—
Accounting advisory services	91	198	33	4	—
Transaction based corporate services[(d)]	141	—	178	178	—
Other services	—	57	20	20	23
Total non-audit fees	1,569	403	284	231	27

(a) This audit has been undertaken in connection with the proposed listing of the shares of the Company on the Stock Exchange. The audit fee has been borne by a subsidiary of Petropavlovsk PLC and allocated to the Company.

(b) This amount related to the group audit of Petropavlovsk PLC and the costs were borne by Petropavlovsk PLC. This amount reflects an allocation of the fee, based on the scope of Aricom within the Petropavlovsk PLC audit.

(c) Fees for reporting accountants services represent remuneration for Deloitte LLP, UK, associated with the admission of Aricom's ordinary shares and warrants to the Official List of the Financial Services Authority and to trading for listed securities on the main market of the London Stock Exchange plc (the "London Listing") in October 2007.

(d) In 2009 transaction based corporate services related to professional services in relation to the acquisition of Aricom by Petropavlovsk PLC. In 2007 these transaction based corporate services related to assistance provided to the Company in preparation for its listing.

9 Staff Costs

The aggregate remuneration of employees comprised:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Wages and salaries	9,433	16,415	15,760	7,433	10,612
Social security and other benefits	1,392	1,889	2,025	1,206	1,999
Retirement benefit contribution	150	183	69	35	58
Share-based payments	1,086	482	2,449	1,231	403
	12,061	18,969	20,303	9,905	13,072

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Directors' Emoluments					
Emoluments for executive directors:					
—salaries and other benefits	1,633	1,614	777	504	224
—performance bonus[(a)]	1,296	852	334	98	215
—retirement benefit contribution	114	163	91	59	26
—share-based payments	897	539	940	674	68
Emoluments for non-executive directors:					
—directors' fees	399	586	194	194	—
	4,339	3,754	2,336	1,529	533

(a) The performance bonus is determined by reference to the individual performance of the directors and approved by the Remuneration Committee of Aricom.

	Directors' fees	Salaries, performance bonus and other benefits	Retirement benefit contribution	Share-based payments	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Year ended 31 December 2007					
Executive directors of Aricom:					
Brian Egan (appointed 31 July 2007)	—	324	16	88	428
George Jay Hambro	—	968	71	456	1,495
Yury Makarov	—	616	—	206	822
Martin Smith	—	554	—	147	701
Non-executive directors of Aricom:					
Non independent non-executive directors					
Dr. Pavel Maslovskiy	18	—	—	—	18
Peter Hambro	110	—	—	—	110
Independent non-executive directors					
Sir Malcolm Field	154	—	—	—	154
Sir Roderic Lyne	117	—	—	—	117
Former executive director of Aricom:					
Peter Howes (resigned 31 July 2007)	—	467	27	—	494
	399	2,929	114	897	4,339
Year ended 31 December 2008					
Executive directors of Aricom:					
Brian Egan	—	620	40	(25)	635
George Jay Hambro	—	810	88	407	1,305
Yury Makarov	—	540	—	113	653
Martin Smith	—	496	35	44	575
Non-executive directors of Aricom:					
Non independent non-executive directors					
Dr. Pavel Maslovskiy	201	—	—	—	201
Peter Hambro	110	—	—	—	110
Independent non-executive directors					
Sir Malcolm Field	156	—	—	—	156
Sir Roderic Lyne	119	—	—	—	119
	586	2,466	163	539	3,754
Year ended 31 December 2009					
Executive directors of Aricom:					
Brian Egan	—	343	30	227	600
George Jay Hambro	—	574	51	445	1,070
Yury Makarov (resigned 22 April 2009)	—	100	—	142	242
Martin Smith (resigned 22 April 2009)	—	94	10	126	230
Non-executive directors of Aricom:					
Non independent non-executive directors					
Dr. Pavel Maslovskiy (resigned 22 April 2009)	49	—	—	—	49
Peter Hambro (resigned 22 April 2009)	27	—	—	—	27
Independent non-executive directors					
Sir Malcolm Field (resigned 22 April 2009)	38	—	—	—	38
Sir Roderic Lyne (resigned 22 April 2009)	29	—	—	—	29
Tony Redman (appointed 1 January 2009 and resigned 22 April 2009)	51	—	—	—	51
	194	1,111	91	940	2,336

	Directors' fees	Salaries, performance bonus and other benefits	Retirement benefit contribution	Share-based payments	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Six months ended 30 June 2009 (unaudited)					
Executive directors of Aricom:					
Brian Egan	—	169	19	135	323
George Jay Hambro	—	239	30	271	540
Yury Makarov (resigned 22 April 2009)	—	100	—	142	242
Martin Smith (resigned 22 April 2009)	—	94	10	126	230
Non-executive directors of Aricom:					
Non independent non-executive directors					
Dr. Pavel Maslovskiy (resigned 22 April 2009)	49	—	—	—	49
Peter Hambro (resigned 22 April 2009)	27	—	—	—	27
Independent non-executive directors					
Sir Malcolm Field (resigned 22 April 2009)	38	—	—	—	38
Sir Roderic Lyne (resigned 22 April 2009)	29	—	—	—	29
Tony Redman (appointed 1 January 2009 and resigned 22 April 2009)	51	—	—	—	51
	194	602	59	674	1,529
Six months ended 30 June 2010					
Executive directors of Aricom:					
Brian Egan (resigned 17 September 2010)	—	138	9	24	171
George Jay Hambro	—	248	15	42	305
Andrey Maruta (appointed 22 February 2010)	—	53	2	2	57
	—	439	26	68	533
Executive directors of the Company:					
George Jay Hambro (appointed 4 June 2010)	—	—	—	—	—
Yury Makarov (appointed 4 June 2010)	—	—	—	—	—
Raymond Woo (appointed 30 July 2010)	—	—	—	—	—
Non-executive directors of the Company:					
Non independent non-executive directors					
Dr. Pavel Maslovskiy (appointed 3 September 2010)	—	—	—	—	—
Independent non-executive directors					
Daniel Bradshaw (appointed 3 September 2010)	—	—	—	—	—
Jonathan Martin Smith (appointed 3 September 2010)	—	—	—	—	—
Chuang-fei Li (appointed 3 September 2010)	—	—	—	—	—
	—	—	—	—	—

Subsequent to 22 April 2009, Brian Egan and George Jay Hambro have also been employed by Petropavlovsk PLC and the payment of their emoluments was centralised and made by Petropavlovsk PLC. For the period from 22 April 2009 to 30 June 2010, a component of their Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of their roles that relate to Aricom business.

Andrey Maruta is employed by Petropavlovsk PLC. For the period from his appointment on 22 February 2010 to 30 June 2010 a component of his Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of his role that relates to Aricom business.

Other than as disclosed above, no remuneration was paid or payable by the Group to the executive, non-executive and independent non-executive directors during the Relevant Periods.

Five Highest Paid Individuals

For each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, the five highest paid individuals included four, four, two, two and three directors of Aricom respectively. The emoluments of the remaining highest paid individuals for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Employees					
—salaries and other benefits	137	379	311	156	354
—performance bonus	—	—	—	—	188
—retirement benefit contributions	—	—	—	—	—
—share-based payments	44	—	857	429	42
	181	379	1,168	585	584

Their emoluments were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
HK$1,000,001 to HK$1,500,000 (equivalent to approximately US$128,536 to US$192,801)	1	—	—	2	—
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$192,802 to US$257,068)	—	—	—	—	1
HK$2,000,001 to HK$2,500,000 (equivalent to approximately US$257,069 to US$321,337)	—	—	2	1	—
HK$2,500,001 to HK$3,000,000 (equivalent to approximately US$321,338 to US$385,604)	—	1	—	—	—
HK$3,000,001 to HK$3,500,000 (equivalent to approximately US$385,605 to US$449,871)	—	—	—	—	1
HK$4,500,001 to HK$5,000,000 (equivalent to approximately US$578,407 to US$642,674)	—	—	1	—	—
	1	1	3	3	2

During the Relevant Periods, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group. None of the directors has waived any emoluments during the Relevant Periods. Peter Howes resigned as a director of Aricom with effect from 31 July 2007 and was awarded a payment of GBP30,000 (equivalent to US$59,000) as compensation for loss of employment. During the Relevant Periods, no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office.

10 Impairment Charges

As at 31 December 2007, there were no indicators of impairment and hence a full impairment review was not performed.

In 2008, due to the world economic crisis, falling commodity prices and the slow project finance market, the Board of Directors of Aricom ("the Board") reviewed Aricom's portfolio of assets for impairment. The Aricom Group completed an impairment assessment for all of its CGUs at 31 December 2008 and identified that a provision for impairment charge was required against certain CGUs due to a potential delay in the development of projects due to the unavailability of project financing and/or weaker forecast iron ore prices.

Following the decision to develop K&S and Garinskoye as a single project, they were assessed as a single CGU at 31 December 2008. An impairment charge of US$86.5 million was recognised against the Kuranakh project and an impairment charge of US$299.9 million was recognised in relation to the combined K&S and Garinskoye CGU. These impairment charges were allocated to property, plant and equipment (US$386.4 million) and goodwill (US$58,000).

In the six months ended 30 June 2009, in light of the further delays in the commencement of commercial production and further increases in capital expenditure, management assessed the carrying value of the Kuranakh CGU for impairment. The revised recoverable amount also took into account significant increases in Russian railway tariffs for ilmenite. As a result, a further impairment charge of US$87.9 million was recognised against the Kuranakh project.

Following the acquisition of Aricom by Petropavlovsk PLC, the Garinskoye project was transferred to exploration and evaluation assets within intangible assets at its impaired value of nil. Consideration was also given as to whether, in light of improvements in market conditions, the impairment recognised with respect to the K&S project at 31 December 2008 should be reversed. In testing the recoverable value of the K&S CGU at 30 June 2009, it was concluded that this project is now considered a separate CGU from Garinskoye, which has been transferred from property, plant and equipment to intangible assets (see note 18). The assessment of the recoverable value of the K&S CGU concluded that there was no requirement to reverse the previously booked impairment of the K&S CGU.

At 31 December 2009, management reassessed the recoverable value of both Kuranakh and K&S and concluded that there had been no changes in the key assumptions. Accordingly no further impairment, or reversal of previously recognised impairment was required.

At 30 June 2010, the Company considered whether there were any indicators that further impairment or the need to reverse previously recognised impairment existed at Kuranakh and K&S. Management concluded that no such indicators existed.

For the purposes of testing for impairment, recoverable amounts have been determined as value in use, being estimated future cash flows discounted to their present value, based on a number of assumptions. The key assumptions are presented in the table below:

	As at 31 December 2008	As at 30 June 2009	As at 31 December 2009
Nominal discount rate post-tax	15%	13.5% and 15.5%	13.5% and 15.5%
Nominal discount rate pre-tax	19.4%	16.5% and 19.5%	16.5% and 19.5%
Average Russian inflation rate from the year-end to 2030	4.6%	2.2%	2.2%
Average Russian Rouble: US$ exchange rate from the year-end to 2030	48.2	30	30
Average titanomagnetite concentrate prices from the year-end to 2024	US$/tonne 77.8	US$/tonne 94.1	US$/tonne 94.1
Average ilmenite prices from the year-end to 2024	US$/tonne 125.3	US$/tonne 105.0	US$/tonne 105.0
Average Hamersley fines iron ore price from the year-end to 2030	US$/tonne 68.7	US$/tonne 102.7	US$/tonne 102.7

Forecast inflation rates and sales prices for short-term iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management have estimated the long term forecast sales prices for titanomagnetite and Hamersley fine iron ore prices which takes into account their views of the market, recent volatility and other external sources of information. Judgement has then been applied by management in determining a long-term price for each commodity. The impairment assessments are particularity sensitive to changes in discount rate, commodity prices and foreign exchange rates. Changes to these assumptions would result in changes to impairment charges, which could have a significant impact on the financial information throughout the Relevant Periods.

As at 30 June 2009, impairment charges of US$3,704,000 and US$5,740,000 were recognised in relation to the Aricom Group's interest in an associate and the amount owed by that associate. The Aricom Group has a 49% stake in LLC Uralmining, holding a licence to develop the Bolshoi Seym deposit. Due to uncertainties about the commercial viability of the project and the progression of the development of the project in the six months ended 30 June 2009, it was decided to write off the carrying value of the equity interest of US$3,704,000 and loans advanced of US$5,740,000. This impairment remained in place at 31 December 2009. In the six months ended 30 June 2010, further loans of US$1,459,000 to LLC Uralmining have been impaired.

During the six months ended 30 June 2010, the Company was advised that its joint venture partner Aluminium Corporation of China Limited ("Chinalco") has decided to withdraw from some of its non-core ventures and consequently no longer wishes to proceed with the Jiatai Titanium project (as defined in note 21). To date the Company has invested approximately US$20.8 million in the joint venture, and a further US$15.3 million on the titanium sponge processing technology, which was expected to be recharged to the joint venture. As a consequence the building of the plant was deferred and there is uncertainty as to the eventual outcome of the joint venture activities and the recoverability of the amounts invested. As a result, the directors concluded that the most appropriate course of action was to provide for an impairment against the invested amounts of US$33.1 million. This impairment was allocated to intangible assets (US$0.7 million), property, plant and equipment (US$14.6 million) and interests in joint ventures (US$17.8 million). The impairment took into account the recoverable value of the Group's share of the joint venture of US$4.9 million which reflected the Group's 65% share of the cash within the joint venture, net of its liabilities. Following discussions with Chinalco, the Group has recently entered into an agreement with Chinalco pursuant to which (*inter alia*) the Chinalco Interest will be independently appraised and, subject to certain conditions including the receipt of the necessary approvals for the implementation of the transfer and for an extension for the period in which the outstanding capital has to be paid up and there being no material adverse change, the Group will bid for the Chinalco Interest at the appraised value if the appraised value is at or below RMB76,000,000 or such higher number as the Group may agree. There is no certainty that the Group would be a successful bidder, but it is considering how it would proceed if it does acquire the Chinalco Interest. One route might be to continue with the project alone and another to proceed with a different joint venture partner.

In the event that the Company is successful in acquiring Chinalco's interest and proceeds with the project alone or with a different joint venture partner, it may be possible to reverse some or all of the impairment charge. In the event that the Company acquires the Chinalco's stake but ultimately does not proceed with the project, a further impairment charge may be required.

11 Other Gains and Losses and Other Expenses

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Change in fair value of financial instruments at FVTPL	(3,714)	(1,413)	1,711	6,911	(1,711)
Net foreign exchange (gain)/loss	(2,542)	22,636	6,224	(811)	(2,197)
Listing costs[(a)]	3,951	—	—	—	2,369
Costs associated with acquisition by Petropavlovsk PLC[(b)]	—	—	5,617	5,617	—
	(2,305)	21,223	13,552	11,717	(1,539)

(a) Listing costs in 2007 represent costs associated with the London Listing. No new ordinary shares or warrants were issued at the time of the London Listing, and hence Listing costs have been recognised in the combined income statement. In 2010, these costs represent the proportion of the costs accrued in relation to the proposed listing of the Company on the Stock Exchange that relate to existing shares to be listed.

(b) Costs associated with the takeover by Petropavlovsk PLC primarily related to professional fees.

12 Financial Income

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Interest income on loans receivable from related parties (see note 40)	45	428	12,905	1,710	10,585
Interest income on cash and cash equivalents	14,327	13,546	2,105	1,752	96
Interest income on held to maturity financial assets	5	1	—	—	—
Interest income on other loans and receivables	820	144	135	189	62
	15,197	14,119	15,145	3,651	10,743

13 Financial Expenses

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Interest expenses on loan payables to related parties	—	—	9,848	1,047	11,247
Unwinding of discount on environmental obligation	22	402	191	88	22
Other	580	186	298	295	—
	602	588	10,337	1,430	11,269

14 Taxation Credit/(Expense)

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
UK current tax	(102)	(1,110)	(372)	(98)	(1,068)
Cyprus current tax	(103)	(691)	(71)	(36)	(25)
Russia current tax	(432)	(908)	(564)	(147)	(285)
Current tax expense	(637)	(2,709)	(1,007)	(281)	(1,378)
Deferred tax credit/(expense)	2,633	(2,420)	370	480	63
Deferred tax attributable to a change in tax rate	—	(453)	—	—	—
	1,996	(5,582)	(637)	199	(1,315)

UK corporation tax is calculated at 30%, 28.5%, 28%, 28% and 28% of the estimated assessable profit for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively. The rate of 28.5% applied in 2008 represents a blended rate as the UK corporation tax rate changed from 30% to 28% with effect from 1 April 2008.

Cyprus corporation tax is calculated at a rate of 10% of the estimated assessable profit for each of the years ended 31 December 2007, 2008 and 2009 and for each of the six months ended 30 June 2009 and 2010 respectively.

Russian corporation tax is calculated at a rate of 24% of the estimated assessable profit for each of the years ended 31 December 2007 and 2008, and a rate of 20% for the year ended 31 December 2009 and for each of the six months ended 30 June 2009 and 2010.

No Hong Kong profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong.

The deferred tax balance at 31 December 2008 was adjusted to reflect the tax rates that were expected to apply to the respective periods during which the asset would be realised or the liability settled.

The (credit)/charge for the year/period can be reconciled to the loss before taxation per the combined income statement as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Loss before taxation:	(1,885)	(421,018)	(138,500)	(125,202)	(50,374)
Tax at the UK corporation tax rate of 30% for the year ended 31 December 2007, 28.5% for the year ended 31 December 2008 and 28% for the year ended 31 December 2009 and the six months ended 30 June 2009 and 2010	(566)	(119,990)	(38,780)	(35,057)	(14,105)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	1,127	19,226	12,910	10,935	1,378
Tax effect of share of results of an associate	18	(242)	—	—	—
Tax effect of share of results of joint ventures	—	127	25	139	—
Tax effect of losses not recognised	213	11,429	9,882	2,692	2,336
Tax effect of expenses that are not deductible in determining taxable profit[(a)]	1,345	99,361	22,245	22,153	13,322
Tax effect of utilisation of tax losses not previously recognised	(1,077)	—	(4,737)	(2,729)	(1,616)
Effect of changes in tax rates	—	453	—	—	—
Adjustments in respect of prior years	—	71	(993)	—	—
Foreign exchange movements in respect of deductible temporary differences	(1,460)	(6,629)	85	1,668	—
Other foreign exchange movements	—	1,776	—	—	—
Benefits from previously unrecognised temporary differences	(1,596)	—	—	—	—
Taxation (credit)/expense for the year/period	(1,996)	5,582	637	(199)	1,315

(a) These amounts mainly related to the impairment charges of mine development projects allocated to property, plant and equipment and the impairment of amounts invested in the Jiatai Titanium project (see note 10).

In addition to the amount charged to the income statements, deferred tax relating to the equity component of share-based payments amounting to US$199,000 was credited directly to equity during the year ended 31 December 2007 (see note 22). No amounts were recorded in equity for each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010.

15 Dividends

No dividend was paid or proposed during the years ended 31 December 2007, 2008 and 2009 respectively. A dividend of US$644,437,000 was proposed and approved by the directors during the six months ended 30 June 2010. Of this amount US$22,460,000 was paid in cash and the remainder was offset against amounts owing to Petropavlovsk PLC under the group re-organisation (see note 34(b)).

16 Earnings/(Loss) per Share

The calculation of the basic and diluted earnings/(loss) per share attributable to equity holder of the Company is based on the following data:

Earnings/(Loss)

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per ordinary share being net profit/(loss) attributable to equity holder of Company	1,040	(427,377)	(139,291)	(124,920)	(51,905)

Number of Shares

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	Number '000	*Number '000*	*Number '000*	*Number '000* (unaudited)	*Number '000*
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per ordinary share	1,224,988	1,754,413	1,817,589	1,803,556	1,872,196
Effect of dilutive potential ordinary shares—warrants	19,269	—	—	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	1,244,257	1,754,413	1,817,589	1,803,556	1,872,196

The number of ordinary shares for the purpose of calculating basic earnings/(loss) per share for the Relevant Periods has been retrospectively adjusted for the share sub-division as disclosed in note 31, the deemed bonus element relating to the shares of the Company issued to Cayiron Limited in August 2010 and the capitalisation issue of the shares of the Company as detailed in Appendix VIII to the Prospectus.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US cents	*US cents*	*US cents*	*US cents* (unaudited)	*US cents*
Basic earnings/(loss) per share	0.08	(24.36)	(7.66)	(6.93)	(2.77)
Diluted earnings/(loss) per share	0.08	(24.36)	(7.66)	(6.93)	(2.77)

The computation of diluted loss per share for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010 does not assume the conversion of Aricom's outstanding warrants and share options since their exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 December 2007 does not assume the exercise of Aricom's outstanding share options as the exercise price of those options is higher than the average market price for shares for 2007.

17 Operating Lease Arrangements

The Group as a Lessee

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Minimum lease payments under operating leases in respect of the Group's office premises recognised as an expense in the year/period	689	2,886	2,210	1,105	981

At the end of each reporting period the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	1,044	1,381	1,098	1,045
In the second to fifth years inclusive	5,967	4,583	4,821	4,290
	7,011	5,964	5,919	5,335

The Group as a Lessor

The Group earned property rental income of US$452,000, US$1,231,000, US$964,000, US$533,000 (unaudited) and US$533,000 during each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively, relating to the sub-let of part of the floor space of a building owned by a subsidiary of the Group, OJSC Giproruda which formed part of the other net operating income as disclosed in note 7. The lease contracts are at fixed rates for a period not exceeding eleven, three, eleven and five months as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. At the end of the reporting period, the Group had contracted with tenants for minimum lease payments due within the first three months. The total minimum lease payment is US$1,237,000, US$293,000 and US$1,000,000, US$478,000 (unaudited) and US$405,000 as at 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively. This rental income is shown net of the associated cost within other operating income.

18 Intangible Assets

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of year/period	—	427	613	28,690
Additions	427	186	526	330
Transfers from plant, property and equipment	—	—	27,551	237
Impairment	—	—	—	(717)
At the end of year/period	**427**	**613**	**28,690**	**28,540**

During the year ended 31 December 2009, and following its acquisition by Petropavlovsk PLC, Aricom reassessed the development plans for its various projects. As a result of this assessment, Garinskoye and the Garinskoye and Kostengiskoye Flanks have been transferred to exploration and evaluation assets within intangible assets, because the decision to commence with the development of these projects was reassessed in the context of the enlarged group's priorities.

In part additions represent amounts paid to acquire licences for intellectual property in relation to the processing of titanium sponge during the Relevant Periods. These have subsequently been impaired at 30 June 2010, as set out in note 10.

19 Property, Plant and Equipment

	Mine development costs	Non-mining assets	Capital construction in progress	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cost				
At 1 January 2007	**411,699**	**9,512**	**390**	**421,601**
Additions	44,164	3,261	6,583	54,008
Acquisition of subsidiary	—	12,164	—	12,164
Acquisition of licences (see note 33(d))	51,826	10	—	51,836
Acquisition of non-controlling interest (see note 33(a))	12,148	—	—	12,148
Change in deferred consideration	18,492	—	—	18,492
Change in estimated consideration	(7,456)	—	—	(7,456)
Disposals	(221)	(144)	—	(365)
Write-off	—	—	(144)	(144)
Transfers	—	7	(7)	—
Exchange difference	—	634	—	634
At 31 December 2007	**530,652**	**25,444**	**6,822**	**562,918**
Additions	76,028	19,655	14,898	110,581
Acquisition of licences (see note 33(g))	53,920	11	—	53,931
Acquisition of non-controlling interest	110,707	—	—	110,707
Write-off	(156)	—	—	(156)
Disposals	(27)	(189)	—	(216)
Transfers	(3,603)	12,766	(9,163)	—
Exchange difference	(357)	(2,277)	(2,006)	(4,640)
At 31 December 2008	**767,164**	**55,410**	**10,551**	**833,125**
Additions	62,508	7,010	5,184	74,702
Acquisition of assets	7,509	249	—	7,758
Disposals	—	(754)	—	(754)
Transfers	—	6,444	(6,444)	—
Transfers to intangible assets	(27,551)	—	—	(27,551)
Exchange difference	—	(243)	(133)	(376)
At 31 December 2009	**809,630**	**68,116**	**9,158**	**886,904**
Additions	55,251	411	8,129	63,791
Disposals	(6,067)	(14)	—	(6,081)
Transfers	—	243	(243)	—
Transfers to intangible assets	(237)	—	—	(237)
Transfer to joint venture[(a)]	—	—	(1,828)	(1,828)
Exchange difference	—	(323)	—	(323)
At 30 June 2010	**858,577**	**68,433**	**15,216**	**942,226**
Accumulated Depreciation and Impairment				
At 1 January 2007	**—**	**(623)**	**—**	**(623)**
Depreciation charge for the year	—	(859)	—	(859)
Eliminated on disposals	—	7	—	7
Exchange difference	—	(5)	—	(5)
At 31 December 2007	**—**	**(1,480)**	**—**	**(1,480)**
Depreciation charge for the year	(15)	(2,804)	—	(2,819)
Eliminated on disposals	—	54	—	54
Impairment (see note 10)	(386,392)	—	—	(386,392)
Exchange difference	—	122	—	122
At 31 December 2008	**(386,407)**	**(4,108)**	**—**	**(390,515)**
Depreciation charge for the year	—	(3,902)	—	(3,902)
Eliminated on disposals	—	201	—	201
Impairment (see note 10)	(65,216)	(22,713)	—	(87,929)
Exchange difference	—	(18)	—	(18)
At 31 December 2009	**(451,623)**	**(30,540)**	**—**	**(482,163)**
Depreciation charge for the period	(968)	(820)	—	(1,788)
Eliminated on disposals	1,459	6	—	1,465
Impairment (see note 10)	—	—	(14,572)	(14,572)
Exchange difference	—	50	—	50
At 30 June 2010	**(451,132)**	**(31,304)**	**(14,572)**	**(497,008)**

(a) This amount relates to costs on capital construction in progress that has now been considered to form part of investment in joint ventures as capital injection.

	Mine development costs	Non-mining assets	Capital construction in progress	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Carrying Amounts				
At 31 December 2007	**530,652**	**23,964**	**6,822**	**561,438**
At 31 December 2008	**380,757**	**51,302**	**10,551**	**442,610**
At 31 December 2009	**358,007**	**37,576**	**9,158**	**404,741**
At 30 June 2010	**407,445**	**37,129**	**644**	**445,218**

At 31 December 2007, 2008 and 2009 and 30 June 2010, cumulative capitalised interest and borrowing costs of US$1,507,000, US$1,507,000 and US$1,507,000 and US$1,507,000 respectively, were included within mine development costs in the above table. The effective rate of interest capitalised for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 was nil. Depreciation of US$390,000, US$1,645,000, US$2,015,000, US$1,174,000 and US$726,000 relating primarily to assets used in the construction of plant in Olekma and KS GOK was capitalised during each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively.

Additions to mine development costs include deferred stripping costs of nil, US$2,453,000 and US$7,619,000, US$4,959,000 and US$6,166,000 during each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively which relates to the removal of overburden at the Kuranakh mine. Deferred stripping costs capitalised as property, plant and equipment represent costs incurred in the development of the mine. These will be amortised over the life of the mine on a unit of production basis.

No assets were held under finance leases at 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

There are no restrictions on title and no property, plant and equipment were pledged as security.

At 31 December 2007, 2008 and 2009 and 30 June 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$36,749,000, US$81,660,000 and US$52,278,000 and US$67,220,000 respectively. At 31 December 2008 and 2009 and 30 June 2010, this included the commitment to contribute US$48,700,000 to the share capital of Jiatai Titanium and US$2,600,000 to the share capital of the Chinese Vanadium Production Joint Venture as disclosed in note 21.

20 Interest in an Associate

During the year ended 31 December 2007, the Aricom Group acquired an initial 68.49% interest in Giproruda, which was accounted for as an associate between the period from 8 June to 12 July 2007, following which the Aricom Group obtained control of this investment, from which point it was accounted for as a subsidiary. Following the acquisition of further non-controlling interests during the year, the Aricom Group's ownership interest in Giproruda increased to 70.28%. A net profit after tax of US$68,000 is included in respect of Giproruda in the share of post tax results of associates for the period from 8 June 2007 to 12 July 2007.

Interest in an associate held at 31 December 2007, 2008 and 2009 and 30 June 2010 represented the Group's 49% ownership interest in the ordinary shares of LLC Uralmining ("Uralmining") throughout the Relevant Periods. Uralmining is incorporated and carries out its mining and project development principal activities in Russia, where it holds the licence to develop the Bolshoi Seym deposit.

This investment was previously recognised as an equity investment held at cost, as the Group did not exercise significant influence over this entity as it did not have the ability to participate in the operations of the entity. In July 2007, the Group made loan advances to Uralmining to fund its development programme, and significant influence was then obtained as the Group obtained the ability to participate in directing the entity's exploration programme. The investment was treated as an interest in an associate from this date.

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of year/period	**—**	**2,854**	**3,704**	**—**
Acquired	8,148	—	—	—
Transfer from other Investments held at cost	2,981	—	—	—
Transfer to investment in a subsidiary	(8,216)	—	—	—
Share of results of an associate	(59)	850	—	—
Impairment charge recognised (see note 10)	—	—	(3,704)	—
At the end of year/period	**2,854**	**3,704**	**—**	**—**

As at 31 December 2009, impairment charges of US$3,704,000 and US$5,740,000 were recognised in relation to the Aricom Group's interest in and the amount owed by Uralmining. Due to uncertainties about the commercial viability of the project and the progression of the development of the project found at 31 December 2009, it was decided to impair the carrying value of the equity interest of US$3,704,000 and loans advanced of US$5,740,000. In the six months to 30 June 2010 further loans advanced to the associate of US$1,459,000 were impaired.

There was no revenue generated by the associate throughout the Relevant Periods. Aggregated amounts relating to Uralmining are set out below.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Total assets	12,493	20,981	14,964	15,346
Total Liabilities	(6,669)	(13,422)	(14,964)	(15,346)
Net assets	**5,824**	**7,559**	**—**	**—**

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
The Group's share of net assets	2,854	3,704	—	—	—
Share of (loss)/profit	(127)	850	—	—	—
Tax charge	(32)	—	—	—	—

The amounts owed by Uralmining to the Aricom Group (which at 31 December 2009 and 30 June 2010 were net of impairment charges) were US$4,288,000, US$6,368,000 and nil and nil as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. The amounts due from Uralmining were unsecured, and earned interest at 6.5% per annum throughout the Relevant Periods. At 31 December 2007, the amount was repayable on 31 August 2008, which was extended during 2008 and became repayable on 31 December 2010 at both 31 December 2008 and 2009 and 30 June 2010.

21 Interests in Joint Ventures

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
At the beginning of year/period	—	—	**20,387**	**22,692**
Contribution of share capital	—	—	—	2,021
Acquired on incorporation	—	20,812[(a)]	2,021[(b)]	—
Share of results of joint ventures	—	(444)	(90)	—
Transfers from other non current assets (see note 19)	—	—	353	1,828
Exchange differences	—	19	21	133
Impairment (see note 10)	—	—	—	(17,763)
At the end of year/period	—	**20,387**	**22,692**	**8,911**

(a) In accordance with the terms of the joint venture agreement between the Company and Aluminium Corporation of China Limited ("Chinalco") signed and approved by the Chinese Ministry of Commerce on 12 August 2008 to establish a Chinese titanium sponge processing joint venture project (the "Jiatai Titanium project"), Heilongjiang Jiatai Titanium Co. Limited ("Jiatai Titanium"), was incorporated in the PRC. The Group holds 65% of Jiatai Titanium and 35% is held by Chinalco with the parties exercising joint control and contributing RMB474.5 million (equivalent to US$69.5 million) and RMB255.5 million (equivalent to US$37.0 million) respectively. The interest held by the Group at 31 December 2008 and 2009 and 30 June 2010 was 65%. Contributions to the registered capital reflect these respective interests were to be made in tranches. The first tranche of US$20.8 million was paid by Aricom in September 2008. The remaining tranches to be contributed by the Group comprised a US Dollar equivalent of US$48.7 million as at 30 June 2010. These amounts were due to be paid by 31 December 2009. During the six months ended 30 June 2010, the investment in the Jiatai Titanium project was impaired. Refer to note 10 for further information. The timing and payment of these contributions are uncertain. However, following discussions with Chinalco, the Group entered into an agreement with Chinalco on 25 August 2010 pursuant to which, and subject to certain conditions, one of which is the extension for the period in which the outstanding capital has to be paid up, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for Chinalco's stake in Jiatai Titanium. Further details of this agreement was set out in note 10. The local authority has approved to further extend the due date for paying the registered capital to 3 September 2011.

(b) On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, was incorporated in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control. Contributions to the registered capital reflect these respective interests were made in tranches. The first tranche of a US Dollar equivalent of US$2.0 million was paid by the Group in November 2009 and a further payment of US$2.0 million was paid during the six months ended 30 June 2010. The remaining amount to be contributed by the Group as at 30 June 2010 comprises a US Dollar equivalent of US$2.7 million, which was paid by 19 September 2010. The interest held by the Group at 31 December 2009 and 30 June 2010 was 46%.

There was no revenue generated by the above joint ventures in 2008 and 2009 and the six months ended 30 June 2009 and 2010.

The summary of the financial information of the Group's joint ventures for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010, as set out below.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Share of joint ventures' assets and liabilities:				
Non-current assets	—	1,185	14,736	1,828
Current assets	—	20,687	9,996	9,417
	—	21,872	24,732	11,245
Current liabilities	—	—	—	(2,334)
Non-current liabilities	—	(1,485)	(2,040)	—
The Group's share of net assets	—	**20,387**	**22,692**	**8,911**

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (Unaudited)	*US$'000*
Share of joint ventures' revenue and expenses:					
Revenue	—	—	—	—	—
Net operating expenses	—	(492)	(138)	(519)	—
Operating loss	—	(492)	(138)	(519)	—
Financial income	—	48	48	23	—
The Group's share of loss for the year/period	**—**	**(444)**	**(90)**	**(496)**	**—**

22 Deferred Tax Assets and Liabilities

The following are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the Relevant Periods.

	Property, plant and equipment	Inventory	Capitalised exploration and evaluation expenditure	Tax losses	Other temporary differences	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2007	—	—	—	—	—	—
(Charge)/credit to the combined income statements	(434)	—	4,857	1,597	(3,387)	2,633
Credit directly to equity	—	—	—	—	199	199
Acquisition of a subsidiary	(2,645)	—	—	—	(195)	(2,840)
Exchange differences	(123)	—	—	—	(4)	(127)
At 31 December 2007	**(3,202)**	**—**	**4,857**	**1,597**	**(3,387)**	**(135)**
Credit/(charge) to the combined income statements	14	—	(4,942)	(1,527)	3,130	(3,325)
Effect of change in tax rate on the combined income statements	465	—	20	—	(32)	453
Exchange differences	897	—	—	(70)	(242)	585
At 31 December 2008	**(1,826)**	**—**	**(65)**	**—**	**(531)**	**(2,422)**
Credit/(charge) to the combined income statements	452	(258)	—	—	176	370
Exchange differences	(148)	226	—	—	13	91
At 31 December 2009	**(1,522)**	**(32)**	**(65)**	**—**	**(342)**	**(1,961)**
Credit/(charge) to the combined income statements	25	98	—	—	(60)	63
Exchange differences	53	(11)	—	—	22	64
At 30 June 2010	**(1,444)**	**55**	**(65)**	**—**	**(380)**	**(1,834)**

For the purposes of presentation in the combined statements of financial position certain deferred tax assets and deferred tax liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Deferred tax assets	4,879	—	—	—
Deferred tax liabilities	(5,014)	(2,422)	(1,961)	(1,834)
	(135)	(2,422)	(1,961)	(1,834)

At 31 December 2007, 2008 and 2009 and 30 June 2010, the Group had unused tax losses of US$7.1 million, US$43.2 million, US$65.3 million and US$67.8 million respectively, which primarily expire from 2016 to 2019. At 31 December 2007, a deferred tax asset was recognised of US$1.6 million in respect of US$6.1 million of those losses which were expected to be recoverable against future profits. Of the remaining losses of US$4.5 million as at 31 December 2007 and for the tax losses as at 31 December 2008 and 2009 and 30 June 2010, no deferred tax asset was recognised as there was not sufficient certainty that there will be sufficient taxable profit against which to offset these losses.

The Group had not recognised deferred tax assets of US$2.4 million, US$18.2 million and US$34.5 million and US$40.0 million during each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively, in respect of temporary differences that arose on certain capitalised development costs. A deferred tax asset of US$6.6 million in respect of the Russian operations of the Group was reversed at 31 December 2008 due to the unpredictability of profit streams in the foreseeable future and significant strengthening of the US Dollar against the Russian Rouble during 2008.

The Group did not record a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. Unremitted earnings that would be subject to taxation comprised an aggregate of US$6.5 million at 31 December 2009 and US$7.1 million at 30 June 2010 respectively.

The Russian corporation tax rate changed from 24% to 20% effective from 1 January 2009.

Temporary differences arising in connection with the Aricom Group's interest in an associate and interests in joint ventures are insignificant.

23 Other Non-current Assets

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
VAT recoverable in Russia after more than one year	112	94	—	—
Prepayments for property, plant and equipment	10,822	12,862	3,793	10,951
Cash advances to employees	—	434	380	411
Other	—	347	—	—
	10,934	13,737	4,173	11,362

VAT recoverable in Russia after more than one year as at 31 December 2007, and 2008 principally related to amounts paid in relation to prepayments for goods with long lead times which will not be recoverable until the goods had been delivered.

24 Inventories

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Construction materials	352	1,004	2,066	2,235
Stores and spares	1,663	6,286	9,371	11,654
Work in progress	—	1,191	1,596	2,767
Finished goods	—	—	—	394
	2,015	8,481	13,033	17,050

No inventories had been pledged as security. During the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010, work in progress was written down to its net realisable value resulting in a charge to the combined income statements of US$1,170,000, US$239,000, US$239,000 (unaudited) and nil respectively. See note 7(a) for further details.

The cost of inventory charged to the combined income statements was as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (Unaudited)	US$'000
Cost of sales	3	1,293	239	239	—
Administrative expenses	—	—	46	—	121
Other net operating income	—	3,077	2,912	1,070	1,764
	3	4,370	3,197	1,309	1,885

25 Trade and Other Receivables

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2007	2008	2009	2010	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
VAT recoverable	8,670	16,392	9,907	14,963	—
Advances to suppliers	2,222	2,293	3,979	6,419	—
Amounts due from customers under engineering contracts	426	2,351	698	1,349	—
Trade receivables	1,558	1,807	1,833	1,897	—
Other debtors	1,091	2,117	3,322	7,180	592
	13,967	24,960	19,739	31,808	592

Amounts due from customers under engineering contracts are expected to be billed and settled within one year, and relate to the long-term contracts in progress.

Amounts included in trade receivables at 31 December 2007, 2008 and 2009 and 30 June 2010 related to services performed under engineering contracts and invoiced to those customers at the respective dates.

There was no significant concentration of credit risk with respect to trade and other receivables during the Relevant Periods. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

In determining recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for these balances which are not past due.

Below is an aged analysis of the Group's trade receivables:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Less than one month	1,555	766	1,002	1,324
One to three months	1	572	180	43
Three to six months	—	148	9	—
Over six months	2	321	642	530
Total	**1,558**	**1,807**	**1,833**	**1,897**

Credit terms offered to individual third party customers during the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 ranged from 10 days to 45 days, 5 days to 45 days, 10 days to 45 days and 10 days to 45 days respectively.

The Directors considered that the carrying value of trade and other receivables is approximately equal to their fair value.

Below is an aged analysis of trade receivables based on invoice date which are past due but not impaired:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Less than one month	—	—	—	10
One to three months	—	—	—	—
Three to six months	—	148	9	—
Over six months	—	321	546	530
Total	**—**	**469**	**555**	**540**

The Group has not provided for impairment loss on trade receivables which are past due as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

The following shows an analysis of movements in the allowances for doubtful debts in respect of advances to suppliers and trade receivables:

	Year ended 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of year/period	—	—	—	3,718
Change in allowance for doubtful debts	—	—	3,589	(11)
Exchange difference	—	—	129	(536)
At the end of year/period	—	—	3,718	3,171

Included in the allowance for doubtful debts were individually impaired advances to suppliers and trade receivables with an aggregate balance of US$3,718,000 as at 31 December 2009. See note 7(b) for details. The Group did not hold any collateral over these balances.

26 Short-term Investments

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at FVTPL	91,669	—	—	—
Held-to-maturity financial asset: promissory note	122	—	—	—
	91,791	—	—	—

As at 31 December 2007, the financial assets carried at FVTPL comprised highly-liquid investments under discretionary management service with a maturity of up to six years, and short-term deposits with varying maturities from three to seven months. In 2008, the Group disposed of its financial assets at FVTPL and transferred funds to cash and cash equivalents, and no other financial assets at FVTPL have been acquired afterward. At 31 December 2007, the Group held funds under discretionary management service of US$48,899,000 and short-term deposits of US$42,770,000. The funds under discretionary management services included certificates of deposit, commercial papers, floating rate notes and bonds which did not meet the definition of cash and cash equivalents due to their terms and conditions. The short-term deposits comprise term deposits with banks with maturities between 3 and 12 months.

These assets were purchased as part of the Group's short-term liquidity management and were liquidated during 2008 in order to utilise the cash for the development of the Group's assets. It is not management's intention to utilise such deposits to manage its liquidity in the future.

The held-to-maturity financial asset was a promissory note which matured and was redeemed in March 2008.

Further disclosures required under HKFRS 7 *Financial Instruments: Disclosures* are set out in note 38.

27 Cash and Cash Equivalents

Cash and cash equivalents comprised cash held by the Group and short-term bank deposits with an original maturity of three months or less and short-term highly-liquid investments in money market funds. The carrying amount of these assets approximates their fair value.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Bank accounts and deposits	84,248	72,299	17,352	25,849
Money market funds	288,044	185,523	1,063	16
Money market portfolio	34,395	—	—	—
	406,687	257,822	18,415	25,865

Investments in money market funds were held for the purposes of diversification of risk. As these funds are available on demand and have insignificant risk of change in value they are classified as cash equivalents. The investments in money market funds and the money market portfolio represent investments in highly liquid funds which may be invested in securities or foreign currencies, with greater rates of return than deposit accounts held with banks. Further disclosures required under HKFRS 7 *Financial Instruments: Disclosures* are set out in note 38.

28 Trade and Other Payables

	Group				Company
	As at 31 December			As at 30 June	As at 30 June
	2007	2008	2009	2010	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Trade creditors	4,834	7,830	5,866	6,316	—
Advances from customers	5,102	334	5,801	1,934	—
Accruals and other payables	2,792	6,829	4,770	19,223	2,961
	12,728	**14,993**	**16,437**	**27,473**	**2,961**

For individual third party trade creditors, the average credit period on purchases of goods and services for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 was 30 days, 14 days, 26 days and 18 days respectively.

The Group's other payables included the current portion of amounts owed to the Administration of the Masanovskiy Region of Russia, as detailed in note 30. The current portion of this liability as at 31 December 2007, 2008 and 2009 and 30 June 2010 was US$1,059,000, US$914,000, US$525,000 and US$509,000 respectively, and will be settled within one year.

The Directors consider that the carrying amount of trade creditors and other payables approximates their fair value.

Below is an aged analysis of the Group's trade creditors.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Less than 1 month	4,686	7,388	3,154	5,260
1 to 3 months	110	55	789	36
3 to 6 months	—	157	135	985
Over 6 months	38	230	1,788	35
Total	**4,834**	**7,830**	**5,866**	**6,316**

29 Provision for Close Down and Restoration Costs

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of year/period	—	2,294	2,108	2,990
Unwinding of discount	—	228	191	22
Exchange differences	—	(414)	66	(96)
Change in estimates	2,294	—	625	—
At the end of year/period	2,294	2,108	2,990	2,916

The long-term provision recognised relates to mine closure, site and environmental restoration costs for Kuranakh (the titanomagnetite and ilmenite mine located in the Amur region of Russia), based on estimates provided by external consultants in 2007, which form part of the Technical Economic Model for Kuranakh. The expected timing of the cash outflows in respect of the provision is on the closure of mining operations expected to be after 2020. The provision was recognised on a consistent basis for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

30 Other Non-current Liabilities

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash-settled long-term incentive plan (see note 36(b))	483	111	—	—
Other non-current liabilities	1,088	—	—	—
	1,571	111	—	—

Other non-current liabilities at 31 December 2007 included the long-term portion of amounts owed to the Administration of the Masanovskiy Region of Russia in connection with obligations arising under the Garinskoye licence of US$922,000. At 31 December 2008, all amounts payable to the Administration of the Masanovskiy Region of Russia were due within one year and included in current liabilities. At 31 December 2009 and 30 June 2010 there were no non-current amounts owing to the Administration of the Masanovskiy Region of Russia.

31 Share Capital

(a) Share Capital of Aricom

	Aricom							
	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2010	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2010
	Number '000	*Number '000*	*Number '000*	*Number '000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Authorised								
Ordinary shares . .	2,000,000	2,000,000	20,000,000	20,000,000	—	—	—	—
Allotted, called up and fully paid								
At the beginning of the year/ period . . .	453,611	1,119,070	1,182,864	11,828,638	816	2,147	2,265	2,265
Issued during the year/ period . . .	665,459	63,794	—	1,330,000	1,331	118	—	192
Subdivision of shares . .	—	—	10,645,774		—	—	—	—
At the end of the year/ period . . .	1,119,070	1,182,864	11,828,638	13,158,638	2,147	2,265	2,265	2,457

Details of the ordinary shares of Aricom in issue at the commencement of the years/period, ordinary shares of Aricom issued during each of the years/period, and ordinary shares of Aricom in issue at the end of each year/period are given in the table below.

Date	Description	Price GBP	No of shares
1 January 2007	**Number of ordinary shares in issue at the commencement of year**		**453,611,121**
12 January	Exercise of the Directors' share options granted to Thomas Swithenbank on 31 December 2003	0.15	850,000
20 April	Issue of ordinary shares in relation to deferred consideration for KS GOK acquisition (note 33(b))	0.785	65,000,000
4 June	Issue of ordinary shares to International Finance Corporation ("IFC")	0.59	17,076,372
4 June	Placing of 133 million units each comprising three ordinary shares and one tradeable warrant with institutional investors	0.70	399,000,000
27 July	Exercise of the Directors' share options granted to Sir Malcolm Field at 31 December 2003	0.15	1,000,000
9 August	Issue of ordinary shares in relation to KS GOK acquisition (note 33(b))	0.52	123,782,467
17 October	Ordinary shares issued to the EBT	0.62	16,000,000
18 December	Placing of ordinary shares with institutional investors	0.75	42,750,000
31 December 2007	**Number of ordinary shares on issue at the end of year**		**1,119,069,960**
5 February 2008	Issue of ordinary shares to PBO Handels GmbH (note 33(e))	0.6875	252,900
18 February 2008	Issue of ordinary shares to Olis Constructions Ltd (note 33(f))	0.705	28,265,903
5 March 2008	Exercise of share options granted to Mr Peter Howes on 31 December 2003 (note 33(f))	0.15	400,000
3 October 2008	Issue of ordinary shares to Myrtle Corporate Ltd and Ardoryna Commercial Ltd (note 33(g))	0.23	21,875,000
15 October 2008	Issue of ordinary shares to SG Hambros, Aricom's long-term incentive plan ("LTIP") trustee	0.20	13,000,000
31 December 2008	**Number of ordinary shares on issue at the end of year**		**1,182,863,763**
22 April 2009	Subdivision of shares, scheme of arrangement for shares and warrants became effective. Authorised share capital: 2,000,000,000 ordinary shares divided into 20,000,000,000 ordinary shares of GBP0.0001 each and 133,000,000 warrants divided into 1,330,000,000 warrants		10,645,773,867
22 April 2009	Allotment of 2 shares to Petropavlovsk PLC		2
31 December 2009	**Number of ordinary shares on issue at the end of year**		**11,828,637,632**
26 May 2010	Exercise of warrants granted to Petropavlovsk PLC	0.08	1,330,000,000
30 June 2010	**Number of ordinary shares on issue at the end of the period**		**13,158,637,632**

The authorised share capital of 2,000,000,000 ordinary shares of Aricom was divided into 20,000,000,000 ordinary shares on 22 April 2009 and the value of each share is changed from GBP0.001 to GBP0.0001. The authorised share capital of Aricom was increased by 18,000,000,000 ordinary shares.

Aricom has one class of ordinary shares which carry no right to fixed income. On 22 April 2009, the shareholders of Aricom passed a resolution to authorise the subdivision of each ordinary share into 10 shares resulting in the issue of 10,645,773,867 new shares making a total of 11,828,637,630 shares in the then issued share capital of Aricom.

Warrants in Issue

On 4 June 2007, Aricom issued 133 million units each comprising three ordinary shares of Aricom and one tradeable warrant. Each warrant then conferred the right to subscribe for one ordinary share of Aricom at a price of 80 pence (subject to adjustment). On acquisition of Aricom by Petropavlovsk PLC, these warrants were acquired by Petropavlovsk PLC in exchange for the issue of warrants conferring the right to subscribe to ordinary shares in Petropavlovsk PLC.

At the time of the share split, the warrants were also split by ten, resulting in 1,330,000,000 warrants in issue at 31 December 2009. Each warrant conferred the right to subscribe for one ordinary share of Aricom at a price of 8 pence (subject to adjustment). The initial recognition and changes in the fair value of the liability during this period resulted in a loss of US$1.7 million being recorded in the combined income statement.

On 26 May 2010 Petropavlovsk PLC exercised all of these warrants in Aricom. As a result Aricom issued 1,330,000,000 ordinary shares of GBP0.0001 for consideration of GBP0.08 per share which amounted to US$154.37 million, and was settled via a promissory note issued by Petropavlovsk PLC. This promissory note has since been settled by the dividend declared by Aricom (see note 15 for details).

Issue of Options

On 4 June 2007, Aricom completed a private placement with the IFC which included the issue of an option to subscribe for 17,076,372 ordinary shares at an exercise price of 74 pence per share (subject to adjustment). The option was due to expire on 4 June 2015. Under the terms of the option agreement the expiry date may be modified if:

(a) any time after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 160% of the exercise price; or

(b) two years after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 130% of the exercise price.

On acquisition of Aricom by Petropavlovsk PLC, this was replaced with an option to allow the IFC to subscribe for ordinary shares in Petropavlovsk PLC. Accordingly at 31 December 2009 and 30 June 2010, this option was no longer in existence.

Transfer to an Equity Holder

Prior to the acquisition of Aricom by Petropavlovsk PLC in April 2009, two of Aricom's subsidiaries, Aricom Treasury UK Limited and Aricom Roubles Treasury Limited provided intercompany funding to other Aricom companies. Following the acquisition of Aricom by Petropavlovsk PLC in April 2009, the Group's inter-company receivables balances held by Aricom Treasury UK limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK Limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom was provided by Peter Hambro Mining Treasury UK Limited. In exchange for the receivables transferred of US$211.9 million, Aricom received a promissory note with fair value of US$165.3 million from Peter Hambro Mining Treasury UK limited. The difference of US$46.6 million had been treated as an equity transfer from the Aricom Group to Petropavlovsk PLC in April 2009. During the six months ended 30 June 2010 all amounts owing to Petropavlovsk PLC by the Aricom Group (including the amounts above) were transferred from Peter Hambro Mining Treasury UK Limited to the Company's subsidiaries, Thorrouble Limited and Thordollar Limited, for consideration of US$437.9 million. The difference between this amount paid, and the carrying amount of the loans of US$643.3 million has been treated as a contribution to the Aricom Group by Petropavlovsk PLC of US$205.4 million.

(b) Share capital of the Company

The Company was incorporated on 4 June 2010 in Hong Kong, as a wholly owned subsidiary of Cayiron Limited, which is a wholly owned subsidiary of Petropavlovsk PLC. One share was allotted and issued as fully paid to Cayiron Limited as the initial subscriber, pursuant to the written resolutions passed by the shareholders of the Company on 14 June 2010, each of the then issued and un-issued shares with a nominal value of HK$1.00 each was subdivided into 100 shares with a nominal value of HK$0.01 each. Accordingly, the authorised share capital of the Company, comprising 1,000 shares with a nominal value of HK$1.00 each, was subdivided into 100,000 shares with a nominal value of HK$0.01.

On 14 June 2010, the Company acquired Thorholdco Limited ("Thorholdco") from Cayiron Limited in consideration for US$260,015,001, satisfied by the issue of 700 shares at a price of approximately US$371,450 per share.

On 25 June 2010, the Company acquired Thorrouble Limited ("Thorrouble") and Thordollar Limited ("Thordollar") from Cayiron Limited in consideration for US$437,621,872 satisfied by the issue by the Company of a further 800 shares to Cayiron Limited at a price of approximately US$547,027 per share.

	The Company	
	Six months ended 30 June 2010	Six months ended 30 June 2010
	Number	*US$'000*
Authorised		
Ordinary shares of HK$1.00 each at date of incorporation	1,000	—
Subdivision of shares	99,000	—
Ordinary shares of HK$0.01 each at the end of the Period	100,000	—
Allotted, called up and fully paid		
At date of incorporation	1	—
Subdivision of shares	99	—
Issued during the period	1,500	—
At the end of the period	1,600	—

Details of the ordinary shares of the Company in issue at the date of incorporation, ordinary shares of the Company issued during each of the years/period, and ordinary shares of the Company in issue at the end of the period are given in the table below.

Date	Description	Price HK$	No of shares
4 June 2010	Issue of share capital on incorporation	1.00	1
14 June 2010	Subdivision of shares. Authorised share capital: 1,000 ordinary shares divided into 100,000 ordinary shares of HK$0.01 each	—	99
14 June 2010	Issue of share capital	0.01	700
25 June 2010	Issue of share capital	0.01	800
30 June 2010	**Number of ordinary shares on issue at the end of the period**		**1,600**

(c) Restructure and Combination Accounting

As set out above, the Company was incorporated on 4 June 2010 and since that time has undertaken a number of transactions in order to put in place the structure for the proposed listing of the Group on the Stock Exchange.

These transactions, and the impact on the financial information presented in this Accountants' Report are set out below:

1. Thorholdco was incorporated in the Cayman Islands on 18 May 2010 as a wholly owned subsidiary of Petropavlovsk PLC.

2. Thorrouble and Thordollar were incorporated in the Cayman Islands on 18 May 2010, as wholly owned subsidiaries of Petropavlovsk PLC.

3. The Company was incorporated on 4 June 2010, as set out above.

4. On 14 June 2010, Petropavlovsk PLC capitalised Thorholdco by contributing to it a promissory note of US$260,000,000 in exchange for the issue by Thorholdco to Petropavlovsk PLC of 15 further shares. The entire share capital of Thorholdco was then transferred to Cayiron Limited in exchange for the issue and allotment by Cayiron Limited of further shares to Petropavlovsk PLC.

5. On 14 June 2010, the Company acquired Thorholdco from Cayiron Limited in consideration for US$260,015,001, satisfied by the issue of 700 shares at a price of approximately US$371,450 per share, resulting in share premium of US$260,015,000.

6. On 25 June 2010, Petropavlovsk PLC subscribed for 100,000 ordinary shares in Thorrouble in consideration for the issue of promissory notes of RUR6,607,448,778 (equivalent of approximately US$213,041,112).

7. On 25 June 2010, Petropavlovsk PLC subscribed for 3,000 ordinary shares in Thordollar in consideration for the issue of promissory notes of US$224,559,090.

8. Following the completion of these transactions, Thorrouble and Thordollar were acquired by the Company on 25 June 2010 in exchange for the issue of 800 shares to the value of US$437,621,872, which was the book value of the two companies transferred, resulting in share premium of US$437,621,857. On the same day, the Company transferred the entire issued share capital of Thorrouble and Thordollar to the Thorholdco in exchange for the issue and allotment by Thorholdco to the Company of additional shares.

9. On 25 June 2010, Thorrouble entered into a deed of assignment with Peter Hambro Mining Rouble Treasury Limited ("PHM Rouble Treasury"), under which Thorrouble assigned the promissory note in point 6 above to PHM Rouble Treasury in consideration for the assignment to Thorrouble of the Rouble denominated receivables between PHM Rouble Treasury and the Aricom Group.

10. On 25 June 2010, Thordollar entered into a deed of assignment with Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, under which Thordollar assigned the promissory notes in point 7 above to Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, respectively, in consideration for the assignment to Thordollar of the US Dollar denominated receivables between Aricom Treasury UK Limited and Aricom Roubles Treasury Limited and the Aricom Group.

11. Following the completion of these transactions, the Company held investments in Thorholdco, which in turn held investments in Thorrouble and Thordollar (the "IRC Group"). The IRC Group had amounts outstanding from Petropavlovsk PLC of US$260,000,000 which were subsequently settled by the transfer of Aricom to Thorholdco, on 5 August 2010. Thorrouble and Thordollar held the Rouble and US Dollar denominated receivables from the Aricom Group.

On 10 June 2010, Aricom disposed of its interest in Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to Petropavlovsk PLC and the consideration receivable remained outstanding against Petropavlovsk PLC's undertaking to pay to Aricom ("Consideration"). These companies have been deconsolidated from this point in time, with the excess of the net assets of the companies disposed over the consideration received of US$168,509,000 recognised in equity as deemed distribution. The deconsolidation would have resulted in a significant increase in the loans payable to related parties. Accordingly, Petropavlovsk PLC has transferred these receivables from Aricom Group to Thordollar and Thorrouble as set out above. As described in note 31(c), these receivables were transferred to Thordollar and Thorrouble for consideration less that the contractual amounts payable. The difference of US$205,412,000 has been recognised as a transfer of equity by the owner.

This Consideration, combined with further advances provided to Aricom to fund its continued operations, increased the total amount owing by Petropavlovsk PLC to Aricom to approximately US$621,977,000. On 22 June 2010, Aricom declared a dividend of US$644,437,000 of which US$22,460,000 was paid in cash, with the remaining amount offset against the total loan receivable amount outstanding from Petropavlovsk PLC.

Accordingly, at 30 June 2010 the Aricom Group does not have any loans receivable from the Petropavlovsk PLC Group.

Acquisition of Aricom by the Company

In preparing the financial information for the Accountants' Report it has been considered appropriate to reflect the financial information for the period ended 30 June 2010 as if Thorholdco had acquired Aricom Limited from Petropavlovsk PLC. Accordingly the financial information of the Aricom Group and the IRC Group have been combined.

Accordingly, the US$260,000,000 promissory note due from Petropavlovsk PLC recorded by the IRC Group as at 30 June 2010 as detailed in point (11) above, which is set up as a form of the group re-organisation detailed above, was set off by the amount paid by Thorholdco to acquire Aricom of US$260,000,000 on 5 August 2010 and has been recognised in accumulated losses for the period ended 30 June 2010.

32 Treasury Shares

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Balance at the beginning of the year/period	—	20,256	24,801	—
Acquired in the year	20,256	4,545	—	—
Transfer of Aricom shares	—	—	(24,801)	—
Balance at the end of the year/period	20,256	24,801	—	—

Treasury shares represented ordinary shares held by the Aricom's EBT to provide benefits to employees under the LTIP. During the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 the EBT subscribed for 16,000,000, 13,000,000, nil and nil shares in Aricom, for consideration of US$20,256,000, US$4,545,000, nil and nil respectively. On acquisition of Aricom by Petropavlovsk PLC, Aricom shares previously held by the EBT were exchanged for shares in Petropavlovsk PLC (see note 36).

33 Acquisitions

(a) Acquisition of Non-controlling Interest in Olekminsky Rudnik

On 11 January 2007, the Aricom Group acquired an additional 26% interest in Olekminsky Rudnik, taking its interest in the Kuranakh project to 100%. The purchase price of US$11 million was paid in January 2007.

It was concluded that the US$11 million paid reflected the fair value of 26% of the Kuranakh project. In accordance with the Aricom Group's accounting policy for acquiring non-controlling interests, the percentage of the assets and liabilities acquired was recognised at this fair value resulting in an US$12.1 million increase in the carrying value of Kuranakh. The net impact of the acquisition of this 26% interest was the recognition of a credit of US$1,148,000 to equity.

(b) Acquisition of Non-controlling Interest in KS GOK

On 4 April 2007, Aricom notified Philotus Holdings Limited ("Philotus") that it wanted to exercise its option to purchase an additional 50% interest in KS GOK. Following the receipt of Russian Federal Antimonopoly Service ("FAS") approval, on 9 August 2007 Aricom acquired the remaining 50% interest in KS GOK, in consideration for the issue of 123,782,467 ordinary shares to Philotus. The number of ordinary shares issued was determined in accordance with the option agreement, and approved by the Independent Directors, following an independent valuation report.

The cost of the net assets acquired at this date was considered to be the fair value determined as at 20 April 2007, this being the date of the settlement of deferred consideration outstanding with respect to the acquisition of the first 50% controlling interest in KS GOK, which closely followed the date Aricom served notice to Philotus in respect of the exercise of the option to acquire the remaining 50% interest.

The total consideration for the acquisition of the 50% interest held by Philotus comprised of the following:

	US$'000
Cash consideration	9,000
Issue of an option to Philotus	9,200
Issue of 123,782,467 shares in Aricom to Philotus at market value (GBP0.52)	131,077
	149,277

Following the completion of the acquisition of this asset in August 2007, the difference between the cost of the net assets acquired, determined as at 20 April 2007, based on the agreed number of shares to be issued and the share price at that date, and the fair value of the purchase consideration based on the share price when the shares were actually issued, was recognised in equity. Following the acquisition of this 50% interest, the Company now indirectly holds a 100% interest in KS GOK. The net impact of the acquisition of this 50% interest was the recognition of a credit of US$41,427,000 to equity.

(c) Acquisition of a 68.49% Interest in Giproruda

On 28 May 2007, the Group's acquisition of a 68.49% interest in Giproruda received Russian FAS approval. Cash consideration of US$8,148,000 was paid and transfer of ownership was effected on 8 June 2007. Giproruda is a highly respected Russian mining engineering services institute based in St Petersburg specialising in non-precious metals mine and processing plant design.

Russian legislation limited the Group's voting power until such time that the Russian Federal Financial Market Service approved Aricom's mandatory offer to minority shareholders. Accordingly, Giproruda was recognised as an associate between 8 June and 12 July 2007. On 13 July 2007, the Group obtained the full voting rights in respect of its 68.49% interest in Giproruda after a mandatory offer to minority shareholders was made in accordance with Russian legislation. Subsequent to this date Giproruda is considered to be a subsidiary of Aricom.

Set out in the table below is a summary of the fair values of the assets and liabilities acquired in the business combination.

	Book Value	Fair value adjustments	Fair Value
	US$'000	*US$'000*	*US$'000*
Net assets acquired			
Plant, property and equipment	1,210	10,954	12,164
Deferred tax asset	49	—	49
Other non-current assets	21	—	21
Inventories	12	—	12
Contracts in progress	1,661	—	1,661
Trade and other receivables	1,494	—	1,494
Cash and cash equivalents	1,800	—	1,800
Trade and other payables	(2,416)	—	(2,416)
Deferred tax liability	(259)	(2,629)	(2,888)
Net assets	3,572	8,325	11,897
Non-controlling interests			(3,749)
Total consideration			8,148
Satisfied by:			
Cash			8,148
Net cash outflow arising on acquisition			
Cash consideration			8,148
Less cash and cash equivalents acquired			(1,800)
			6,348

The fair values set out above were determined as at 8 June 2007, this being the date the consideration for the 68.49% interest was paid and the transfer of ownership effective. The Directors considered that these fair values substantially reflected the fair values of the net assets acquired as at 13 July 2007, the date at which the mandatory offer to minority shareholders was made and the Group received full voting rights.

No goodwill arose on acquisition as the consideration payable was equal to Aricom's share of the fair value of the net assets acquired. The fair value of the net assets included the Directors' valuation of Aricom's interest in the property that Giproruda occupies. On 21 September 2007, the mandatory offer to non-controlling shareholders lapsed. A total of 2,073 shares were tendered under the offer, at a total cost of US$232,000. The majority of the shares tendered were purchased by 1 October 2007, increasing the Aricom Group's interest in Giproruda to 70.28% from 68.49%.

If the acquisition of Giproruda had been completed on the first day of the financial year, Aricom Group's revenue and profit attributable to equity holder for the year ended 31 December 2007 would have been US$7,938,000 and US$1,266,000 respectively.

(d) Acquisition of Garinskoye Deposit

On 24 September 2007, Aricom UK, a wholly-owned subsidiary of Aricom, subscribed for ordinary shares in Lapwing, pursuant to an agreement dated 29 March 2007. Lapwing is the holding company that at that time owned LLC Garinsky Mining & Metallurgical Complex

("GGMK" or "Garinsky"), the company which at that time held the licence to develop and exploit the Garinskoye iron ore deposit in the Amur region of Russia. At the time of that subscription, Aricom UK expected to obtain a 60% ownership interest in Lapwing, and additional subscriptions were required to be made by Aricom UK's co-shareholders at the same price. There were expected to be four further shareholders in Lapwing, namely Olis with 25% and three other independent third-party shareholders with the remaining 15% (the "Additional Holders"). The Additional Holders did not subscribe for any additional shares and consequently their interest in Lapwing was diluted to a total of 0.52% with Aricom UK holding 70.22% and Olis holding 29.26%.

Consideration for the acquisition of the 60% ownership interest in Lapwing was the settlement of a loan advanced by the Aricom Group to Lapwing for EUR20.22 million (equivalent to US$27.6 million), in exchange for 20,220,000 shares of EUR1 each in Lapwing and it was accounted for as an asset acquisition rather than a business combination, as the entity acquired did not have any operating activities.

Under the same agreement, Aricom UK acquired for a premium of US$19.7 million an option to purchase a further 25% interest. The exercise period of the option was two years from the date of subscription but could be shortened in certain circumstances. This option was terminated in December 2007 following the advance of a secured loan from Aricom Treasury Limited to Olis on commercial terms, and the original terms varied under an agreement dated 13 December 2007. Under this agreement Olis conditionally agreed to sell to Aricom its entire 29.26% interest in Lapwing (see note (f) below).

Set out in the table below is a summary of the assets and liabilities acquired at 24 September 2007:

	US$'000
Net assets acquired	
Mine development costs	49,641
Assets under construction	2,185
Non-mining assets	10
Inventories	10
Other receivables	12,496
Cash and cash equivalents	427
Other payables	(19,354)
Amounts payable in respect of mineral licence	(1,963)
Short-term loans from the Group	(2,892)
Net assets	40,560
Non-controlling interests	(12,079)
Total consideration	28,481
Satisfied by:	
Settlement of loan in exchange for 20,220,000 shares of Lapwing at EUR1 per share	28,481
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	427

(e) Acquisition of Non-controlling Shareholder's Interest in Lapwing

On 17 January 2008, Aricom agreed to acquire the 0.1% ownership interest in Lapwing, the holding company that owns Garinskiy, from PBO Handelsges M.B.H. ("PBOH"), one of the non-controlling shareholders. In consideration for the acquisition of this non-controlling interest Aricom issued 8.43 ordinary shares for every 1 Lapwing share held by PBOH, resulting in the issue of 252,900 ordinary shares on 5 February 2008 when the market value was GBP0.6875 per ordinary share. The total purchase consideration for the acquisition of this non-controlling interest was US$0.3 million.

The transaction was completed on 5 February 2008, when the cost of net assets acquired other than the licence was US$0.04 million. The excess of the purchase consideration over this amount of US$0.3 million was allocated to mine development costs in accordance with the Aricom Group's accounting policy for acquiring non-controlling interests in controlled assets.

(f) Acquisition of 29.26% Non-controlling Interest in Lapwing and Settlement of Amounts Owed by Olis

On 15 February 2008, shareholders' approval was obtained for the acquisition of Olis's 29.26% interest in the issued share capital of Lapwing. The acquisition was completed on 15 February 2008, resulting in an increase in the 70.22% interest in the project held by Aricom UK at 31 December 2007 to 99.58%, including the 0.1% interest acquired on 5 February 2008 detailed above.

The total consideration comprised the issue of 28,265,903 ordinary shares at a market value of GBP0.705 per share on 15 February 2008 (the "Consideration Shares"), the cash consideration comprising the net proceeds of the placing of 42,750,000 ordinary shares completed by Aricom on 18 December 2007, less an agreed allocation of costs incurred in respect of this placing and the option premium of US$19.7 million paid in March 2007.

Including acquisition costs, the total purchase consideration for the acquisition of this non-controlling interest was US$122.1 million.

On 19 December 2007, the Aricom Group entered into a loan agreement with Olis, lending an amount of US$65 million. The loan bore interest at a rate of 5.2% per annum, and was repayable at the earlier of the date of completion of the proposed acquisition by Aricom from Olis of shares in Lapwing, and the maturity date of the loan, being 30 June 2008.

The loan and respective interest were settled against the purchase consideration for the acquisition of Olis' 29.26% ownership interest in Lapwing.

A summary of the total consideration and settlement of the loan outstanding is set out in the table below:

	US$'000	US$'000
Option premium paid in March 2007		19,700
Issue of the Consideration Shares*		39,084
Cash proceeds from the placing shares	64,221	
Agreed allocation of costs associated with the placing	(1,052)	
		63,169
Total consideration payable to Olis		121,953
Directly attributable legal costs		154
Total consideration		122,107
Cash consideration payable		63,169
The loan and respective interest outstanding on 15 February 2008		(65,543)
Residual amount payable by Olis to Aricom on 15 February 2008**		(2,374)

* At market value opening position and exchange rate at 15 February 2008.

** Including interest of US$0.1 million charged in 2007 and US$0.4 million charged in 2008.

On 18 March 2008, Olis made a payment of US$2.4 million to settle the residual loan balance outstanding plus related accrued interest.

The transaction completed on 15 February 2008 when the cost of the net assets acquired, other than the licence, was US$11.2 million. The excess of the purchase consideration over this amount was US$110.9 million which was allocated to mine development costs in accordance with the Aricom Group's accounting policy for acquiring non-controlling interests in controlled assets.

(g) Acquisition of Options to acquire Kostenginskoye and Garinskoye Flanks Licences

On 25 March 2008, the Aricom Group entered into two option agreements enabling it, subject to all conditions precedent being met, to exercise options to purchase the entire share capital of Rumier Holdings Ltd and Guiner Enterprises Ltd, both of which are Cypriot registered companies (together the "Cypriot Companies").

The Cypriot Companies hold 100% investments in LLC Optima and LLC Ekvador respectively, both of which are Russian registered companies (together the "Russian Companies"). These Russian Companies held only the licences for the right to mine the Kostenginskoye and Garinskoye Flanks deposits respectively, and hence the acquisition was accounted for as an asset acquisition.

The sellers of the Cypriot companies were Myrtle Corporate Ltd and Ardoryna Commercial Ltd (the "Sellers") which owned 51% and 49% respectively of the share capital of each of the Cypriot Companies.

The Aricom Group paid a total non-refundable option premium of an aggregate of US$45 million cash to the Sellers to acquire the options.

These options were exercised on 30 September 2008 and shares were issued on 3 October 2008. The combined consideration for both assets upon exercise of the options amounted to US$45 million cash paid for the options and 21,875,000 ordinary shares in Aricom (10,937,500 for each asset) as detailed below:

Consideration	US$'000
Non-refundable option premium	44,976
Issue of 21,875,000 ordinary shares of the Company at the market value of GBP0.23*	8,955
Total	53,931

* At market value opening position and exchange rate at 30 September 2008.

34 Notes to the Cash Flow Statements

(a) Reconciliation of Loss Before Taxation to Cash Used in Operations

	Year ended 31 December			Six months ended 30, June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Loss before taxation	(1,885)	(421,018)	(138,500)	(125,202)	(50,374)
Adjustments for:					
Depreciation of property, plant and equipment	469	1,174	2,267	1,077	1,061
Financial income	(15,197)	(14,119)	(15,145)	(3,651)	(10,743)
Financial expense	602	588	10,337	1,430	11,269
Loss on disposal of property, plant and equipment	134	201	230	256	904
Inventory written off	—	1,170	239	239	—
Impairment charges	—	386,450	97,371	97,371	34,511
Share-based payments and LTIP expense (defined in note 36)	1,086	482	1,892	1,091	212
Share of result of an associate	59	(850)	—	—	—
Share of results of joint ventures	—	444	90	496	—
Net foreign exchange (gain)/loss	(2,542)	22,636	6,224	(811)	(2,197)
Net change in fair value of financial instruments at FVTPL	(3,714)	(1,413)	1,711	6,911	(1,711)
Allowance/(reversal of allowance) for doubtful debts	—	—	3,589	3,548	(11)
Other non-cash adjustments	6	—	6,908	1,896	5,333
Operating cash flows before movements in working capital	(20,982)	(24,255)	(22,787)	(15,349)	(11,746)
(Increase)/decrease in inventories	(1,811)	(11,253)	294	(2,499)	(4,424)
Decrease/(increase) in trade and other receivables	14,785	(18,080)	(4,571)	596	(15,065)
(Decrease)/increase in trade and other payables	(8,619)	3,925	970	2,106	8,972
Cash used in operations	(16,627)	(49,663)	(26,094)	(15,146)	(22,263)

(b) Major Non-cash Transactions

65 million ordinary Aricom shares were issued on 20 April 2007 in satisfaction of deferred consideration payable in relation to the acquisition of a 50% interest in the KS GOK. The

Aricom share price on 20 April 2007 was GBP0.785 valuing the 65 million shares at US$102.3 million. See note 33(b) for further details.

Aricom exercised the Philotus option (as set out in note 33(b)) in August 2007, thereby acquiring the remaining 50% in KS GOK, through the issue of 123,782,467 ordinary shares to Philotus.

As set out in note 33(d), the consideration for the acquisition of the Garinskoye asset was the settlement of a loan for EUR20.22 million issued during 2007 by the Aricom Group to Lapwing, in exchange for 20,220,000 shares at EUR1 each in Lapwing.

In February 2008, Aricom issued in aggregate 28,518,803 ordinary shares as part of the consideration to acquire a further 29.26% of interest in the Garinskoye project. These ordinary shares were valued at US$39.4 million using the opening market value of a share and the exchange rate at the transaction date.

The loan and interest receivable from Olis amounted to US$65.5 million at the transaction date and was offset against the cash part of consideration payable by Aricom as part of the acquisition from Olis of a further 29.26% of interest in the Garinskoye project. See note 33(f) for further details.

Following the acquisition of Aricom by Petropavlovsk PLC, the inter-company receivable balances within Aricom Treasury UK Limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom had been provided by this entity. In exchange for the receivables transferred of US$211.9 million Aricom received a promissory note of US$165.3 million from Peter Hambro Mining Treasury UK Limited. The difference of US$46.6 million was treated as an equity transfer from the Aricom Group to Petropavlovsk PLC (see notes 31 and 39 for further details).

On 25 June 2010, Thorrouble entered into a deed of assignment with PHM Rouble Treasury, under which Thorrouble assigned the promissory note receivable from the Petropavlovsk Group to PHM Rouble Treasury in consideration for the assignment to Thorrouble of the Rouble denominated receivables between PHM Rouble Treasury and the Aricom Group.

On 25 June 2010, Thordollar entered into a deed of assignment with Aricom Treasury UK Limited and Aricom Roubles Treasury UK Limited, under which Thordollar assigned the promissory note receivable from the Petropavlovsk Group to Aricom Treasury UK Limited and Aricom Roubles Treasury Limited in consideration for the assignment to Thordollar of the US Dollar denominated receivables between Aricom Treasury UK Limited and Aricom Roubles Treasury UK Limited and the Aricom Group.

In October 2008, Aricom issued 21,875,000 ordinary shares as part of the consideration to acquire 100% of Kostenginskoye and Garinskoye Flanks licences. These ordinary shares were valued as US$8.96 million using the opening market value of the share and the exchange rate at the transaction date. See note 33(g) for further information.

In 2009, there were certain administrative expenses of the Aricom Group of US$6.9 million borne by the ultimate holding company, which were recorded in capital reserve as a deemed capital contribution. These expenses are included in note 34(a) and treated as other non-cash adjustments. In the six months ended 30 June 2009, US$1.9 million (unaudited) of administrative expenses were borne by the ultimate holding company.

During the six months ended 30 June 2010, US$5.3 million of administrative expenses were borne by the ultimate holding company and recorded in capital reserve as a deemed capital contribution. These expenses are included in note 34(a) and treated as other non-cash adjustments.

On 22 June 2010, Aricom declared a dividend of US$644,437,000 of which US$22,460,000 was paid in cash, with the remaining amount offset against the total loan receivable amount outstanding from Petropavlovsk PLC (see note 15).

During the six months ended 30 June 2010, Aricom disposed of a number of its subsidiaries to the Petropavlovsk PLC Group. Consideration was settled via the issue of a promissory note (see note 41).

During the six months ended 30 June 2010, a restructuring was undertaken in order to put the proposed listing structure in place. These transactions did not involve cash consideration as they were settled via promissory notes (see note 31(c)).

35 Contingent Liabilities

The Aricom Group is involved in legal proceedings with Gatnom Capital & Finance Limited and O.M. Investments & Finance Limited, who are the non-controlling shareholders in Lapwing, the Group's 99.58% owned subsidiary incorporated in Cyprus and holding a 100% interest GGMK. The claim was filed in September 2008 in Cyprus and the respondents are Lapwing and Aricom UK Limited. The claimants allege their holdings in Lapwing were improperly diluted as the result of the issuance of additional shares following a shareholders' meeting held in September 2007. The claimants have asked the court to dissolve Lapwing or, alternatively, to order that their shares be purchased at a price allegedly previously agreed upon or to be determined by an expert appointed by the court. On 20 January 2010, the claimants withdrew their composite claim and re-filed individual claims in substantially similar form. The maximum potential liability arising from the claim cannot currently be reliably estimated although the Directors believe that the claim is of a limited merit.

36 Share-based Payments

(a) Aricom plc Share Option Scheme

Up until 22 April 2009 Aricom operated its own equity-settled share option scheme for the Directors of Aricom. These options over ordinary shares were issued in accordance with the Aricom plc Share Option Scheme ("Aricom Share Option Scheme"). Options granted under the Aricom Share Option Scheme were not subject to performance criteria. Options were normally forfeited if the employee left the Aricom Group. There were no variations to the terms and conditions or performance criteria for share options during 2007 or 2008.

As part of the acquisition of Aricom on 22 April 2009 by Petropavlovsk PLC, the outstanding options granted under the Aricom Share Option Scheme to its Directors were exchanged for options over ordinary shares of Petropavlovsk PLC, exercisable between 19 July 2009 until 19 July 2012. Following the acquisition, no further options were granted under the Aricom Share Option Scheme.

Details of the Aricom plc share options outstanding are as follows:

At 31 December 2007

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2007	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2007
31/12/2003	31/12/2006 to 31/12/2013	0.15	1,000,000	—	—	(1,000,000)	—
31/12/2003	31/12/2006 to 28/03/2008	0.15	400,000	—	—	—	400,000
31/12/2003	31/12/2006 to 28/02/2007	0.15	850,000	—	—	(850,000)	—
19/07/2006	19/07/2009 to 19/01/2012	0.42	4,100,000	—	(400,000)	—	3,700,000
			6,350,000	—	(400,000)	(1,850,000)	4,100,000

At 31 December 2008

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2008	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2008
31/12/2003	31/12/2006 to 28/03/2008	0.15	400,000	—	—	(400,000)	—
19/07/2006	19/07/2009 to 19/01/2012	0.42	3,700,000	—	—	—	3,700,000
			4,100,000	—	—	(400,000)	3,700,000

At 31 December 2009

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2009	Granted during the year	Exchanged at 22 April 2009	Exercised during the year	Outstanding at 31 December 2009
19/07/2006	Exchange of existing share options for share options in Petropavlovsk PLC	0.42	3,700,000	—	(3,700,000)	—	—
			3,700,000	—	(3,700,000)	—	—

The weighted average exercise prices of the outstanding Aricom plc share options at 31 December 2007 and 2008 were GBP0.39 and GBP0.42 respectively.

The intrinsic value of the options granted on 31 December 2003, for which the vesting period had started was US$484,000 and nil at 31 December 2007 and 31 December 2008 respectively.

The intrinsic value of the options granted on 19 July 2006, for which the vesting period had started was US$2,496,000 and nil at 31 December 2007 and 31 December 2008 respectively.

The inputs into the Black-Scholes option pricing model were as follows:

	Options granted 31 December 2003	Options granted 19 July 2006
Weighted average share price (GBP)	0.15	0.44
Weighted average exercise price (GBP)	0.15	0.42
Expected volatility (%)	80.28	92.00
Expected life in years	3.25	3.25
Risk-free rate (%)	4.83	4.83
Expected dividends (GBP)	0.00	0.00
Fair value per option (GBP)	0.0851	0.279

The Group recognised total expenses of US$603,000, US$638,000 US$153,000, US$153,000 (unaudited) and nil for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively relating to the equity settled Aricom Share Option Scheme. The information above has not been represented for the subdivision of Aricom shares as described in note 31.

Petropavlovsk PLC Share Option Scheme

As part of the acquisition of Aricom on 22 April 2009 by Petropavlovsk PLC, the outstanding options granted under the Aricom Share Option Scheme (described above) to its Directors were exchanged for options over ordinary shares of Petropavlovsk PLC under the Petropavlovsk PLC Share Option Scheme, exercisable between 19 July 2009 and 19 July 2012.

At 31 December 2009

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2009	Granted on 22 April 2009	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2009
22/04/2009	Aricom share awards exchanged for the share awards of Petropavlovsk PLC	6.72	—	231,250	—	(156,250)	75,000
			—	231,250	—	(156,250)	75,000

At 30 June 2010

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2010	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding at 30 June 2010
22/04/2009	From 22 April 2009 to 19 July 2012	6.72	75,000	—	—	(25,000)	50,000
			75,000	—	—	(25,000)	50,000

The weighted average exercise prices of the outstanding Petropavlovsk PLC share options at 31 December 2009 and 30 June 2010 was GBP6.72 and GBP6.72 respectively. The weighted average remaining contractual life of the options outstanding at 31 December 2009 and 30 June 2010 was 2.5 years and 2.0 years respectively (exercisable until 19 July 2012). The intrinsic value of the options granted on 22 April 2009, for which the vesting period had started was US$421,000 at 31 December 2009 and US$375,000 at 30 June 2010.

The inputs into the Black-Scholes options pricing model were as follows:

	Options granted 22 April 2009
Weighted average share price (GBP)	5.20
Weighted average exercise price (GBP)	6.72
Expected volatility (%)	102.14
Expected life in years	0.24
Risk-free rate (%)	0.86
Expected dividends (GBP)	0.00
Fair Value per option (GBP)	0.57

The Group recognised total expenses of US$42,000, US$12,000 (unaudited) and nil for the year ended 31 December 2009, and the six months ended 30 June 2009 and 2010 relating to the equity settled Petropavlovsk PLC Share Option Scheme, respectively.

(b) Aricom Group Long-term Incentive Plan

During the year ended 31 December 2007, the Aricom Group established a cash settled LTIP to operate in conjunction with an EBT which held shares in Aricom for the benefit of employees (the "participants").

In October 2007, the EBT subscribed for 16 million shares in Aricom at a price of GBP0.62 per ordinary share, which amounted to GBP9,920,000 (equivalent to US$20,256,000). The acquisition of these shares by the EBT was funded via a loan made by a subsidiary, Aricom Treasury UK Limited to the EBT. In 2008, this loan was transferred to another subsidiary, Aricom Services Limited. The loan was due for repayment in October 2017, or any other date agreed between the parties. Of the ordinary shares held by the EBT, 11 million were allocated under the Aricom LTIP to Directors and members of senior management. In May 2008, a further 1 million were allocated under the Aricom LTIP to a member of senior management.

In October 2008, the EBT subscribed for 13 million shares in Aricom, at a price of GBP0.20 per ordinary share, which amounted to GBP2,600,000 (equivalent to US$4,656,000). The acquisition of these shares by the EBT was funded via a loan made by Aricom Services Limited to the EBT. The loan was due for repayment in October 2018, or any other date agreed between the parties. Of the ordinary shares held by the EBT, a further 17 million were allocated under the Aricom LTIP to Directors and members of senior management.

The Aricom LTIP initially had a qualification period of three years and a number of non-market performance related conditions which needed to be satisfied for the Aricom LTIP to vest. The shares were held by the EBT on behalf of the participants for the vesting period, and should the Remuneration Committee of Aricom advises the Trustees that the Aricom LTIP objectives were successfully achieved, the shares would be sold, and any gains from this sale net of repaying the loan to Aricom Services Limited would be passed on to the participants.

On acquisition of Aricom by Petropavlovsk PLC, the Aricom LTIP was replaced with an equity settled scheme with awards over Petropavlovsk PLC's shares ("Replacement LTIP"). As a result, 29,000,000 ordinary shares of Aricom plc held by the EBT were exchanged into 1,812,500 ordinary shares of Petropavlovsk PLC, out of which 430,768 shares were allocated to the existing participants of the Aricom LTIP. The Replacement LTIP award had a sole performance condition being continued employment with Petropavlovsk PLC until 6 February 2010 or a good leaver status.

The fair value of awards issued under the long-term incentive plans was determined using the Black-Scholes option pricing model using the assumptions detailed in the table below.

	As at 31 December 2007	As at 31 December 2008			As at 31 December 2009
	Aricom LTIP	Aricom LTIP			Replacement LTIP
	Awards issued in October 2007	Awards issued in October 2007	Awards issued in May 2008	Awards issued in October 2008	Awards issued at 22 April 2009
Weighted average share price (GBP)	0.76	0.076	0.076	0.076	5.20
Weighted average exercise price (GBP)	0.62	0.62	0.80	0.20	0.00
Expected volatility (%)	67.81	109.35	109.35	99.03	119.86
Expected life in years	3	3	2.5	3	0.81
Risk-free rate (%)	4.38	1.50	1.50	2.13	0.87
Expected dividends (GBP)	0.00	0.00	0.00	0.00	0.00
Fair value per award (GBP)	0.3987	0.0096	0.0073	0.0845	5.20

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, the Group recorded an expense of US$483,000, a credit of US$156,000, an expense of US$2,021,000, US$1,008,000 (unaudited) and US$220,000 respectively in respect of the Aricom LTIP and Replacement LTIP. The intrinsic values of the Aricom LTIP at 31 December 2007 and 2008 were US$3,056,000 and nil respectively. The intrinsic values of the Replacement LTIP at 31 December 2009 and 30 June 2010 were US$3,520,000 and nil respectively. The information above has not been represented for the subdivision of Aricom shares as described in note 31.

At 31 December 2007 and 2008, the EBT held ordinary shares in Aricom and the carrying value of the shares held by the EBT was recorded as treasury shares, and shown as a deduction to shareholders' equity. At 31 December 2009 and 30 June 2010, the EBT held shares in Petropavlovsk PLC in connection with the Replacement LTIP operated by Petropavlovsk PLC. The treasury shares of Aricom previously held by the EBT are now held by Petropavlovsk PLC (see note 31). The original loans made by Aricom Services Limited to the EBT remain outstanding at 31 December 2009 and accordingly have been included in amounts due from related parties.

(c) Petropavlovsk PLC Long-term Incentive Plan (the "Petropavlovsk PLC LTIP")

Petropavlovsk PLC established the Petropavlovsk PLC LTIP which was approved by its shareholders on 25 June 2009. Certain employees of the Group are entitled to participate in the Petropavlovsk PLC LTIP which includes the following awards:

- Share option awards, being a right to acquire a specified number of Petropavlovsk PLC ordinary shares at a specified exercise price;

- Performance share awards, being a right to acquire a specified amount of Petropavlovsk PLC ordinary shares at nil cost; and

- Deferred Bonus Awards.

Performance share awards and share option awards vest or become exercisable subject to the following provisions:

- 50% of the shares subject to the awards may be acquired based on a condition relating to total shareholder return (the "TSR Condition"); and

- 50% of the shares subject to the awards may be acquired based on specific conditions relating to Petropavlovsk PLC's business development and strategic plans (the "Operating Conditions").

The TSR Condition relates to growth in TSR over a three year period relative to the TSR growth of companies in a peer group of listed international mining companies selected upon establishment of the Petropavlovsk PLC LTIP (the "Comparator Group") over the same period.

The TSR Condition provides for the awards to vest or become exercisable as follows:

	% of the award vesting
Within top decile	50%
At median	25%
Below median	—

The detailed requirements to the Operating Conditions are determined by the Petropavlovsk PLC Remuneration Committee and are measured over a three year period from the date of grant.

Initial performance share awards under the Petropavlovsk LTIP were granted on 25 June 2009 with 41,666 shares allocated to members of the senior management of the Aricom Group, for which Petropavlovsk PLC is assuming the obligation to issue the remaining shares upon vesting of the LTIP.

The fair value of performance share awards was determined using the Black-Scholes option pricing model at the date of the grant in relation to the proportion of the awards vesting based on the operating performance conditions and using the Monte Carlo model in relation to the proportion of the awards vesting based on the TSR Condition. The relevant assumptions are set out below:

	Petropavlovsk PLC LTIP performance share awards	
	vesting based on Operating Conditions	vesting based on TSR Condition
Date of grant	**25 June 2009**	**25 June 2009**
Number of performance share awards granted	20,833	20,833
Share price at the date of grant (GBP)	6.00	6.00
Exercise price (GBP)	—	—
Expected volatility (%)	72.98	72.98
Expected life in years	3	3
Risk-free rate (%)	2.13	2.13
Expected dividends yield (%)	1.25	1.25
Expected annual forfeitures	—	—
Fair value per award (GBP)	4.083	5.778

The Group recognised total expenses of US$233,000, US$58,000 (unaudited) and US$183,000 relating to the Petropavlovsk PLC LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2009 and the six months ended 30 June 2009 and 2010 respectively.

37 Retirement Benefit Schemes

The Group does not operate any retirement benefit schemes, instead making defined contributions to employees' personal pension schemes.

The Aricom Group participates in various defined contribution pension plans for all of its employees in the UK. Under the rules schemes, only Aricom participates in the scheme at the rate defined by Aricom for all its employees. The only obligation of Aricom with respect to the employees' personal pension scheme is to make required contributions based on the gross wages of the employees. The retirement benefit scheme contributions charged to the combined income statements of US$150,000, US$183,000 and US$69,000, US$35,000 (unaudited) and US$58,000 for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively.

Each employee of Aricom chooses Aricom their own pension plan. There are approximately eight different pension plans where the Company makes contributions. One of these plans is an offshore saving account; all the others are UK pension plan providers.

Aricom contributes in the range between 10% and 17% of the gross wages to the individual pension plans.

38 Financial Instruments

Capital and Liquidity Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of cash and cash equivalents, loans due from/to related parties and equity attributable to equity holders of the Company, comprising issued capital and reserves.

The Group did not hold any debt as at either 31 December 2007 or 31 December 2008; while the Group has loans due to related parties at 31 December 2009 and 30 June 2010 (see note 39).

Externally Imposed Capital Requirement

The Group is not subject to externally imposed capital requirements.

Significant Accounting Policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of asset, financial liability and equity instrument are disclosed in note 3 to the Financial Information.

Categories of Financial Instruments

	Carrying value as at 31 December 2007	Carrying value as at 31 December 2008	Carrying value as at 31 December 2009	Carrying value as at 30 June 2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets				
FVTPL	91,669	—	—	—
Held-to-maturity financial asset	122	—	—	—
Loans and receivables (including cash and cash equivalents)	479,148	285,525	407,400	43,065
	570,939	285,525	407,400	43,065
Financial liabilities				
Amortised cost	(9,197)	(14,770)	(274,794)	(13,094)
FVTPL	—	—	(1,711)	—
	(9,197)	(14,770)	(276,505)	(13,094)

Financial Risk Management Objectives

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the iron ore price and the ilmenite price, credit risk, liquidity risk and equity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. Up until the date it was acquired by Petropavlovsk PLC, Aricom operated within the Board's written principles for overall risk management which are equally applicable for the Group, as well as guidance covering specific areas, such as foreign exchange risk, commodity price risk, interest rate risk and investment of excess liquidity. From 22 April 2009, these risks are operated within Petropavlovsk PLC Group policies.

Foreign Currency Risk Management

The functional currency of Aricom was initially US Dollars. On completion of the British Pounds ("GB Pounds") placing in April 2007 the directors concluded that the entity's functional currency had changed to GB Pounds. Aricom's functional currency remained GB Pounds until it was acquired by Petropavlovsk PLC on 22 April 2009, at which time the functional currency of Aricom changed to US Dollars. The Group undertakes certain transactions denominated in foreign currencies, namely GB Pounds, US Dollars and Russian Roubles and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars, GB Pounds and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the Aricom Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets				Liabilities			
	31 December 2007	31 December 2008	31 December 2009	30 June 2010	31 December 2007	31 December 2008	31 December 2009	30 June 2010
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Russian Roubles . . .	57,634	41,170	17,518	39,132	8,622	7,524	329,946	11,851
US Dollars . .	81,458	2,365	3,144	2,628	1,624	3,239	—	4
GB Pounds . . .	—	1,008	4,354	979	—	63	2,614	1
Kazakh Tenge	—	—	461	788	—	—	—	—
Euro	—	—	8	7	—	—	—	—
Hong Kong Dollars	—	—	—	2	—	—	—	7

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to exchange rate movements between US Dollars, Russian Roubles and GB Pounds. The following table details the Group's sensitivity to a 5%, 20%, 25% and 25% change in exchange rates of functional currencies of the Group's companies against the relevant foreign currencies for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

	US Dollars currency impact				Russian Rouble currency impact				GB Pounds currency impact			
	Year ended 31 December			Six months ended 30 June	Year ended 31 December			Six months ended 30 June	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	US$'000 5% sensitivity	*US$'000* 20% sensitivity	*US$'000* 25% sensitivity	*US$'000* 25% sensitivity	*US$'000* 5% sensitivity	*US$'000* 20% sensitivity	*US$'000* 25% sensitivity	*US$'000* 25% sensitivity	*US$'000* 5% sensitivity	*US$'000* 20% sensitivity	*US$'000* 25% sensitivity	*US$'000* 25% sensitivity
Profit or loss	3,009	88	629	525	1,856	5,384	50,941	5,685	2	152	252	196

The Group's policy was to hold a portion of its cash equivalents in Russian Roubles to cover its exposure arising on capital and operational expenditure incurred in Russian Roubles. When the Russian Roubles started to weaken rapidly at the end of 2008 the Group reduced the proportion of cash held in Russian Roubles.

Commodity Price Risk

The Group intends to generate most of its revenue from the sale of ilmenite, titanomagnetite and iron ore. The Group's policy is to sell its products at the prevailing market price. The Group does not hedge its exposure to the risk of fluctuations in the price of its products.

Whilst during the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 the Group's assets are not in the production phase, the forward commodity prices are a key input in assessing the recoverability of mining assets capitalised on the combined statement of financial position.

Interest Rate Risk Management

The Group is exposed to interest rate risk through the holding of cash and cash equivalents, including monies invested into money market funds. The interest rates attached to these instruments are at floating rates. The Group also holds amounts on deposit with fixed rates of interest attached. The mix between fixed and floating rate financial assets limits the Group's interest rate risk. The Group's exposure to interest rates on these financial assets is detailed in the *Interest Rate Sensitivity* section of this note.

Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest bearing financial asset investments held during the Relevant Periods. An increase/decrease of 1% in interest rates has been applied in this analysis.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's result for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 would decrease/increase by US$3,380,000, US$2,578,000, US$1,843,000 and US$628,000 respectively.

Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are monitored by the Board of Directors of Aricom, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Group's principal financial assets are cash and cash equivalents, trade receivables and loans due from related parties. Cash equivalents represent investments in money market funds and amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and available on demand is limited because the counterparties are primarily banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk on money market funds is limited because the counterparties are investment funds with high credit-ratings assigned by international credit-rating agencies. These investment funds are managed in accordance with approved investment criteria, requiring that investments have certain credit ratings and limiting the concentration of investment in any one security.

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 40. Amounts held on deposit as at 31 December 2008, 2009 and 30 June 2010 with these banks were US$19,298,000, US$6,156,000 and US$4,531,000 maturing in 2009, 2010 and 2010 and representing 6.8%, 1.5% and 10.5% of total monetary assets held by the Group respectively.

The table below details major counterparties at the end of each reporting period, the associated credit ratings of the counterparty and details the investment guidelines where appropriate. These, excluding related parties, represent 65%, 73%, 40% and 37% of total monetary assets held by the Group at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. The table below excludes any cash balances held on current accounts, as it is considered that these would not materially impact counterparty risk assessment.

Type of financial asset	Counterparty	Currency	Rating as at 31 December 2009	Carrying value 31 December 2007	Carrying value 31 December 2008	Carrying value 31 December 2009	Carrying value 30 June 2010
				US$'000	*US$'000*	*US$'000*	*US$'000*
Cash equivalent	Unicredit bank	US$	BBB-	—	—	8,767	—
Cash equivalent	OJSC VTB Bank	US$	Baa1	—	—	2,400	2,499
Cash equivalent	OJSC VTB Bank	Roubles	Baa1	—	—	1,846	2,291
Cash equivalent	UBS AG—JP Morgan liquidity fund(1)	US$	AAAm	49,492	27,287	—	—
Cash equivalent	HypoVereinsbank —deposit accounts	US$	A+	—	18,432	—	—
Cash equivalent	Goldman Sachs—Liquid Reserves Fund USD(2)	US$	AAAm	51,441	52,495	—	—
Cash equivalent	Morgan Stanley—Liquid Reserves Fund USD(2)	US$	AAAm	102,982	8,488	—	—
Cash equivalent	Royal Bank of Scotland ("RBS") Asset Management—Global Treasury Fund USD(2)	US$	A-	124,761	65,266	1,087	1,286
Cash equivalent	RBS Asset Management—Global Treasury Fund GBP(2)	GBP	A-	8,861	31,982	—	155
Cash equivalent	Barclays Bank LLC—deposit accounts	US$	Ba1	—	17,797	—	8
Cash equivalent	Barclays Bank LLC—deposit accounts	Roubles	Ba1	—	—	1,912	16,489
Short-term financial assets at FVTPL	Expobank LLC ("Expobank")—deposit accounts	Roubles	Baa2.ru	31,166	—	—	—
Cash equivalent	OJSC Asian-Pacific Bank(3) ("Asian-Pacific Bank")—deposit accounts	US$	Not rated	—	19,298	—	—
Cash equivalent	Asian-Pacific Bank—deposit accounts	Roubles	Not rated	—	—	—	2,183
Short-term financial assets at FVTPL	Asian-Pacific Bank—deposits accounts	Roubles	Not rated	11,078	—	—	—
Short-term financial assets at FVTPL	UBS AG—money market portfolio, bonds	US$	AAA-	48,899	—	—	—
Total				428,680	241,045	16,012	24,911

(1) For securities that carry a long-term rating, the Sub-Fund's investments will generally be restricted to securities rated at least A2 by Moody's Investors Services ('Moody's') or A by Standard & Poor's Corporation ("S&P"). For securities that carry a short-term rating the quality will be at least Prime-1 as rated by Moody's or A1 by S&P. The Sub-Fund may also invest in unrated securities which are in the opinion of the independent Investment Manager of comparable quality. The Investment Manager will seek to maintain the AAA-rating assigned by at least two rating agencies.
(2) The minimum investment criteria for these funds require that investments have a minimum rating of A-1 (S&P) or Prime-1 (Moody's). A minimum of 50% of the portfolio is invested in securities rated A-1+ by S&P. The investment managers are permitted to invest in fixed rate securities with maturities up to 397 days, and floating rate notes with maturities up to two years. However, the weighted average maturity of the fund must be kept below 60 days.
(3) Amounts held on deposit with Asian-Pacific Bank, which is a related party as detailed in note 40, mature in January-February 2009 and July 2010 as at 31 December 2008 and 30 June 2010 respectively and attract interest at a rate of 10% per annum. No official rating of Asian-Pacific Bank is available.

Trade receivables consist mostly of amounts outstanding under engineering contracts held by a subsidiary in Russia. A credit evaluation was performed on these customers prior to the commencement of these contracts. There were no balances past due at the end of 2007 and 2008. An analysis of balances past due at 31 December 2009 and 30 June 2010 is included in note 25.

The Group was exposed to concentration of credit risk in relation to the loans due from related parties during the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that corrective actions are taken as appropriate. As at 30 June 2010, the loans due from related parties were fully settled.

The Group's maximum exposure to credit risk, without taking account of the value of any collateral obtained, is limited to the carrying amount of financial assets recorded in the combined statements of financial position.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2007 and 2008, the Group did not hold any external borrowings and the Group's principal financial liabilities were trade and other payables. At 31 December 2009 and 30 June 2010, the Group also did not hold any external borrowings. At 31 December 2009, the Group's principal financial liabilities were loans due to related parties. The management of the Company monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The maturity profile of the Group's non-derivative financial liabilities at 31 December 2007, 2008 and 2009 and 30 June 2010 was as follows. The amounts described are the contractual undiscounted cashflows and will not necessarily agree with the amounts disclosed in the combined statements of financial position. The contractual maturity is based on the earliest date at which the Group may be required to settle the liability.

	Due on demand or within one year	Due within one to two years	Due within two to five years	Due after more than five years	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 31 December 2007					
Trade and other payables . . .	7,626	—	—	—	7,626
Other non-current liabilities	—	1,088	483	—	1,571
	7,626	1,088	483	—	9,197
As at 31 December 2008					
Trade and other payables . . .	14,659	—	—	—	14,659
Other non-current liabilities	—	111	—	—	111
	14,659	111	—	—	14,770
As at 31 December 2009					
Trade and other payables . . .	10,636	—	—	—	10,636
Loans due to a related party	—	264,158	—	—	264,158
Expected future interest payments[(a)]	—	54,034	—	—	54,034
	10,636	318,192	—	—	328,828
As at 30 June 2010					
Trade and other payables . . .	13,094	—	—	—	13,094
	13,094	—	—	—	13,094

(a) Expected future interest payments are based on contractual interest payments at 31 December 2009. Loans due to related parties and their associated interest payments were settled as part of the Restructuring see note 31(c).

The Company had net current liability of US$2,369,000 as at 30 June 2010 and thus exposed to liquidity risk. The management manages this risk exposure by obtaining sufficient cash and cash equivalents through issuing new shares subsequent to the end of the reporting period as disclosed in section C of the Accountants' Report.

Other Price Risks

As at 31 December 2009 the Group was exposed to equity price risk in relation to the warrants in issue. Changes in the equity price of Aricom would affect the fair value of warrants recognised in the combined income statement. This was not considered a significant financial risk, and was not actively managed by the Group. The warrants were exercised on 26 May 2010, and the risk was therefore extinguished.

Fair Value Measurements Recognised in the Combined Statements of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at FVTPL at Level 1	91,669	—	—	—
Financial liabilities at FVTPL at Level 3	—	—	(1,711)	—

There were no financial instruments measured at fair value at Level 2 as at 31 December 2007, 2008 or 2009 or 30 June 2010. The below table is a reconciliation of Level 3 fair value measurements:

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of the year/period	—	—	—	(1,711)
Total (losses)/gains recognised	—	—	(1,711)	1,711
At the end of the year/period	—	—	(1,711)	—

The total losses recognised in profit or loss of US$1,711,000 related to the change in fair value of warrants held at 31 December 2009 (see note 31). These warrants were exercised in May 2010, accordingly the liability was extinguished with a gain recognised in the combined income statement.

39 Loans Due from/(to) Related Parties

The Group held the following balances due from/(payable to) related parties as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively:

	Repayment terms	Interest rate	As at 31 December 2007	2008	2009	As at 30 June 2010
			US$'000	US$'000	US$'000	US$'000
Loans due from related parties						
Olis, non-controlling interests	See below	5.2%	65,111	—	—	—
Petropavlovsk PLC	Repayable on 23 April 2010	—	—	—	3,350	—
Petropavlovsk PLC	Repayable from 6 May 2010 to 4 June 2010	7.71%	—	—	103,816	—
Peter Hambro Mining Treasury UK Limited, a fellow subsidiary	Repayable on demand	London InterBank Offered Rate plus 5.916%	—	—	171,317	—
Peter Hambro Mining Treasury UK Limited, a fellow subsidiary	Repayable from 1 July 2010 to 30 November 2011	7.71%	—	—	36,587	—
Peter Hambro Mining Group Finance Limited, a fellow subsidiary	Repayable on 8 May 2010	7.50%	—	—	40,006	—
EBT	Repayable by 31 December 2010	—	—	—	20,308	—
			65,111	—	375,384	—
Loans payable to a related party						
Peter Hambro Mining Rouble Treasury Limited, a fellow subsidiary	Repayable on 31 December 2011	7.71%	—	—	(264,158)	—

As at 31 December 2007, loans receivable related to a loan agreement with Olis. The loan bore interest at a rate of 5.2% per annum, and was repayable at the earlier of the date of completion of the proposed acquisition by Aricom from Olis of shares in Lapwing pursuant to the acquisition agreement and the maturity date of the loan, being 30 June 2008. This loan was secured by shares which Olis held in Lapwing. A total of 6,998,647 shares had been pledged as security, representing 24.29% of the issued capital of Lapwing.

A loan receivable of US$65 million was held at 31 December 2007 and interest expense of US$111,000 was recognised in the combined income statement. As described in note 33, subsequent to 31 December 2007, consideration for the acquisition of Lapwing was offset against the loan.

The loans due from related parties were fully settled before 30 June 2010. As the loans payable were transferred to Thorrouble and Thordollar as part of the Restructuring, these are intercompany loans eliminated on combination at 30 June 2010 (see note 3).

The maximum amount outstanding in respect of non-trade amounts due from related companies during the Relevant Periods is set out as follows:

	Year ended 31 December			Six months ended 30 June
	2007[(a)]	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*
Loans due from related parties				
Olis, non-controlling interests	65,111	65,111	—	—
Petropavlovsk PLC	—	—	107,166	107,166
Peter Hambro Mining Treasury UK Ltd, a fellow subsidiary	—	—	207,904	207,904
Peter Hambro Mining Group Finance Limited, a fellow subsidiary	—	—	40,006	40,006
EBT	—	—	20,308	20,308
	65,111	65,111	375,384	375,384

(a) As of 1 January 2007, there was no outstanding amount in respect of loans due from related parties.

40 Related Party Disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on combination and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below. All of the transactions were reviewed by independent members of the Board.

During the Relevant Periods, the Group entered into the following transactions with related parties:

Related Parties

Petropavlovsk PLC, (formerly Peter Hambro Mining plc), ultimate holding company for the period from 22 April 2009 to 30 June 2010 and its subsidiaries and joint ventures are considered to be related parties due to Mr. Peter Hambro, Mr. George Jay Hambro and Dr. Pavel Maslovskiy's shareholdings and directorships in those companies and in Petropavlovsk PLC prior to 22 April 2009 and the Company becoming a wholly-owned subsidiary of Petropavlovsk PLC on 22 April 2009. As at 30 June 2010, Mr. Peter Hambro, Mr. George Jay Hambro and Dr. Pavel Maslovskiy held 5.65%, nil and 8.92% respectively of ownership interest in Petropavlovsk PLC. During the Relevant Periods, Mr. Peter Hambro, Mr. George Jay Hambro and Dr. Pavel Maslovskiy held ownership interest in Petropavlovsk PLC ranging from 5.5% to 6.51%, from nil to 0.088% and from 8.92% to 22.85% respectively.

Asian-Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have an interest in these companies, throughout the Relevant Periods. As at 30 June 2010, each of Mr. Peter Hambro and Dr. Pavel Maslovskiy held 1.3% of ownership interest in Asian-Pacific Bank. During the Relevant Periods, Mr. Peter Hambro and Dr. Pavel Maslovskiy held ownership interest in Asian-Pacific Bank ranging from 1.3% to 18.19% each.

Expobank was previously considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy had an interest in this company. From July 2008, Expobank ceased to be a related party as at that time it was acquired by an unrelated third party, Barclays Bank PLC. During the period from January 2007 to July 2008, each of Mr. Peter Hambro and Dr. Pavel Maslovskiy held 25% ownership interest in this company.

OJSC Apatit ("Apatit"), a subsidiary of OJSC PhosAgro ("PhosAgro"), is considered to be a related party due to PhosAgro's non-controlling interest and significant influence in the Group's subsidiary, Giproruda.

Mr. Peter Hambro is a Director and a beneficial owner of Peter Hambro Limited. As at 30 June 2010, Mr. Peter Hambro held 51% of ownership interest in Peter Hambro Limited. During the Relevant Periods, Mr. Peter Hambro held a 51% ownership interest in Peter Hambro Limited.

Jiatai Titanium and Vanadium Joint Venture are joint ventures of the Group and hence are related parties. Please refer to note 10 for further information on the future of the Jiatai Titanium project.

Uralmining is an associate of the Group and hence is a related party.

Transactions with related parties the Group entered into during the Relevant Periods are set out below.

Trading Transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below except for the interest income earned and interest expenses incurred, which have been disclosed in note 12 and note 13.

	Sales					Purchases				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Petropavlovsk PLC and its subsidiaries and joint ventures										
Petropavlovsk PLC	14	32	148	32	420	441	405	405	405	—
OJSC Irgiredmet	—	—	—	—	—	61	672	378	373	64
LLC NPGF Regis	7	14	13	6	7	308	1,316	296	45	167
LLC Obereg CHOP	—	11	41	19	—	165	278	300	128	—
CJSC Peter Hambro Mining Engineering	2	13	—	—	121	2,712	5,714	3,214	1,063	1,968
PHM SNG	5	—	—		—	—	—			—
CJSC Pokrovsky Rudnik	80	95	1,074	431	3,966	197	417	85	31	18
CJSC Malomyrskiy Rudnik	—	16	158	—	—	—	—	—	—	—
LLC Tokurskiy Rudnik	—	54	—	—	—	—	—	—	—	—
Dalgeologia	—	52	927	89	74	—	3,654	970	49	1,725
Kapstroy	1,558	8,814	3,228	1,588	1,720	23,730	37,684	24,858	11,300	18,148
MC Petropavlovsk	—	—	800	385	423	1,206	913	479	164	248
PRP Stansii	—	—	4	—	9	—	—	35	1	61

	Sales					Purchases				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Gidrometallurgia	—	—	94	23	73	—	—	—	—	—
Odolgo	23	48	33	10	11	—	43	—	—	—
NNOUS "PGK"	—	—	—	—	—	—	—	22	5	—
Trading transactions with other related parties										
Peter Hambro Limited	10	—	—	—	—	481	467	501	432	—
Apatit	1,144	2,271	2,974	1,292	1,969	—	—	—	—	—

The directors of the Company represented that the trading transactions between the Group and the Petropavlovsk Group will continue after the listing, as they primarily relate to the provision of services to support the Group's exploration, evaluation and development of its projects.

The directors of the Company represented that the trading transactions between the Group and Peter Hambro Limited will not continue after the listing.

The directors of the Company represented that the trading transactions between the Group and Apatit will continue after the listing.

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties and in the Group's ordinary and usual course of business.

Except for the loans due to/(from) related parties shown in note 39, the remaining outstanding balances with related parties at the end of each reporting period are set out below.

	Amounts owed by related parties[(a)]				Amounts owed to related parties[(b)]			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2007	2008	2009	2010	2007	2008	2009	2010
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Petropavlovsk PLC and its subsidiaries and joint ventures								
Petropavlovsk PLC . . .	—	—	—	617	—	—	—	—
OJSC Irgiredmet	—	—	8	776	—	14	—	—
CJSC MC Peter Hambro Mining	—	10	—	—	1,441	1,389	—	1
LLC NPGF Regis	2	1	2	1	—	511	290	—
LLC Obereg CHOP . . .	—	10	5	—	—	34	40	44
CJSC Peter Hambro Mining Engineering	1	—	1,310	1,518	18	—	618	—
PHM SNG	2	—	—	—	—	—		
CJSC Pokrovsky Rudnik	99	177	331	530	179	146	4,146	986
CJSC Malomyrskiy Rudnik	—	16	—	—	—	—	—	—
LLC Tokurskiy Rudnik	—	—	—	—	—	—	—	6
Dalgeologia	—	—	258	175	—	495	600	—
Kapstroy	114	319	559	419	1,960	626	5	685
MC Petropavlovsk	—	—	—	160	—	—	1,992	368
PRP Stansii	—	—	12	1	—	—	—	1,929
Gidrometallurgia	—	—	1	1	—	—	—	—
Odolgo	—	—	2	2	—	—	—	—
Outstanding balances with other related parties								
Peter Hambro Limited	—	—	—	—	20	63	—	—
Apatit	381	757	398	411	—	—	—	—
	599	**1,290**	**2,886**	**4,611**	**3,618**	**3,278**	**7,691**	**4,019**

(a) The amounts are recorded in trade and other receivables, which are unsecured, non-interest bearing and repayable on demand.
(b) The amounts are recorded in trade and other payables, which are unsecured, non-interest bearing and repayable on demand.

Banking Arrangements

The Group has bank accounts with Expobank and Asian-Pacific Bank.

The bank balances at the end of each reporting period are set out below:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000
Expobank	39,892	—	—	—
Asian-Pacific Bank	11,078	19,298	817	2,183

The Group earned interest on the balances held on accounts with the above banks and incurred bank charges details of which are set out below.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Interest income from cash and cash equivalents	2,668	2,933	1,599	1,385	35
Bank charges	(104)	(61)	—	—	—

Financing Transactions

The Group has provided a loan to an associate, Uralmining. The interest income accrued on the loan to Uralmining comprised US$45,000, US$428,000, US$792,000, US$183,000 (unaudited) and US$188,000 for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively. The loan and Interest income receivable as at 31 December 2009 and 30 June 2010 (see note 20) was fully impaired in the combined income statement as the loan to Uralmining is considered to be unrecoverable.

Key Management Compensation

During the years ended 31 December 2007 and 2008, the Executive Board of Directors of Aricom were considered the key management personnel of Aricom. During the year ended 31 December 2009, George Jay Hambro, Brian Egan, Yury Makarov and Martin Smith were considered the key management personnel of Aricom, who after 22 April 2009 were also employed by Petropavlovsk PLC. During the six months ended 30 June 2010, George Jay Hambro, Brian Egan and Yury Makarov were considered the key management personnel of Aricom. For the period from 22 April 2009 to 30 June 2010, a component of their Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of their roles that relate to Aricom business. The remuneration of key management personnel is set out below in aggregate.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Short-term benefits	2,929	2,466	1,914	752	663
Post-employment benefits	114	163	108	59	24
Share-based payments	897	539	1,446	1,102	105
	3,940	3,168	3,468	1,913	792

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Restructuring

During the six months ended 30 June 2010 a number of transactions were undertaken between the Group and the Petropavlovsk PLC Group in order to put the proposed IRC listing structure in place.

In summary these transactions included:

1. The incorporation of the Company, Thorholdco, Thorrouble and Thordollar.

2. The transfer of loans receivable from the Aricom Group to Thorrouble and Thordollar.

3. The disposal of Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to the Petropavlovsk Group.

4. The payment of a dividend to Petropavlovsk PLC of US$644,437,000.

Further details of the transaction set out in points 1 - 3 above are set out in note 31(c). Details of the dividend are set out in note 15.

41 Disposal of subsidiaries

On 10 June 2010, the Group disposed of its interest in Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to Petropavlovsk PLC. These entities were part of the intercompany financing structure of the Aricom Group and their principal assets were group company current accounts, and were not considered to be a discontinued operation of the Aricom Group.

Total consideration of US$468,732,000 has been received for the sale of these entities. The loss on sale of these entities of US$168,509,000 was recognised in equity as a transfer to the equity holder, as it was generated by the difference between the value of the intercompany receivables in the standalone accounting records of each entity, compared to the balance eliminated from the combined financial information. When these loans were subsequently transferred to Thorrouble and Thordollar, as set out in note 31, the difference between the value of the consideration paid by these companies and the contractual amounts of the receivables of US$205,412,000 was recognised as an offsetting transfer of equity by the owner.

There were no cash-flows arising as a result of this transaction.

B. DIRECTORS' REMUNERATION

Save as disclosed in the Financial Information, no other remuneration has been paid or payable by the Group to the directors of the Company for the Relevant Periods.

Under the arrangement presently in force, the aggregate amount of the Company's Directors' fees and other emoluments for the year ending 31 December 2010 is estimated to be approximately US$1,942,000, excluding management bonuses and share-based compensation which cannot be estimated at the current stage.

C. SUBSEQUENT EVENTS

Except for as disclosed in elsewhere of the Accountants' Report, the Group has the following events occurred subsequent to 30 June 2010:

(a) 1,600 shares were issued on 11 August 2010 to Cayiron Limited pursuant to, and in connection with, intra-group equity financing of the Group's mining operations for subscription price of HK$20,089,268;

(b) on 19 August 2010 the Company resolved to allot and issue an additional 1,600 Shares to Cayiron Limited, pursuant to the arrangements under the employee benefit trust for consideration of HK$334,141,390;

(c) on 17 June 2010, the Company signed a Pre-IPO investment agreement with MHL and CEF (the "Pre-IPO Investors"), Petropavlovsk PLC, and Cayiron Limited (the "Pre-IPO Investment Agreement"). The subscription by the Pre-IPO investors was subject to the satisfaction of certain conditions precedent, mainly regarding the implementation of the Restructuring; all approvals, consents and authorisations required being obtained; and Petropavlovsk PLC entering into a tax indemnity in favour of the Company in relation to any tax liabilities arising as a result of the Restructuring. 360 shares were issued on 26 August 2010 to the Pre-IPO Investors pursuant to the Pre-IPO Investment Agreement for cash in return for their combined equity investment of US$60 million in the share capital of the Company (the "Subscription Shares"). The subscription price ("Subscription Price") for the Subscription Shares represented a negotiated price and based on the agreed assessment of the value of the Group at the time of signing the Pre-IPO Investment Agreement.

Following discussions between the Company and the Pre-IPO investors, it was determined that the Pre-IPO Investment Agreement would be unwound in favour of the Pre-IPO investors participating in the public offer and placing of the ordinary shares of the Company as cornerstone investors. In light of this, the Company entered into a Pre-IPO Investment Supplemental Agreement on 22 September 2010 with the Pre-IPO Investors, Petropavlovsk PLC, and Cayiron Limited (the "Supplemental Agreement").

The terms of the Pre-IPO Investment Supplemental Agreement provide for a transfer, conditional upon the listing of, and dealings in, the shares of the Company in issue on the Main Board of the Stock Exchange (collectively referred to as the "Listing"), of the shares held by the Pre-IPO Investors to Cayiron Limited in return for the payment by Cayiron Limited of an amount of approximately US$70.2 million, representing the initial US$60 million subscription price plus US$10.2 million being the agreed exit cost and the re-imbursement of certain additional expenses of the Pre-IPO Investors. The US$10.2 million amount represents the figure which the Pre-IPO Investors negotiated into the Pre-IPO Investment Agreement as a downside protection mechanism should the Listing not take place by the end of a specified period, and is calculated as approximately 117 per cent. of the subscription amount. Cayiron Limited has agreed to pay this amount to the Pre-IPO investors in order to facilitate the unwinding of the Pre-IPO Investment Agreement and to achieve the more advantageous structure through which the Pre-IPO Investors invest in the Company as cornerstone investors; and

(d) On 17 September 2010, written resolutions of the shareholders of the Company were passed to resolve the matters as set out in the paragraph headed "Written resolutions of the Shareholders" in Appendix VIII to the Prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong