

# Commoditrade Inc.

## Annual Report and Financial Statements

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FOR THE YEAR ENDED 31 DECEMBER 2006

## Summary of 2006

During the year Commoditrade completed its first two acquisitions since being admitted to AIM:

- Acquisition of interest in revenue stream from largest trading team on the London Metal Exchange – acquisition was for £24.4 million in cash and shares completed 24 April 2006. Deferred consideration in the form of 6 million ordinary shares is payable if certain performance targets are met. Chris Adams, head LME trader of LME Trading Team, and Geoffrey Conway-Henderson, 35 years experience international finance, joined the Board of Commoditrade as non-executive directors.
- AMCO Commodities LLP – economic interest acquired for £1.4 million before costs in cash and shares completed 4 August 2006

Board changes announced on 17 November – Graham Butt moving to Chief Executive and Chris Adams to Non-Executive Chairman and Andrew Dobie a new appointment to Board as Non-Executive Director.

## Results 2006

- Strong trading performance from the LME Trading Team generated gross revenues in 2006 of £41.7 million of which £30.9 million relates to the period since acquisition. After deduction of Sudden (UK) Ltd's proportion of clearing and administration costs of £7.7 million Commoditrade's gross revenue from the LME Trading Team for the eight months was £23.2 million
- Commoditrade's net income for the period was £13.98 million (after direct costs, financing charges and trader bonuses) giving profit for the year before amortisation of £13.41 million. After amortisation of £7.49 million the net profit for the year was £5.92 million.
- Earnings per share before amortisation of 4.64 pence. Basic earnings per ordinary share of 2.05 pence (2005: 0.20 pence). There was no debt at the year end and cash balances stood at £6.9 million

## Current Trading and Outlook

Graham Butt, Chief Executive of Commoditrade Inc, said:

“Our strategy has been successful in delivering very profitable growth for shareholders. The LME Trading Team has produced a very strong trading performance during 2006 which has produced an excellent level of profits for Commoditrade for the year. We are very encouraged by the performance of the LME Trading Team in the current year to date which continues to see good volumes and high volatility levels in the base metals market. We are also seeing continued growth in the base metals open interest market from international institutions.

Discussions which may or may not lead to an offer being made for Commoditrade are ongoing and the Board will update shareholders when it is appropriate to do so.”

# Annual Report and Financial Statements

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# Company Information

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FOR THE YEAR ENDED 31 DECEMBER 2006

Directors	Graham Butt (Chief Executive) Joanna Barrett (Non-Executive Director) Chris Adams (Non-Executive Chairman) Geoffrey Conway-Henderson (Non-Executive Director) Andrew Dobie (Non-Executive Director)
Registered office	Walkers SPV Limited Walker House Mary Street PO Box 908GT George Town Grand Cayman Cayman Islands
Company secretary	Kitwell Consultants Limited Kitwell House The Warren Radlett Hertfordshire WD7 7DU
Nominated adviser	Strand Partners Limited 26 Mount Row London W1K 3SQ
Nominated broker	W H Ireland Limited 24 Bennetts Hill Birmingham B2 5QP
UK Transfer agent	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors	Fladgate Fielder 25 North Row London W1K 6DJ
Auditors	Grant Thornton UK LLP Registered Auditors Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ

# Chairman's Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

## Results

The Board is pleased to report Commoditrade's audited results for the year ended 31 December 2006 which includes eight months contribution from the LME Trading Team since the completion by the Company of its acquisition of the Tambelan Interest.

The LME Trading Team produced a very strong trading performance over the full year generating gross revenues in 2006 of £41.7 million, of which £30.9 million relates to the period since acquisition. After deduction of Sucden (UK) Ltd's proportion of clearing and administration costs of £7.7 million Commoditrade's gross revenue from the LME Trading Team for the eight months was £23.2 million. After direct costs, financing charges and trader bonuses net income for the Company was £13.98 million prior to amortisation of the intangible asset (2005: £nil) and profit before tax was £13.41 million.

The Company has prepared its accounts under International Financial Reporting Standards (IFRS) and as a consequence, for the reasons detailed in the attached notes, the acquisition of the Tambelan Interest is deemed to be an acquisition of an associate. The underlying asset acquired is deemed to be an intangible asset which the Directors consider is appropriate to amortise over three years, again as detailed in the attached notes. As a consequence, the net income of the Company produced by the LME Trading Team attributable to Commoditrade of £13.98 million is reduced by the amortisation of the intangible asset of £7.49 million, with the resulting net income of £6.49 million being treated as income from an associate. The profit before taxation after amortisation was £5.92 million (2005: loss of £180,000).

Basic earnings per share before amortisation was 4.58 pence and after amortisation was 2.05 pence (2005: loss per share of 0.20 pence).

## Acquisitions

Commoditrade joined AIM in March 2005 with the primary objective of building, through investment and acquisition, a group specialising in the commodities sector and during the year it completed two acquisitions.

On 24 April 2006 the Company completed its first acquisition for an initial aggregate consideration of £24.4 million plus costs, acquiring 75 per cent of the net revenue stream produced by the largest trading team on the London Metal Exchange (the Tambelan Interest), the world's premier non-ferrous metals market with highly liquid contracts and a worldwide reputation. The acquisition was satisfied by the payment of £14 million in cash and by the issue of 83.4 million new ordinary shares at a price of 12.5 pence per share. In addition, a further 6 million deferred consideration shares may be issued on the achievement of certain performance criteria. The Directors considered at the date of acquisition, and continue to consider, that these criteria will be met and so have included the cost of the deferred consideration shares in the cost of the acquisition. On completion of the LME Trading Team transaction Chris Adams and Geoffrey Conway-Henderson joined the board of Commoditrade as non-executive directors. Chris is the head LME trader of the LME Trading Team. He has 19 years experience in the commodities industry, the last 10 years in senior management and has previously held positions at Billiton Enthoven Metals Limited, Credit Lyonnais Rouse and AIG International.

The LME Trading Team is well established and has strong client and market relationships. The LME Trading Team generates income by acting as a market-maker, buying and selling the metals traded on the exchange and also dealing as principal trader taking positions subject to pre-set "caps and collars". Metals traded by the LME Trading Team on the LME are copper, aluminium, nickel, zinc, lead and tin; with copper, gold and silver also being traded on New York's Commodity Exchange Inc. There are 11 category one members of the LME and the LME Trading Team is the largest on the LME. It makes markets in base metals in the 'open outcry' ring as well as, telephone trading and trading on the LME's electronic trading platform. Since the acquisition was completed the LME Trading Team has continued to perform very strongly during the year.

# Chairman's Statement

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On 4 August 2006 Commoditrade acquired a 75 per cent interest in the net profits of commodities investment management company, AMCO Commodities LLP ("AMCO") for a total consideration of £1.4 million before costs. AMCO, which is regulated by the FSA, manages the AMCO Commodities Fund Limited which was launched in May 2006 with the objective of raising up to USD500 million over the first three years of the fund's life. The Company has not received nor is due at 31 December 2006 any income from this interest since acquisition.

The fund's investment strategy is based on identifying fundamental trading opportunities across a range of base metals including opportunities in the changes in the directional price of the underlying commodities; relative value trades in calendar spreads; location arbitrage; and changes in the volatility of the underlying futures markets. The fund has continued to grow its assets under management and has a broad investment base with a current value of £59.5 million. Performance of the fund during the period has also been ahead of expectations.

## Finances and share issues

In order to satisfy the cash consideration in respect of the LME Trading Team acquisition, and to provide working capital for Commoditrade, 144,000,000 new ordinary shares in Commoditrade were placed with institutional investors at a price of 12.5 pence per share on 24 April 2006.

The consideration for the AMCO acquisition of £1.4 million was satisfied by £0.5 million in cash and the issue of 5,000,000 new Ordinary Shares at a price of 17.75 pence per share on 4 August 2006.

Commoditrade had cash of £6.93 million as at 31 December 2006 and the total number of ordinary shares in issue was 376.27 million.

## Board changes

On 17 November 2006 the Company announced further Board changes, reflecting the significant progress made with the business as it continues to grow. Graham Butt, Executive Chairman was appointed Chief Executive and Chris Adams, Non-Executive Director, was appointed Non-Executive Chairman. Andrew Dobie (age 42) was appointed to the Board of Commoditrade as Non-Executive Director. Andrew has worked in the commodities industry for 18 years and joined the LME in 1998 firstly as Assistant Manager in the LME's Market Operations taking over as Manager of LME's trade floor in 2001 where he managed a team of 11 in the LME's Market Operations and a further 150 brokers representing 11 Category 1 members on the trade floor. Andrew had previously operated as a trader on the LME since 1995.

## Update on potential offer for the Company

On 7 December 2006 the Directors confirmed that it was in preliminary discussions with a number of parties regarding a possible offer for the Company and that there was no certainty that these discussions would lead to a formal offer being made for the issued share capital of the Company. These discussions are ongoing and the Company will inform shareholders of further developments as is appropriate.

Jefferies International Limited was appointed strategic adviser to the Company earlier in the year. It is wholly owned by Jefferies & Company, Inc, the global investment bank and institutional securities firm, headquartered in New York.

# Chairman's Statement

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## Current trading and outlook

Our strategy has been successful in delivering very profitable growth for shareholders. The LME Trading Team has produced a very strong trading performance during 2006 which has produced an excellent level of profits for Commoditytrade for the year.

In the current year to date we are very encouraged by the performance of the LME Trading Team which continues to see good volumes and high volatility levels in the base metals market. We are also seeing continued growth in this open interest market from international institutions.

**Graham Butt**  
Chief Executive

**Chris Adams**  
Chairman

22 February 2007

# Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors present their report and audited financial statements for the year ended 31 December 2006.

## Principal activities and review of the business

The principal activity of the Company is that of an investment company.

## Results and dividends

The results for the Company are set out on page 13. The Directors do not recommend the payment of a dividend.

A review of the results for the year is provided in the Chairman's statement on pages 3 to 5.

The key performance indicators the Directors utilise to assess the performance of the Company is the return from the LME trading team. They target a monthly return from the LME trading team of at least £1 million prior to the amortisation of the intangible asset. The return of the LME trading team since the acquisition on 24 April 2006 has averaged £1.75 million per month.

## Risk management policies and objectives

The Company's principal financial instruments comprise cash, investment in associate and available for sale assets. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The Company does not enter into derivative transactions.

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is closely monitored by the board of directors, and focuses on actively securing the Company's short to medium term cash flows by minimising the exposure to financial markets.

Other than the exposure to the trading of metals and metal futures on the LME carried out by the LME trading team through its associate, Commoditytrade Inc. does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below:

### **Credit risk**

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

### **Cash flow risk**

The Company seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the raising of equity and the use of current accounts.

### **Market price risk**

The Company's exposure to market price risk consists mainly uncertainty concerning future movements in level or volatility of market prices of metals traded on the London Metals Exchange in which the LME team hold a position. This risk arises due to the Company bearing the full losses, if incurred, of the LME trading team. This risk is managed by the use of various mechanisms which put limits on the level of losses that could be incurred. These mechanisms are put in place by Succden (UK) Limited who control the LME trading team. The Company monitors the exposure via regular reports from Succden (UK) Limited

# Report of the Directors

CONTINUED

## Foreign exchange risk

The principal foreign currency in which the Company earns income is United States Dollars and therefore the Company's profits can be affected significantly by movements in US dollar exchange rates. The Company does not seek to hedge this exposure, instead it operates bank accounts in both dollars and sterling in an attempt to mitigate its downside exposure to currency fluctuations.

## Interest rate risk

The Company is exposed to interest rate risk as it has significant cash deposits. Exposures are managed by depositing funds in short term bank accounts. Interest rates are regularly reviewed in order to ensure that the most favourable rate of return is being achieved.

## Directors and their interests

The Directors during the year and their interests at 31 December 2005 (or date of appointment if later) and 31 December 2006 were as follows:

	Ordinary shares of 0.1p each	
	Number at 31 December 2006	Number at 31 December 2005
Graham Butt	4,100,000	1,100,000
Terence Bartlett (resigned 25 April 2006)	1,100,000	1,100,000
Joanna Barrett	1,100,000	1,100,000
Chris Adams (appointed 25 April 2006)	9,700,000	12,000,000
Geoffrey Conway-Henderson (appointed 25 April 2006)	1,300,000	1,300,000
Andrew Dobie (appointed 17 November 2006)	–	–

## Substantial shareholdings

Apart from the interests of the Directors, the only interests in excess of 3% of the issued share capital of the company which has been notified at 13 February 2007, were as follows:

	Ordinary shares of 0.1p each Number	Percentage of capital %
Brewin Nominees (Channel Islands)	83,605,706	22.2
Corvus Capital Inc.	76,000,000	20.2
Man Financial Limited	30,290,197	8.1
Nutraco Nominees Limited	20,490,710	5.5
Credit Agricole Cheuvreux	16,754,000	4.5
OMX Securitees Nominees Limited	13,922,948	3.7
Chase Nominees Limited	11,274,613	3.0

## Payments to suppliers

It is the Company's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Company does not have a standard or code for dealing with the payment of suppliers. Trade creditors at the year end amount to 41 days of average supplies for the year (2005: 306 days)

# Report of the Directors

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## Annual General Meeting

The Annual General Meeting of the Company will be held at 30 Quai Gustave-Ador, 1207, Geneva 3, Switzerland on 22 March 2006 at 10.00am.

## Statement of Directors' responsibilities

The Company was incorporated as a corporation in the Cayman Islands, which does not prescribe the adoption of any particular accounting framework. Accordingly, the Board have resolved that the Company will follow applicable law and International Financial Reporting Standards as adopted by the European Union when preparing its annual financial statements.

The Directors prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the profit or loss for the Company for that period. In preparing those financial statements, the Directors are required to:

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

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

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information held on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors.

By order of the Board

**Kitwell Consultants Limited**  
Secretary

22 February 2007

# Corporate Governance

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FOR THE YEAR ENDED 31 DECEMBER 2006

## Directors

The Company supports the concept of an effective board leading and controlling the Company. The Board is responsible for approving Company policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision. Consultants supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Company's expense.

The Board consists of the chief executive, who holds a key operational position in the Company and four non-executive directors, who bring a breadth of experience and knowledge.

## Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

## Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Company's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

An audit committee has been established, and comprises Geoffrey Conway-Henderson, Joanna Barrett and Chris Adams who meet at least twice a year and are responsible for ensuring that the financial performance of the Company is properly monitored and reported on, as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems. The Chair of the audit committee is Geoffrey Conway-Henderson.

The Board has considered the need for an internal audit function but has decided the size of the Company does not justify it at present. However, it will keep the decision under annual review.

## Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

# Report on Remuneration

FOR THE YEAR ENDED 31 DECEMBER 2006

## Directors' remuneration

The Company operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

## Policy on executive directors' remuneration

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Company's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Directors' responsibilities and contain incentives to deliver the Company's objectives. A separate remuneration committee has been established following the current year acquisitions comprising Joanna Barrett, Geoffrey Conway-Henderson and Chris Adams and is chaired by Joanna Barrett.

The remuneration of the Directors was as follows:

	Graham Butt £	Jo Barrett £	Terence Bartlett £	Chris Adams £	Geoffrey Conway- Henderson £	Andrew Dobie £	Total £
<b>Year to 31.12.06</b>							
Salary and fees	68,000	12,000	4,000	8,000	8,000	9,375	109,375
<b>Period to 31.12.05</b>							
Salary and fees	9,774	9,774	9,774	–	–	–	29,322
Annual salary and fees	68,000	12,000	12,000	12,000	12,000	75,000	191,000

## Pensions

There are no pension schemes in operation.

## Benefits in kind

The directors do not receive any benefits in kind.

## Bonuses

No amounts are payable for bonuses in respect of the year ended 31 December 2006 (2005: £nil). There is no bonus scheme in place.

## Notice periods

The Directors have letters of appointment which are terminable on three months notice on either side.

## Share option incentives

At 31 December 2006 no options were held by the Directors (2005: nil).

# Report of the Independent Auditors

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TO THE MEMBERS OF COMMODITRADE INC.

We have audited the financial statements of Commoditrade Inc. for the year ended 31 December 2006 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein. As detailed in the principal accounting policies, the Company was incorporated as a corporation in the Cayman Islands, which does not prescribe the adoption of any particular accounting framework. Accordingly, the Board have resolved that the Company will follow International Financial Reporting Standards (IFRSs) and apply the Companies Act 1985 when preparing its annual financial statements.

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

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and IFRSs as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information in the Chairman's statement that is cross referenced from the business review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Corporate Governance Statement, the Report on Remuneration, the Report of the Directors, and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

# Report of the Independent Auditors

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## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of the profit of the Company for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements for the year ended 31 December 2006.

### **Grant Thornton UK LLP**

Chartered Accountants  
and Registered Auditors  
Birmingham

22 February 2007

# Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Year ended 31 December 2006 Result prior to amortisation of intangible asset within associate £'000	Year ended 31 December 2006 Amortisation of intangible asset within associate £'000	Year ended 31 December 2006 Total £'000	Period from 6 January 2005 to 31 December 2005 Total £'000
<b>Continuing operations</b>					
Income from associate	8	13,979	(7,494)	6,485	–
Administrative expenses		(663)	–	(663)	(180)
<b>Operating profit/(loss)</b>	5	<b>13,316</b>	<b>(7,494)</b>	<b>5,822</b>	<b>(180)</b>
Finance income	4	94	–	94	–
<b>Profit/(loss) for the period before taxation</b>		<b>13,410</b>	<b>(7,494)</b>	<b>5,916</b>	<b>(180)</b>
Tax charge	6	–	–	–	–
<b>Net profit/(loss) for the period</b>		<b>13,410</b>	<b>(7,494)</b>	<b>5,916</b>	<b>(180)</b>
<b>Earnings/(loss) per ordinary share</b>					
– Basic	7			2.05p	(0.20p)
– Diluted	7			2.02p	–

Income from associates relates to activities acquired in the year.

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

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Translation reserve £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 6 January 2005	–	–	–	–	–	–	–
Issue of new shares	103	524	–	–	–	–	627
Issue costs	–	(165)	–	–	–	–	(165)
Net loss for the period	–	–	–	–	–	(180)	(180)
Share based payment	–	(20)	–	–	20	–	–
At 31 December 2005	103	339	–	–	20	(180)	282
Issue of new shares	273	34,123	1,800	–	–	–	36,196
Issue costs	–	(1,010)	–	–	–	–	(1,010)
Currency translation	–	–	–	(459)	–	–	(459)
Net profit for the year	–	–	–	–	–	5,916	5,916
<b>At 31 December 2006</b>	<b>376</b>	<b>33,452</b>	<b>1,800</b>	<b>(459)</b>	<b>20</b>	<b>5,736</b>	<b>40,925</b>

The shares to be issued relate to the estimated value of shares to be issued in respect of the acquisition of the associated undertaking.

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

# Balance Sheet

AT 31 DECEMBER 2006

	Note	At 31 December 2006 £'000	At 31 December 2005 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in associate	8	26,231	–
Other receivable	10	1,052	–
		<b>27,283</b>	–
<b>Current</b>			
Available for sale financial assets	9	2,064	–
Trade and other receivables	10	4,772	1,087
Cash and cash equivalents		6,928	179
<b>Total current assets</b>		<b>13,764</b>	1,266
<b>Total assets</b>		<b>41,047</b>	1,266
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	11	122	984
<b>Total liabilities</b>		<b>122</b>	984
<b>Equity</b>			
Share capital	13	376	103
Share premium		33,452	339
Shares to be issued		1,800	–
Translation reserve		(459)	–
Share based payment reserve		20	20
Profit and loss account		5,736	(180)
<b>Total equity</b>		<b>40,925</b>	282
<b>Total equity and liabilities</b>		<b>41,047</b>	1,266

The financial statements were approved by the Board of directors on 22 February 2007.

**G Butt**  
Director

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

# Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Year ended 31 December 2006 £'000	Period from 6 January 2005 to 31 December 2005 £'000
<b>Operating activities</b>		
Profit/(loss) after tax	5,916	(180)
Amortisation of intangible asset in associate	7,494	–
Change in trade and other receivables	(4,737)	(1,087)
Change in trade and other payables	(862)	984
Foreign exchange	(459)	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>7,352</b>	<b>(283)</b>
<b>Investing activities</b>		
Purchase of associate	(16,416)	–
Purchase of available for sale financial assets	(1,177)	–
<b>Net cash outflow from investing activities</b>	<b>(17,593)</b>	<b>–</b>
<b>Financing activities</b>		
Issue of shares	18,000	607
Share issue costs	(1,010)	(145)
<b>Net cash inflow from financing activities</b>	<b>16,990</b>	<b>462</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,749</b>	<b>179</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>179</b>	<b>–</b>
<b>Cash and cash equivalents at end of year</b>	<b>6,928</b>	<b>179</b>

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

# Notes to the Financial Statements

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FOR THE YEAR ENDED 31 DECEMBER 2006

## 1 Accounting policies

### **Basis of preparation**

The Company was incorporated as a Corporation in the Cayman Islands which does not prescribe the adoption of any particular accounting framework. The Board had previously resolved that the Company would follow United Kingdom Accounting Standards and apply the Companies Act 1985 when preparing its annual financial statements.

The Board have now resolved that Commoditrade Inc. will adopt International Financial Reporting Standards as adopted by the European Union (IFRS), as developed and published by the International Accounting Standards Board (IASB), for the first time in its financial statements for the year ended 31 December 2006. This financial report has therefore been prepared under the historical cost convention and in accordance the requirements of International Financial Reporting Standard 1 "First Time Adoption of International Reporting Standards" relevant to financial reports.

The transition to IFRS reporting has resulted in a number of changes in the reported financial statements, notes thereto and accounting principals compared to the previous annual report. Note 2 provides further details on the transition from UK GAAP to IFRS.

The principal accounting policies of the Company, which have been applied consistently are set out below.

### **Associates**

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method.

On initial acquisition of an associate, the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for under IFRS 3 using the purchase method. Any goodwill arising is treated in accordance with IFRS 3 and is not amortised but instead is subject to an annual impairment review. Included in the identifiable assets are intangible assets which meet the relevant recognition criteria. The underlying intangible assets are thereafter amortised over their useful life.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Company's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are charged against "income from associates" in the income statement and therefore affect net results of the Company. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Once the associate then becomes profit making profits are not recognised until they exceed the share of the loss that had not previously been recognised.

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

### **Intangible assets**

Expenditure on intangible assets, including those in the Company's associates, is capitalised at cost and amortised over its estimated useful economic life.

# Notes to the Financial Statements

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CONTINUED

## 1 Accounting policies continued

### **Impairment reviews**

The Company's assets are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

### **Financial assets**

The Company's financial assets include available for sale financial assets, cash and amounts due from associate and other receivables.

All financial assets are recognised on entering into contractual arrangements. All financial assets are initially recognised at fair value, plus transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Amounts due from associate and other receivables are provided against when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Available for sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any other categories of financial assets. All financial assets of the category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognised in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available for sale financial are recognised in the income statement when they are sold or when the investment is impaired. In the case of impairment any loss previously recognised in equity is transferred to the income statement. Gains on equity instruments are not then recycled through the income statement as these are dealt with in reserves.

### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

# Notes to the Financial Statements

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CONTINUED

## 1 Accounting policies continued

### **Equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Share capital is determined using the nominal value of shares that have been issued.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Shares to be issued represent future shares to be issued under arrangements in place at the balance sheet date.

Foreign currency translation differences are included in the translation reserve.

The share based payment reserve represents the value of services provided under share based payments.

The profit and loss account includes all current and prior period results as disclosed in the income statement.

### **Share based payments**

All share based payment arrangements are recognised in the financial statements. The Company does not currently operate equity settled share based remuneration plans for remuneration of its employees but has issued a share warrant.

All services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options/warrants awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Share based payments are ultimately recognised as an expense in profit or loss or included as part of the cost of share issues with a corresponding credit to the share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options/warrants expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options/warrants expected to vest differs from previous estimates. No adjustment is made to the expense or share issue cost recognised in prior periods if fewer share options/warrants ultimately are exercised than originally estimated.

Upon exercise of share options/warrants, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

### **Financial liabilities**

Financial liabilities represent obligations to deliver cash or another financial asset to another entity. The Company's financial liabilities include trade and other payables.

Financial liabilities are recognised when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance cost" in the income statement.

Trade payables are recognised at their nominal value.

# Notes to the Financial Statements

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CONTINUED

## 1 Accounting policies continued

### **Taxation**

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable result for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

### **Dividends**

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' meeting.

### **Other provisions, contingent liabilities and contingent assets**

Other provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Company and they can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet. Probable inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

# Notes to the Financial Statements

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CONTINUED

## 1 Accounting policies continued

### **Functional currency**

The functional currency of the Company is United States dollars. However, for presentation purposes, the financial statements are prepared in United Kingdom sterling.

Transactions in foreign currencies are translated into the presentational currency at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the presentational currency at the approximate rates ruling on the balance sheet date. Gains and losses arising on exchange from the functional to the presentational currency are taken to the currency translation reserve in equity.

### **Financial instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the statement of total return. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

### **Impact of recently issued IFRSs**

The revised, amended and new IFRSs which are effective for accounting periods beginning on or after 1 January 2007 may result in changes in the future as to how the Company's financial performance and financial position are prepared and presented.

The Company has not early adopted these revised, amended and new standards for the year ended 31 December 2006. The Company has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

### **Critical judgments**

The key judgment the directors have made in preparing these financial statements is the accounting treatment of the acquisition of the Tambelan Interest. The Directors have carefully considered the substance of the acquisition and have concluded that the acquisition represents an investment in an associate and that the acquisition consideration should be allocated to intangible fixed assets in respect of the investors share in the underlying net assets of the associate as determined on acquisition. The rationale supporting these judgments is detailed in note 8.

### **Key sources of estimation uncertainty**

The key source of estimation uncertainty in preparing the financial statements is the period over which the underlying intangible asset acquired with the Tambelan Interest is amortised. The Directors have decided an amortisation period of three years is appropriate, the rationale for which is detailed in note 8.

# Notes to the Financial Statements

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## 2 Transition to International Financial Reporting Standards

The transition from previous UK GAAP to IFRS has been made in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The Company's financial statements for the year ended 31 December 2006 and the comparatives presented for the period ended 31 December 2005 comply with all presentation recognition and measurement requirements of IFRS applicable for accounting periods commencing on or after 1 January 2005.

The following reconciliations and explanatory notes thereto describe the effects of the transition for the financial period ended 31 December 2005. All explanations should be read in conjunction with the IFRS accounting policies of Commoditrade Inc..

Since Commoditrade Inc. was incorporated on 6 January 2005 that is the transition date to IFRS. As that was the date of incorporation of the Company no reconciliation of equity is required at that date.

The re-measurement of balance sheet items as at 31 December 2005 may be summarised as follows:

### Reconciliation as at 31 December 2005

	UK GAAP £'000	Effect of transition £'000	IFRS £'000
Share premium	359	(20)	339
Share based payment reserve	–	20	20
<b>Total adjustment to assets and equity</b>	<b>359</b>	<b>–</b>	<b>359</b>

There is no difference between the profit and loss reported under UK GAAP for the period ended 31 December 2005 and the profit and loss as reported under IFRS.

The Company has modified its former balance sheet and income statement structure on transition to IFRS. The only change is to recognise the share based payment in connection with the warrants issued to the Company's Nominated Advisor as part of their fee for services provided in connection with the Admission of the Company to the AIM market in March 2005.

## 3 Segmental reporting

### (a) By business segment (primary segment):

As defined under International Accounting Standard 14 (IAS14), the only material business segment the Company has is that of an investment company specialising in investments in the commodities trading sector.

### (b) By geographical segment (secondary segment):

Under the definitions contained in IAS 14, the only material geographic segment that the Company operates in is currently Switzerland.

## 4 Finance income

	Year ended 31 December 2006 £'000	Period from 6 January 2005 to 31 December 2005 £'000
Interest on bank deposits	94	–

# Notes to the Financial Statements

CONTINUED

## 5 Operating profit/(loss)

### Employee benefits expense

Expense recognised for employee benefits is analysed below:

	Year ended 31 December 2006 £'000	Period from 6 January 2005 to 31 December 2005 £'000
Directors fees	109	29

The average number of persons (including directors) employed by the Company during the period was

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### Auditors remuneration

Operating profit/(loss) includes auditors remuneration as follows:

	Year ended 31 December 2006 £'000	Period from 6 January 2005 to 31 December 2005 £'000
Audit services	17	13
Other advisory services	2	–
	19	13

Included within share premium is £nil (period ended 31 December 2005: £7,500) paid to the auditors for reporting accountants' services.

## 6 Tax

There is no tax charge/income for either period. The Company does not operate in the United Kingdom and there is no tax arising on its operations. The profit of the associate is not taxable as profits are remitted to Switzerland to a non Swiss company and are therefore not taxable. The relationship between the expected tax expense/income at 30% and the tax expense/income actually recognised in the income statement can be reconciled as follows:

	Year ended 31 December 2006 £'000	Period from 6 January 2005 to 31 December 2005 £'000
Profit/(loss) for the period before taxation	5,916	(180)
Tax rate	30%	30%
Expected tax expense/(credit)	1,775	(54)
Income not subject to tax	(1,775)	–
Losses not recognised as deferred tax asset	–	54
Actual tax income	–	–

# Notes to the Financial Statements

CONTINUED

## 7 Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the net profit for the year of £5,916,000 (period ended 31 December 2005: loss £180,000) divided by the weighted average number of shares in issue during the year of 288,715,832 (period ended 31 December 2005: 89,529,528).

The diluted profit per share for the year ended 31 December 2006 is based on a weighted average number of shares in issue on a fully diluted basis of 292,478,563 calculated as follows:

	Year ended 31 December 2006
Weighted average shares in issue	288,715,832
Dilutive impact of warrants	3,762,731
Weighted average diluted shares in issue	<b>292,478,563</b>

The impact of the warrants on the loss per share for the period ended 31 December 2005 is anti-dilutive.

An adjusted earnings per share has also been calculated for the year ended 31 December 2006 based on the profit for the year prior to amortisation of the intangible asset within the associate of £7.494 million. The adjusted earnings per share is therefore based on the adjusted net profit for the year of £13.410 million divided by the weighted average number of shares in issue during the year of 288,715,832 which results in an adjusted earnings per share of 4.64 pence.

The diluted adjusted profit per share for the year ended 31 December 2006 is based on a weighted average number of shares in issue on a fully diluted basis of 292,478,563 which results in an adjusted diluted earnings per share of 4.58 pence.

## 8 Investment in associate undertaking

	31 December 2006 £'000	31 December 2005 £'000
Additions in the year at cost	<b>33,725</b>	–
Profit for the financial year	<b>13,979</b>	–
Foreign exchange	<b>(239)</b>	–
Amortisation	<b>(7,494)</b>	–
	<b>39,971</b>	–
Included in trade and other receivables	<b>(4,473)</b>	–
Cash received from associate	<b>(9,267)</b>	–
Net book value at 31 December	<b>26,231</b>	–

The investors underlying share of the assets of the associate acquired represents an intangible asset of £33,725,000 against which amortisation of £7,494,000 has been charged, leaving a net book value of £26,231,000 together with a offsetting debtor and creditor of £4,473,000 due from Sucden (UK) Limited (Sucden) to the associate and from the associate to the Company.

# Notes to the Financial Statements

CONTINUED

## 8 Investment in associate undertaking continued

On 25 April 2006 the Company acquired the Tambelan Interest for an initial aggregation consideration of £24.4 million, of which £14 million was settled in cash and the balance in shares, together with deferred consideration in the form of 6 million ordinary shares payable if certain performance targets are met. The professional costs incurred on the acquisition amounted to £7.5 million which includes cash expenses and the value of new ordinary shares issued to settle certain transaction costs. The value of the deferred consideration has been estimated at £1.8 million. The cash element of the consideration and the costs were funded by a placing of 144 million ordinary shares at 12.5 pence per share raising £18 million before expenses as detailed in note 13.

The Tambelan Interest was an agreement entered into between Tambelan Company Limited (Tambelan) and Sucden pursuant to which Tambelan introduced a London Metals Exchange Trading Team (the LME Trading Team) to Sucden. Tambelan agreed to underwrite losses generated by the LME Trading Team in consideration for Tambelan receiving 75% of the trading profits (which is gross income from buying and selling metals contracts plus commission received from clients less the direct personnel costs (including bonuses) of the LME Trading Team, execution charges, credit facility charges and the cost of maintaining the required initial margin funding at cost) attributable to that team. Sucden is one of the 11 "category one" members of the LME and the LME Trading Team makes markets in base metals in the ring as well as via telephone trading. It also trades on the LME's electronic trading platform.

The current key terms of the Tambelan Agreement, which were revised at the time of the acquisition, are:

- The Tambelan Agreement has an indefinite term but can be terminated after 12 months by either party giving 12 months notice to the other or by Sucden immediately upon the occurrence of an event of default (as described by the Tambelan Agreement). The remaining minimum term of the Tambelan Agreement from acquisition was therefore two years.
  - Tambelan undertakes to compensate Sucden for all trading losses after direct costs, without limit, incurred as a result of trading LME contracts;
  - Sucden will employ the LME Trading Team, and authorises the LME Trading Team to trade instruments and investments on behalf of Sucden. Trading by the LME Trading Team is subject to FSA requirements, the rules of the LME and Sucden's internal rules.
  - Sucden will pay Tambelan 75% of:
    - i the amount calculated by Sucden as representing the net profit resulting from buying and selling contracts (which include both open positions and realised positions) and shall be deemed to be the whole amount of such profit or loss whether or not the LME Trading Team were trading within limits set by Sucden; and
    - ii commission received from clients,
- less:
- i direct personnel costs of the LME Trading Team, execution charges, credit facility charges and the cost of maintaining the required initial margin funding at cost; and
  - ii the total discretionary bonus payable by Sucden to the members of the LME trading team.

# Notes to the Financial Statements

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CONTINUED

## 8 Investment in associate undertaking *continued*

Coterminous with the acquisition of the Tambelan Interest, the Company also entered into an agreement with each of the LME Trading Team pursuant to which, in the event that Sucden terminates the Tambelan Agreement, each member of the LME Trading Team agreed upon received by him of a written request from the Company, at any time up until 30 April 2008 to serve notice upon Sucden to terminate his employment with Sucden; and accept the written offer of employment that will accompany the Company's request, providing that the offer of employment is from a company with relevant resources that would allow the relevant member of the LME Trading Team to trade on the LME and provides for remuneration and benefits that are not less than those to which the relevant member of the LME Trading Team is entitled and contains other key terms substantially similar to those in his current contract of employment with Sucden. Any offer made to any member of the LME Trading Team will be subject to that member not being in breach of his legal and fiduciary obligations to Sucden and to obtaining all necessary regulatory consents.

The Directors consider that the Company has acquired a business as they have acquired an integrated set of activities, in that they have the access to a seat on the LME through Sucden and their consequential access to the LME Trading Team, from which the Company obtains a return. Therefore the substance of the transaction between the Company and Sucden is that the Company acquired an interest in a business in accordance with IFRS 3 Business combinations. The Company has the rights to receive 75% of the profits and is responsible for all of the losses of the business, the right to terminate the agreement by exercising due notice and until 30 April 2008, if Sucden terminate the contract, then the Company has the legal right to obtain the employment services of the LME Trading Team. However, the Company does not employ the LME Trading Team, nor can it direct how they operate. As a consequence the Company is in a position to exercise significant influence, but not control, over the business and therefore the acquisition of the Tambelan Interest has been accounted for as an associate.

IFRS 3 requires the fair value of the underlying balance sheet value of the associate to be considered on acquisition. The assets of the business are a combination of access to an exclusive licence to allow it to earn income from the London Metal Exchange together with access to the services of a specialist team of traders. The directors consider that the only intangible asset acquired is the exclusive licence to allow it to earn income from the LME, the fair value of which also comprises the back-up, including the LME Trading Team, required to exploit the value of that licence.

Given the influence the Company is able to exert over the LME Trading Team, as detailed above, it is considered unlikely that Sucden will give notice to terminate until 30 April 2008 at the earliest with the result being that the LME Trading Team will trade for the Company's benefit (for 75% of the net revenue stream) until at least 30 April 2009 and even after 30 April 2008 they could still give notice to terminate to Sucden, without being forced to by the Company. On this basis the Directors consider that the useful economic life of the intangible asset acquired on acquisition of the business is three years. It should also be noted that the Tambelan Agreement has operated for approximately six years without either party to the agreement giving notice to terminate.

As the Company's activities comprise that of an investment company the Directors consider the share of the profit of the associate forms part of the operating activities and have therefore included it as part of the operating profit in the income statement

# Notes to the Financial Statements

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## 9 Available for sale financial assets

On 4 August 2006 the Company acquired a 75% interest in the net profits of commodities investment management company, AMCO Commodities LLP ("AMCO") for a total consideration of £1.4 million before costs which was satisfied by £0.5 million in cash and the issue of 5,000 000 ordinary shares at a price of 17.75 pence.

AMCO manages the AMCO Commodities Fund Limited, whose investment strategy is based on a research driven approach of seeking out fundamental trading opportunities across a range of base metals, into which the Company has invested US\$1million during the year.

The Company is unable to exert any influence over the above assets and therefore they have been designated as available for sale financial assets in accordance with IAS 39. In the opinion of the directors the fair value of these financial asset at 31 December 2006 is not materially different to their original cost and therefore the directors consider it reasonable to continue to carry the assets at this value as at 31 December 2006.

## 10 Trade and other receivables

	<b>31 December 2006 £'000</b>	31 December 2005 £'000
<b>Non-current</b>		
Other receivable	<b>1,052</b>	–
<b>Current</b>		
Amounts due from associate	<b>4,473</b>	–
Other receivable	<b>142</b>	–
Prepayments and accrued income	<b>157</b>	1,087
Trade and other receivables, net	<b>4,772</b>	1,087

The non-current other receivable represents a deposit held by Sucden to support any losses which the LME trading team may incur. It is repayable on termination of the acquisition with Sucden.

Amounts due from associate and other receivables are usually due within 30-120 days and do not bear any effective interest rate.

The fair value of these financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

## 11 Trade and other payables

	<b>31 December 2006 £'000</b>	31 December 2005 £'000
Trade and other payables	<b>91</b>	152
Accruals and deferred income	<b>31</b>	832
Trade and other payables, net	<b>122</b>	984

The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

# Notes to the Financial Statements

CONTINUED

## 12 Deferred tax assets and liabilities

There are no deferred tax assets or liabilities arising from temporary differences at 31 December 2006 or 31 December 2005.

## 13 Share capital

	31 December 2006 £'000	31 December 2005 £'000
<b>Authorised</b>		
1,000,000,000 ordinary shares of 0.1p	1,000	1,000
<b>Allotted, issued and fully paid</b>		
376,273,114 (2005: 103,200,000) ordinary shares of 0.1p	376	103

The ordinary shares carry one vote each and on a winding up of the Company the balance of assets available for distribution will, subject to any relevant restrictions, be divided amongst the members.

### Allotments during the period

On 25 April 2006 144,000,000 new ordinary shares of 0.1p were issued at 12.5p per share by way of a placing. On the same day 124,073,114 new ordinary shares were issued at 12.5p per share to satisfy part of the consideration for the acquisition of the Tambelan Interest and to satisfy certain of the costs of the acquisition and share placing as detailed in note 8. The difference between the total value of the shares issued of £33,509,000 and the total nominal value of the shares issued of £268,000 has been credited to share premium (£33,241,000).

On 14 August 2006 5,000,000 new ordinary shares of 0.1p were issued at 17.75p to satisfy part of the consideration for the acquisition of the AMCO interest as detailed in note 9. The difference between the total value of the shares issued of £887,000 and the total nominal value of the shares issued of £5,000 has been credited to share premium (£882,000).

### Warrants

On 21 February 2005 a warrant was issued to Strand Partners Limited, the Company's Nominated Advisor, in connection with their role in the admission of the Company to the AIM market. The warrant entitles Strand Partners Limited to subscribe, at a price of 10p per share, for such number of ordinary shares as are equivalent (on a fully diluted basis) to one per cent of the issued ordinary share capital of the Company at that time. The issued warrant may be exercised at any time during the period from 8 March 2005 to 8 March 2010.

The fair value of warrants granted was determined using the Black-Scholes valuation model. Significant inputs into the calculations were:

- share price of 5p per share at date of grant of warrant
- exercise price of 10p per warrant as detailed above
- 50% volatility based on expected share price
- a risk free interest rate of 5.0%.

In total £20,000 of share based expense has been included in the share premium account as a cost of the admission to AIM which gave rise to share based payment reserve. No liabilities were recognised due to share based payment transactions.

# Notes to the Financial Statements

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## 14 Related party transactions

In the year ended 31 December 2006 companies within the group headed by Corvus Capital Inc., a shareholder in the Company, charged fees amounting to £444,763 for consultancy, accounting and administrative services provided to the Company (period ended 31 December 2005: £126,648). At the year end £25,000 was due to Corvus Capital Inc. and £150,000 is included within prepayments.

Graham Porter is the sole shareholder of Tambelan Company Limited and is also the executive chairman of Corvus Capital Inc., which held prior to the acquisition of the Tambelan Interest 76.07 per cent of the issued share capital of the Company. The acquisition of the Tambelan Interest is therefore deemed to be a related party transaction.

Graham Butt the chief executive of the Company was deemed to be interested in the acquisition of the Tambelan Interest by reason of his position as trust officer and shareholder of Rampart Management Inc. a company associated with Graham Porter.

## 15 Contingent liabilities

As detailed in note 8, deferred consideration is payable on the achievement of certain performance criteria under the terms of the Tambelan agreement.

There are no other contingent liabilities at 31 December 2006 or 31 December 2005.

## 16 Financial instruments

The Company uses financial instruments comprising cash and equity investments. The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably. The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is closely monitored by the Board of Directors, and focuses on actively securing the Company's short to medium term cash flows by minimising the exposure to financial markets.

### **Borrowing facilities**

The Company has no borrowing facilities available to it.

### **Interest rate risk**

The Company finances its operations through cash at bank and through share capital raised. All financial assets earn interest at floating rates, based upon Bank of England base rates.

The Company seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Company is exposed to interest rate risk as it has significant cash deposits. Exposures are managed by depositing funds in short term bank accounts. The cash and cash equivalents are invested such that the maximum available interest rate is achieved.

The Company currently has no financial liabilities with floating interest rates.

### **Market price risk**

The Company's exposure to market price risk consists mainly uncertainty concerning future movements in level or volatility of market prices of metals traded on the London Metals Exchange in which the LME team hold a position. This risk arises due to the Company bearing the full losses, if incurred, of the LME trading team. This risk is managed by the use of various mechanisms put in place by Sucden (UK) Limited who control the LME trading team. The Company monitors the exposure via regular reports from Sucden (UK) Limited.

### **Foreign currency risk**

The principal foreign currency in which the Company earns income is United States Dollars and therefore the Company's profits can be affected significantly by movements in US dollar exchange rates. The Company does not seek to hedge this exposure, instead it operates bank accounts in both dollars and sterling in an attempt to mitigate its downside exposure to currency fluctuations.

Included within trade and other receivables in an amount of £4.473 million which is receivable in US\$.

# Notice of Annual General Meeting

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Notice is given that the annual general meeting of the members of the Company will be held at 30 Quai Gustave-Ador, Geneva 3, Switzerland at 10.00am (Central European time) on 22 March 2007, to consider and, if thought fit, pass the following:

## Ordinary resolutions

1. To receive the accounts and reports for the year ended 31 December 2006.
2. To re-elect Joanna Barrett as a director who is retiring by rotation in accordance with the articles of association of the Company and who being eligible offers herself for re-election.
3. To re-elect Andrew Dobie as a director who is retiring having been appointed by the directors since the last annual general meeting and who being eligible offers himself for re-election.
4. To re-elect Christopher Adams as a director who is retiring having been appointed by the directors since the last annual general meeting and who being eligible offers himself for re-election.
5. To re-appoint Grant Thornton UK LLP as auditors and authorise the directors to determine their remuneration.
6. That the directors be authorised to disapply the pre-emption rights set out in article 17 of the Company's articles of association, such power to expire at the conclusion of the Company's next annual general meeting and the directors may allot equity securities following an offer or agreement made before the expiry of the the authority and provided that the authority is limited to:
  - 6.1 the allotment of equity securities up to a maximum aggregate nominal amount of £75,200, being twenty per cent. of the Company's issued share capital at the date of this notice; and
  - 6.2 the allotment of equity securities on exercise of the warrant granted to Strand Associates Limited on 21 February 2005.

By order of the board

**Kitwell Consultants Limited**  
Secretary

Registered office:  
Walkers SPV Limited  
Walker House  
Mary Street  
PO box 908GT  
George Town,  
Grand Cayman  
Cayman Islands

Date: 22 February 2007

# Notice of Annual General Meeting

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CONTINUED

## Notes:

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote in his place. A proxy need not be a member of the Company.
2. To be effective, a completed and signed proxy (and any power of attorney or other authority under which it is signed) must be delivered to the Proxy Processing Centre, Telford Road, Bicester OX26 4LD. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours by no later than 48 hours before the time fixed for the meeting or any adjourned meeting. Completion of a form of proxy will not prevent a member from attending and voting in person.
3. In the case of joint holders of shares in the Company, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of shareholders (or the Company's registrars' records).
4. In the case of holders of depositary interests representing ordinary shares in the capital of the Company, a form of direction must be completed in order to appoint Capita IRG Trustees Limited, the Depositary, to vote on the holder's behalf at the meeting, or if the meeting is adjourned, at any adjourned meeting. To be effective, a completed and signed form of direction must be delivered to the Proxy Processing Centre, Telford Road, Bicester OX26 4LD. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours by no later than 72 hours before the time fixed for the meeting or any adjourned meeting.

