IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

IRC: 2015 ANNUAL RESULTS

Thursday 31 March 2016: IRC Limited ("IRC" or the "Company", together with its subsidiaries, the "Group") is pleased to announce its Annual Results for 2015.

KEY HIGHLIGHTS

Operational:

- 2015 full year production of iron ore and ilmenite concentrate exceeded targets by 24% and 21% respectively.
- K&S hot commissioning timeline agreed with CNEEC: Operating plant to be handed over to IRC by the first half of 2016. Production with maiden revenue stream in the second half of 2016.
- Kuranakh's operating efficiency improved with cash cost per tonne slashed by 49%. Kuranakh to be moved to care and maintenance while the Group focuses on K&S.

Financials:

- Underlying loss excluding impairments significantly reduced by 49% to US$28.9 million.
- As with most industry peers, asset impairments were made due to negative movements in commodity prices. US$480 million one-off, non-cash impairment was made in 2015.
- 36% reduction in operating expenses due to more streamlined operation and stringent cost-saving measures, of which:
  - ✓ 35% decrease in site operating expenses
  - ✓ 39% decrease in central administrative expenses
- The Group successfully raised approximately US$50 million from an open offer. Strong year end cash position of US$58.3 million. K&S fully funded for completion.
- Agreed payment terms with CNEEC to alleviate cash flow, allowing outstanding construction payments to be deferred.
- The Group is in discussions with ICBC and China Export & Credit Insurance Corporation regarding waivers in respect of the Group's project finance facility with ICBC, including obligations to maintain certain cash deposit with ICBC, and the obligations of IRC and its guarantor Petropavlovsk plc to comply with certain financial covenants. Positive feedbacks have been received and it is envisaged that an amicable solution could be reached in due course.

***Commenting on the results, Yury Makarov, Chief Executive Officer of IRC said,** "2015 was a difficult year for the commodity market, and the iron ore industry is no exception. During the year, we felt the pressure brought by macro-economic downturn and structural adjustment of our industry. The benchmark price for 62% iron ore content delivery to China fell by 43% year-on-year from an average of US$97 per tonne in 2014 to US$55 per tonne in 2015.*

We reacted swiftly to the changes in the macro environment, since 2014 we implemented a series of cost-cutting measures, together with optimising operational efficiency to the leanest level. We are pleased to report that we have successfully improved our underlying performance, with net loss for the year excluding impairment reduced by 49% to US$28.9 million.

2016 will be a transformational year for the Group as the commercial production of K&S commences. In the coming weeks, we will be announcing the hot commissioning of the Second Stage of the Crushing and Screening Plant, and the Main Processing Plant to follow. Based on latest reassurance from CNEEC, the operational plant will be completed by the first half of 2016. K&S is an attractive iron ore project even in current versatile market. When producing in full capacity, it will be able to yield 65.8% Fe grading iron ore concentrate delivered to the Chinese border at a cash cost per tonne of c.US$35. K&S is not only a game changer for IRC but is also significant to the Russian Far East region as demonstrated by the recent site visit of Mr. Yury Trutnev, the Deputy Prime Minister of Russia and Presidential Envoy to the Far Eastern Federal District. We look forward to bringing this world class mine into operation.

While we are waiting to celebrate the hot commissioning of K&S, we are actively taking steps to alleviate the Group's cash flow. CNEEC agreed to payment terms that will ease our cash flow, allowing outstanding construction payments to be paid at a later time. These supports significantly strengthened our balance sheet on the critical stage of K&S being moved into hot commissioning.

Lastly, we would like to thank our team, especially the Kuranakh operation team, for their hard work during the year, and we wish to extend our gratitude to our shareholders, for your patience and ongoing support in IRC.

A teleconference call to discuss the results will be held today at 09h00 Hong Kong time. The number is +852 2112 1700, the passcode is 1635531#. A replay of the conference call will be available at www.ircgroup.com.hk tomorrow (1 April 2016). Presentation slides are available www.ircgroup.com.hk.

The Board of Directors of IRC Limited is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015, which have been reviewed by the Company's Audit Committee, comprising of independent non-executive directors.

2015 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2015

	Notes	2015 US$'000	2014 US$'000
Revenue	5	**81,910**	122,414
Operating expenses	6	**(106,056)**	(164,750)
Impairment charges	7	**(480,050)**	(260,828)
		(504,196)	(303,164)
Share of results of a joint venture		**1**	2,900
		(504,195)	(300,264)
Other gains and losses and other expenses	8	**(4,389)**	(10,170)
Financial income	9	**1,458**	1,667
Financial expenses	10	**(1,872)**	(2,543)
Loss before taxation		**(508,998)**	(311,310)
Taxation expense	11	**(247)**	(6,020)
Loss for the year		**(509,245)**	(317,330)
Loss for the year attributable to:			
Owners of the Company		**(508,969)**	(317,644)
Non-controlling interests		**(276)**	314
		(509,245)	(317,330)
			(restated)
Loss per share (US cents)	13		
Basic and diluted		**(9.48)**	(6.59)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2015

	2015	2014
	US$'000	*US$'000*
Loss for the year	**(509,245)**	(317,330)
Other comprehensive expenses for the year:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(2,345)**	(7,974)
Total comprehensive expenses for the year	**(511,590)**	(325,304)
Total comprehensive expenses attributable to:		
Owners of the Company	**(510,730)**	(323,458)
Non-controlling interests	**(860)**	(1,846)
	(511,590)	(325,304)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 US$'000	2014 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	14	**18,603**	54,790
Property, plant and equipment	15	**199,714**	462,860
Interest in a joint venture		**—**	7,294
Other non-current assets	16	**89,017**	199,123
Restricted bank deposit	22	**2,119**	27,250
		309,453	751,317
CURRENT ASSETS			
Inventories	17	**29,575**	49,178
Trade and other receivables	18	**25,463**	25,993
Time deposits	19	**6,960**	2,700
Cash and cash equivalents	20	**49,184**	45,040
		111,182	122,911
TOTAL ASSETS		**420,635**	874,228
CURRENT LIABILITIES			
Trade and other payables	21	**(18,032)**	(14,800)
Current income tax payable		**(366)**	(478)
Bank borrowings — due within one year	22	**(53,050)**	(63,500)
		(71,448)	(78,778)
NET CURRENT ASSETS		**39,734**	44,133
TOTAL ASSETS LESS CURRENT LIABILITIES		**349,187**	795,450
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(6,324)**	(6,471)
Provision for close down and restoration costs		**(6,449)**	(4,022)
Bank borrowings — due more than one year	22	**(215,238)**	(205,052)
		(228,011)	(215,545)
TOTAL LIABILITIES		**(299,459)**	(294,323)
NET ASSETS		**121,176**	579,905

	Note	**2015**	2014
		US$'000	*US$'000*
CAPITAL AND RESERVES			
Share capital	*23*	**1,260,665**	1,211,231
Treasury shares		**—**	(11,986)
Capital reserve		**17,984**	17,984
Reserves		**1,967**	11,752
Accumulated losses		**(1,160,915)**	(651,946)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**119,701**	577,035
NON-CONTROLLING INTERESTS		**1,475**	2,870
TOTAL EQUITY		**121,176**	579,905

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2015

	Total attributable to owners of the Company										
	Share capital	**Share premium**	**Treasury shares**	**Capital reserve[b]**	**Share-based payments reserve**	**Translation reserve**	**Other reserve[a]**	**Accumulated losses**	**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*
Balance at 1 January 2014	5,834	1,166,006	(12,846)	17,984	11,905	(15,825)	19,020	(334,302)	857,776	5,062	862,838
Loss for the year	—	—	—	—	—	—	—	(317,644)	(317,644)	314	(317,330)
Other comprehensive expenses for the year											
Exchange differences on translation of foreign operations	—	—	—	—	—	(5,814)	—	—	(5,814)	(2,160)	(7,974)
Total comprehensive expenses for the year	—	—	—	—	—	(5,814)	—	(317,644)	(323,458)	(1,846)	(325,304)
Share-based payments	—	—	—	—	3,326	—	—	—	3,326	—	3,326
Vesting of share-based awards	—	—	860	—	(533)	—	(327)	—	—	—	—
Issue of new shares *(note 23)*	20,209	19,782	—	—	—	—	—	—	39,991	—	39,991
Transaction costs attributable to issue of new shares *(note 23)*	(300)	(300)	—	—	—	—	—	—	(600)	—	(600)
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	1,185,488	(1,185,488)	—	—	—	—	—	—	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(346)	(346)
Balance at 31 December 2014	1,211,231	—	(11,986)	17,984	14,698	(21,639)	18,693	(651,946)	577,035	2,870	579,905
Loss for the year	—	—	—	—	—	—	—	(508,969)	(508,969)	(276)	(509,245)
Other comprehensive expenses for the year											
Exchange differences on translation of foreign operations	—	—	—	—	—	(1,761)	—	—	(1,761)	(584)	(2,345)
Total comprehensive expenses for the year	—	—	—	—	—	(1,761)	—	(508,969)	(510,730)	(860)	(511,590)
Share-based payments	—	—	—	—	147	—	—	—	147	—	147
Vesting of share-based awards	—	—	11,986	—	(3,300)	—	(8,686)	—	—	—	—
Issue of new shares *(note 23)*	52,656	—	—	—	—	—	—	—	52,656	—	52,656
Transaction costs attributable to issue of new shares *(note 23)*	(3,222)	—	—	—	—	—	—	—	(3,222)	—	(3,222)
Deemed contribution from a shareholder	—	—	—	—	—	—	3,815	—	3,815	—	3,815
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(535)	(535)
Balance at 31 December 2015	1,260,665	—	—	17,984	11,545	(23,400)	13,822	(1,160,915)	119,701	1,475	121,176

(a) The amount arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and 2) transfer of share-based payments reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, and 3) deemed contribution from a shareholder General Nice Development Limited ("General Nice") for accrued interests on outstanding capital contribution (Note 23).

(b) The amounts represent deemed contribution from the then ultimate holding company for 1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company in prior years and 2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2015

	Notes	**2015** ***US\$'000***	2014 *US\$'000*
OPERATING ACTIVITIES			
Net cash used in operations		**(799)**	(25,598)
Interest expenses paid		**(11,022)**	(9,818)
Loan guarantee fee paid		**(2,169)**	—
Income tax paid		**(458)**	(642)
NET CASH USED IN OPERATING ACTIVITIES		**(14,448)**	(36,058)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and exploration and evaluation assets		**(52,599)**	(100,990)
Time deposits (placed) withdrawn	*19*	**(4,260)**	40
Restricted bank deposits withdrawn (placed)		**25,131**	(21,250)
Interest received		**1,458**	1,667
Dividend received from joint venture		**917**	—
Proceeds on disposal of property, plant and equipment		**118**	450
Disposal of subsidiaries		**—**	3,150
NET CASH USED IN INVESTING ACTIVITIES		**(29,235)**	(116,933)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		**64,894**	154,007
Proceeds on issuance of new shares	*23*	**52,656**	39,991
Repayment of bank borrowings		**(65,820)**	(81,050)
Transaction costs attributable to issuance of new shares		**(3,222)**	(1,120)
Dividends paid		**(535)**	(346)
Loan commitment fees paid		**(72)**	(467)
NET CASH FROM FINANCING ACTIVITIES		**47,901**	111,015
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**4,218**	(41,976)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**45,040**	89,642
Effect of foreign exchange rate changes		**(74)**	(2,626)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**49,184**	45,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

1. GENERAL

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 October 2010. The Company together with its subsidiaries are hereinafter referred to as the "Group".

The address of the registered office and principal place of business of the Company is 6H, 9 Queen's Road Central, Hong Kong. The consolidated financial statements are presented in United States Dollars ("US Dollars"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industry across the world. The main activities of the Group are in Russia and China and the Group predominantly serves the Russian and Chinese markets.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance.

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group's loss for the year, the Group's outstanding bank borrowings due for repayment in 2016, the Group's capital and other commitments as at 31 December 2015 and the Group's financial covenants requirements under the ICBC Facility Agreement (as defined in note 22), against the cash and cash equivalents and the credit facilities maintained by the Group. The directors forecasted that, among others, the loan covenants under the ICBC Facility Agreement will be breached in the foreseeable future and this violation will cause the related loan to become immediately due and payable. Accordingly, the Group is in the process of obtaining, and the directors believe that, a waiver of the Financial Covenants (as defined in note 22) from ICBC and its insurance agent on (a) the financial covenants compliance requirements under the ICBC Facility Agreement until 31 December 2017; and (b) the debt service reserve account replenishment requirement under the DSRA Agreement (as defined in note 22), will be forthcoming. The Group is exploring any other feasible measures to improve its financial position.

The directors of the Company have also performed an assessment of the Group's future liquidity and cash flows, taking into account the following relevant matters:

(i) On 14 March 2016, the Group entered into an agreement with its construction contractor of the K&S mine project ("K&S Project"), in respect of, among others, new deferred payment terms for the Group's remaining obligations under the EPC Contract (as defined in note 22) in three equal instalments within 30 days of 31 December 2017, 31 December 2018 and 31 December 2019 respectively;

(ii) The Group is implementing active cost-saving measures to improve operating cash flows and its financial position;

(iii) The Group is anticipating commencement of full-scale operations of K&S Project which will generate sales in the first half of 2016; and

(iv) The very substantial volatility in the Russian Rouble/US Dollar exchange rate which may continue in 2016, given that a significant percentage of the Group's costs are denominated in Russian Roubles, whilst a substantial portion of the Group's sales are denominated in US Dollars.

In respect of the measures described in (ii) and (iii) above, after making enquiries and based on progress to date, the directors of the Company expect that each will be concluded successfully within the designated time frame.

In respect of the assumptions referred to in (iv) above, the directors of the Company have performed sensitivity analyses taking into account what they consider to be reasonably possible adverse fluctuations in the Russian Rouble/US Dollar exchange rate in the foreseeable future.

The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future and are satisfied that all covenant obligations will be met accordingly. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

However, if the Group were unable to obtain the waiver from ICBC and its insurance agents, and successfully implement the measures described above or if market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and its financial liquidity may be adversely impacted, in which case adjustments may have to be made to (i) reflect the situation that assets may need to be realised other than their carrying amounts; and (ii) provide for further liabilities that may arise. No adjustments have been made in the consolidated financials statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2014 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets (e.g. the impairment on trade and other receivables). It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except as described above, the directors of the Company do not anticipate that the application of the new and revised HKFRS will have a material effect on the amounts recognised in the Group's consolidated financial statements.

4. SEGMENT 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 four operating segments, Mines in Production, 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. No operating segments identified by the Group's Executive Committee have been aggregated in arriving at the reportable segments of the Group. The Group has four operating and reportable segments under HKFRS 8:

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region").

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the K&S project, the Garinskoye project, the Bolshoi Seym project, the Molybdenum Exploration project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russia Far East region.

- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.

- Other segment ("Other") primarily includes the Group's interests in a joint venture 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 operating segments are the same as the Group's accounting policies. Segment results represent the results earned by each segment without the allocation of central administration expenses, central depreciation and amortisation, other gains and losses and other expenses, financial income and financial expenses.

Segment results 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 central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax and bank borrowings.

For the year ended 31 December 2015

	Mines in production *US$'000*	Mines in development *US$'000*	Engineering *US$'000*	Other *US$'000*	Total *US$'000*
Revenue					
External sales	**80,351**	**—**	**1,559**	**—**	**81,910**
Segment revenue	**80,351**	**—**	**1,559**	**—**	**81,910**
Site operating expenses and service costs	**(93,061)**	**(520)**	**(2,267)**	**(48)**	**(95,896)**
Site operating expenses and service costs include:					
Depreciation and amortisation	**—**	**(5,836)**	**(182)**	**—**	**(6,018)**
Impairment charges	**(250)**	**(473,905)**	**—**	**(5,895)**	**(480,050)**
Share of results of a joint venture	**—**	**—**	**—**	**1**	**1**
Segment loss	**(12,960)**	**(474,425)**	**(708)**	**(5,942)**	**(494,035)**
Central administrative expenses					**(10,073)**
Central depreciation and amortisation					**(87)**
Other gains and losses and other expenses					**(4,389)**
Financial income					**1,458**
Financial expenses					**(1,872)**
Loss before taxation					**(508,998)**
Other segment information					
Additions to non-current assets:					
Capital expenditure	**121**	**40,789**	**1**	**1**	**40,912**
Exploration and evaluation expenditure capitalised	**—**	**375**	**—**	**—**	**375**
Segment assets	**26,561**	**366,784**	**8,584**	**1,426**	**403,355**
Central cash and cash equivalents					**17,280**
Consolidated assets					**420,635**
Segment liabilities	**(11,009)**	**(5,928)**	**(570)**	**(7,340)**	**(24,847)**
Bank borrowings					**(268,288)**
Deferred tax liabilities					**(6,324)**
Consolidated liabilities					**(299,459)**

For the year ended 31 December 2014

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	117,972	—	4,442	—	122,414
Segment revenue	117,972	—	4,442	—	122,414
Site operating expenses and service costs	(141,634)	(335)	(4,176)	(1,818)	(147,963)
Site operating expenses and service costs include:					
Depreciation and amortisation	(5,604)	(8,909)	(310)	(14)	(14,837)
Impairment charges	(63,563)	(197,265)	—	—	(260,828)
Share of results of a joint venture	—	—	—	2,900	2,900
Segment (loss) profit	(87,225)	(197,600)	266	1,082	(283,477)
Central administrative expenses					(16,577)
Central depreciation and amortisation					(210)
Other gains and losses and other expenses					(10,170)
Financial income					1,667
Financial expenses					(2,543)
Loss before taxation					(311,310)
Other segment information					
Additions to non-current assets:					
Capital expenditure	749	41,665	2	—	42,416
Exploration and evaluation expenditure capitalised	—	845	—	—	845
Segment assets	33,674	780,260	12,483	9,888	836,305
Central cash and cash equivalents					37,923
Consolidated assets					874,228
Segment liabilities	(5,589)	(4,092)	(826)	(8,793)	(19,300)
Bank borrowings					(268,552)
Deferred tax liabilities					(6,471)
Consolidated liabilities					(294,323)

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and ilmenite and rendering engineering services to a number of independent third party customers during the years ended 31 December 2015 and 2014. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2015, sales were made to Heilongjiang Jianlong Steel Company Limited amounted to US$55,906,000 (2014: US$92,917,000) and Ningbo Xinfu Titanium Dioxide Co., Ltd. amounted to US$10,579,000 (2014: US$14,127,000) attributable to the Mines in Production segment comprising 68% and 13% (2014: 76% and 12%) of the total revenue respectively. There were no other customers that contributed over 10% on the total revenue of the Group during the years ended 31 December 2015 and 2014.

5. REVENUE

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

	2015	2014
	US$'000	*US$'000*
Revenue		
Sales of goods	**80,351**	117,972
Rendering of services	**1,559**	4,442
	81,910	122,414

6. OPERATING EXPENSES

	2015	2014
	US$'000	*US$'000*
Operating expenses		
Site operating expenses and service costs	**95,896**	147,963
Central administration expenses	**10,160**	16,787
	106,056	164,750

7. IMPAIRMENT CHARGES

At 31 December 2015, the Group considered whether there were any indicators that further impairment or the need to reverse previously recognised impairment that existed at the Kuranakh project located in the Amur Region of the Russian Federation; and K&S Project which is at the developing stage and is located in the EAO Region. As a result, the related property, plant and equipment of the Kuranakh project has been further impaired by approximately US$250,000 (2014: US$63,563,000) for the year ended 31 December 2015, principally due to its higher cash costs of production, lower purity of the ore concentrates and the weaker forecast iron ore and ilmenite prices mainly affected by the falling commodity prices across the globe. The impairment was charged mainly against mining assets within property, plant and equipment.

Due to the current low iron ore and ilmenite price environment and the higher operating costs, the Kuranakh mine has been rendered uneconomic and therefore the Group has decided to move the operation to care and maintenance since March 2016. For the purpose of the impairment testing of the Kuranakh project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2014: 12.0%).

In addition, management concluded that an impairment charge was necessary for the K&S Project as at 31 December 2015 as its recoverable value is lower that its carrying value. Due to the spot iron ore prices falling beyond management's estimate made as at 31 December 2014, the carrying value of the K&S Project has been additionally impaired by approximately US$437,343,000 in the current year (2014: US$197,265,000). This impairment charge is allocated against property, plant and equipment amounting to US$296,504,000 (2014: US$138,127,000), and prepayments for property plant and equipment amounting to US$140,839,000 (2014: US$59,138,000). Further, certain exploration and evaluation assets amounting to US$36,562,000 (2014: nil) has been fully impaired due to the substantial drop in the iron ore price over the years. As such, the carrying amount of the respective exploration and evaluation asset is unlikely to be recovered from successful development. The directors of the Company will continue to monitor the latest market trends and assess impairment on an on-going basis.

For the purpose of the impairment testing of the K&S Project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2014: 12.0%).

The key assumptions and considerations used for the purpose of impairment tests for both Kuranakh mine and K&S Project take into account the recent US Dollar/RUR exchange rate, the inflation rate over the expected life of the mine and iron ore prices over the expected life of the mine.

Forecast inflation rates and sales prices for iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management has estimated the long term forecast sales prices for iron ore concentrate prices which take into account their views of the market, recent volatility and other external sources of information. Judgment has then been applied by management in determining a long-term price of iron ore concentrate for the purpose of assessing impairments.

During the year ended 31 December 2015, full provision was made on the interest in a joint venture amounting to US$5,895,000 (2014: nil) as a result of the Kuranakh project being put under care and maintenance which led to cessation in supply of raw materials from the Kuranakh project to the joint venture for its further production of vanadium for sale. The directors of the Company consider that there is no future cash inflow to substantiate the going concern of the joint venture in the foreseeable future.

8. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	2015	2014
	US$'000	*US$'000*
Net foreign exchange loss	**(4,361)**	(13,407)
Net (loss) gain on disposal of property, plant and equipment	**(28)**	110
Net gain on disposal of subsidiaries	**—**	3,127
	(4,389)	(10,170)

9. FINANCIAL INCOME

	2015	2014
	US$'000	*US$'000*
Interest income on cash and cash equivalents	**1,038**	1,410
Interest income on time deposits	**408**	133
Others	**12**	124
	1,458	1,667

10. FINANCIAL EXPENSES

	2015	2014
	US$'000	*US$'000*
Interest expenses on bank borrowings	**19,221**	14,920
Less: Interest expenses capitalised to property, plant and equipment	**(17,827)**	(13,002)
	1,394	1,918
Unwinding of discount on environmental obligation	**478**	625
	1,872	2,543

11. TAXATION EXPENSE

	2015	2014
	US$'000	*US$'000*
Russia current tax	**(187)**	(821)
Current tax expense	**(187)**	(821)
Deferred tax expense	**(60)**	(5,199)
	(247)	(6,020)

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for both years.

Based on the federal and regional laws in Russia, K&S Project is qualified as an investment project and is eligible to income tax relief over 10 years starting from August 2015. Russian corporation tax at the K&S Project will be exempted from August 2015 to August 2020 and then be taxed at a reduced rate of 10% in the following 5 years compared to 20% payable in ordinary course of business.

Cypriot corporation tax is calculated at a rate of 12.5% of the estimated assessable profit for the years ended 31 December 2015 and 2014. No current tax was provided for the years ended 31 December 2015 and 2014 as there was no assessable profit.

No Hong Kong profits tax, UK Corporation tax and PRC Enterprise Income tax was provided for as the Group had no assessable profit arising in or derived from these jurisdictions during both years ended 31 December 2015 and 2014.

12. DIVIDENDS

No dividend was paid or proposed during 2015 and 2014, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

Loss

	2015	2014
	US$'000	*US$'000*
Loss for the purposes of basic and diluted loss per ordinary share being loss attributable to owners of the Company	**(508,969)**	(317,644)

Number of shares

	2015	2014
	Number	*Number*
	'000	*'000*
		(restated)
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	**5,366,261**	4,821,737

The weighted average number of ordinary shares for the years ended 31 December 2015 and 2014 has been adjusted for the Open Offer to qualifying shareholders on the basis of 4 Offer Shares for every 15 existing shares held by the qualifying shareholders that was completed on 7 August 2015.

The computation of diluted loss per share for the years ended 31 December 2015 and 2014 does not take into account of the Company's outstanding shares awarded under the Group's Long-term Incentive Plan ("LTIP") and Deferred Subscription Share (as defined in note 23) since assuming their issuance would result in a decrease in loss per share.

14. EXPLORATION AND EVALUATION ASSETS

	2015	2014
	US$'000	*US$'000*
At the beginning of the year	**54,790**	53,303
Additions	**375**	1,487
Impairment loss recognised *(note 7)*	**(36,562)**	—
At the end of the year	**18,603**	54,790

Garinskoye, the Garinskoye and Kostengiskoye Flanks, Bolshoi Seym Deposit and Molybdenum Exploration Project are classified as exploration and evaluation assets. Additions in both years 2015 and 2014 mainly related to exploration and evaluation expenses capitalised in exploration and evaluation assets. The Garinskoye and Kostengiskoye Flanks was fully impaired in the current year as disclosed in note 7. The Molybdenum Exploration Project was fully impaired in previous years.

15. PROPERTY, PLANT AND EQUIPMENT

	Mine development costs *US$'000*	**Mining assets** *US$'000*	**Non-mining assets** *US$'000*	**Construction in progress** *US$'000*	**Total** *US$'000*
COST					
At 1 January 2014	1,016,753	117,068	59,170	16,022	1,209,013
Additions	69,610	422	573	388	70,993
Transfers	(2,496)	3,385	10	(899)	—
Disposals	(115)	—	(1,132)	—	(1,247)
Disposals of a subsidiary	(17,519)	—	(326)	—	(17,845)
Exchange adjustments	—	—	(4,463)	—	(4,463)
At 31 December 2014 and 1 January 2015	1,066,233	120,875	53,832	15,511	1,256,451
Additions	40,840	—	21	51	40,912
Transfers	(400)	407	2	(9)	—
Disposals	(990)	—	(1,465)	—	(2,455)
Exchange adjustments	—	—	(1,410)	—	(1,410)
At 31 December 2015	1,105,683	121,282	50,980	15,553	1,293,498
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2014	(492,159)	(54,333)	(34,892)	(14,572)	(595,956)
Depreciation charge for the year	(8,091)	(5,552)	(1,404)	—	(15,047)
Impairment charge *(note 7)*	(139,283)	(60,990)	(548)	(869)	(201,690)
Eliminated on disposals	90	—	620	—	710
Eliminated on disposals of a subsidiary	17,100	—	237	—	17,337
Exchange adjustments	—	—	1,055	—	1,055
At 31 December 2014 and 1 January 2015	(622,343)	(120,875)	(34,932)	(15,441)	(793,591)
Depreciation charge for the year	(5,388)	—	(717)	—	(6,105)
Impairment charge *(note 7)*	(296,286)	(407)	(1)	(60)	(296,754)
Eliminated on disposals	906	—	1,388	—	2,294
Exchange adjustments	—	—	372	—	372
At 31 December 2015	(923,111)	(121,282)	(33,890)	(15,501)	(1,093,784)
CARRYING AMOUNTS					
At 31 December 2015	182,572	—	17,090	52	199,714
At 31 December 2014	443,890	—	18,900	70	462,860

At 31 December 2015, cumulative capitalised borrowing costs of US$42,060,000 (2014: US$24,233,000) were included within mine development costs in the above table. Depreciation of US$5,390,000 relating primarily to assets used in the construction of plant in LLC KS GOK was capitalised during the year ended 31 December 2015 (2014: US$4,714,000).

During the years ended 31 December 2015 and 2014, there were no deferred stripping costs incurred in the development of the mine included in the additions to mine development costs that related to the removal of overburden at the Kuranakh mine.

Property, plant and equipment with a net book value of US$5,930,000 (2014: US$6,000,000) have been pledged to secure borrowings of the Group.

At 31 December 2015 and 2014, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$23,133,000 and US$68,259,000 respectively.

16. OTHER NON-CURRENT ASSETS

	2015	2014
	US$'000	*US$'000*
Deferred insurance premium for bank facilities	**—**	3,446
Prepayments for property, plant and equipment	**88,859**	194,076
Deferred loan arrangement fee	**—**	1,490
Cash advances to employees	**158**	111
	89,017	199,123

17. INVENTORIES

	2015	2014
	US$'000	*US$'000*
Stores and spares	**10,079**	25,796
Work in progress	**16,128**	18,370
Finished goods	**3,368**	5,012
	29,575	49,178

No inventories had been pledged as security during the years ended 31 December 2015 and 2014. Work in progress, finished goods and ore stockpiles were recovered by US$252,000 (2014: US$1,635,000) and spare parts were written down by US$7,400,000 (2014: nil) to its net realisable value during the year ended 31 December 2015.

The cost of inventory charged to the consolidated statement of profit or loss and included in site operating expenses and service costs was approximately US$31,614,000 for the year ended 31 December 2015 (2014: US$44,587,000).

18. TRADE AND OTHER RECEIVABLES

	2015	2014
	US$'000	*US$'000*
VAT recoverable	**5,318**	14,974
Advances to suppliers	**2,485**	3,466
Amounts due from customers under engineering contracts	**476**	399
Trade receivables	**10,141**	4,930
Other debtors	**7,043**	2,224
	25,463	25,993

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 2015 and 2014 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

The Group has concentration of credit risk at 31 December 2015 as 79.4% (31 December 2014: 64.3%) of the total trade receivables was due from the Group's largest customer. 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.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 99% of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records for both the years ended 31 December 2015 and 2014.

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 end of the reporting period and no impairment is necessary for these balances which are not past due.

Below is an aged analysis of the Group's trade receivables based on invoice date at the end of the reporting period.

	2015	2014
	US$'000	*US$'000*
Less than one month	**5,271**	4,245
One month to three months	**4,861**	650
Over three months to six months	**—**	21
Over six months	**9**	14
Total	**10,141**	4,930

The Group allows credit periods ranging from 15 days to 63 days (2014: 10 days to 90 days) to individual third party customers. The directors of the Company 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:

	2015	2014
	US$'000	*US$'000*
Less than one month	**2**	9
One to three months	**1**	42
Over three months to six months	**—**	21
Over six months	**9**	14
Total	**12**	86

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 allowance for doubtful debts in respect of trade receivables:

	2015	2014
	US$'000	*US$'000*
At the beginning of the year	**987**	1,780
Changes in allowance for doubtful debts	**44**	44
Amounts written off as uncollectible	**(2)**	(2)
Exchange adjustments	**(230)**	(835)
At the end of the year	**799**	987

Included in the allowance for doubtful debts were impaired trade receivables of US$799,000 and US$987,000 as at 31 December 2015 and 2014, respectively. The amount at 31 December 2015 mainly represented impairment for trade debtors at LLC Petropavlovsk Iron Ore and non-trade debtors at LLC Olekminsky Rudnik (trade debtors at LLC Petropavlovsk Iron Ore for the year ended 31 December 2014) who are in severe financial difficulties and the probability for them to settle the receivable is remote. The Group did not hold any collateral over these balances.

19. TIME DEPOSITS

Time deposits comprised short-term US Dollars denominated bank deposits with an original maturity of three to twelve months. The carrying amounts of the assets approximate their fair value. Time deposits carrying interest at prevailing market rate ranging from 0.45% to 15.50% (2014: 0.7% to 8.15%) per annum.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Cash at banks carry interest at prevailing market rates ranging from 0.4% to 16.25% (2014: 0.05% to 23.00%) per annum for the year ended 31 December 2015.

21. TRADE AND OTHER PAYABLES

	2015	2014
	US$'000	*US$'000*
Trade creditors	**3,121**	4,525
Advances from customers	**195**	443
Accruals and other payables	**14,716**	9,832
	18,032	14,800

For related party and individual third party trade creditors, the average credit period on purchases of goods and services for the year was 19 days (2014: 20 days).

The directors of the Company 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 based on invoice date.

	2015	2014
	US$'000	*US$'000*
Less than one month	**1,030**	1,524
One month to three months	**37**	25
Over three months to six months	**51**	779
Over six months	**2,003**	2,197
Total	**3,121**	4,525

The directors of the Company consider that the carrying amount of other payables approximates their fair value.

22. BANK BORROWINGS

	2015	2014
	US$'000	*US$'000*
Secured bank loans		
Asian Pacific Bank	**10,550**	21,000
Industrial and Commercial Bank of China ("ICBC")	**257,738**	247,552
Total	**268,288**	268,552
Carrying amount repayable		
Within one year	**53,050**	63,500
More than one year, but not exceeding two years	**39,134**	38,864
More than two years, but not exceeding five years	**176,104**	166,188
Total	**268,288**	268,552

Bank loan from Asian Pacific Bank

In April 2014, the Group renewed the US$15,000,000 loan facility ("US$15,000,000 Loan Facility") with Asian Pacific Bank for a 12-month period with an annual interest of 9.0% repayable monthly. In March 2015, such term-loan facility was renewed for another 13-month period with an annual interest of 9.0% repayable monthly and the loan principal is repayable by 21 April 2016. As at 31 December 2015, the Group has drawn down US$8,350,000 from the US$15,000,000 Loan Facility.

In October 2014, the Group renewed another US$10,000,000 loan facility ("US$10,000,000 Loan Facility") with Asian Pacific Bank for 12-month period. The loan bore an annual interest of 10.60% which was repayable monthly. As at 31 December 2014, the Group had drawn down US$6,000,000 from the US$10,000,000 Loan Facility.

In October 2015, the Group renewed the US$10,000,000 Loan Facility with Asian Pacific Bank. The loan bears an annual interest of 10.60% which is repayable monthly. The principal of the loan is repayable by 27 October 2016. As at 31 December 2015, the Group had drawn down US$2,200,000 from the US$10,000,000 Loan Facility.

In 2015, the Group drew down US$12,870,000 from these facilities from Asian Pacific Bank in several tranches on a rolling basis and US$23,320,000 were repaid in aggregate during the year.

At 31 December 2015, the Group had US$14,450,000 (31 December 2014: US$4,000,000) undrawn loan facility with Asian Pacific Bank.

At 31 December 2015, these facilities were primarily working capital financing the Group's Kuranakh project. Both Loan Facilities were secured against the helicopter owned by LLC GMMC ("LLC GMMC"), subsidiary of the Group and the shares of OJSC Giproruda ("OJSC Giproruda"), subsidiary of the Group.

As at 31 December 2014, US$10,000,000 Loan Facility was secured against the helicopter owned by LLC GMMC and the US$15,000,000 Loan Facility was secured against the shares of OJSC Giproruda.

Bank loan from Industrial and Commercial Bank of China

On 6 December 2010, LLC KS GOK, a wholly owned subsidiary of the Company, entered into the HK$3.11 billion (equivalent to US$400 million) Engineering Procurement and Construction Contract ("EPC Contract") with the China National Electric Engineering Corporation ("CNEEC"), contractor at the twin deposits of Kimkan and Sutara ("K&S") project for the construction of the Group's mining operations at K&S.

On 13 December 2010, the Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") pursuant to which ICBC would lend US$340,000,000 (equivalent to HK$2.64 billion) to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The whole facility amount is repayable semi-annually in 16 installments of US$21,250,000 each, starting from December 2014 and is fully repayable by June 2022.

On 14 December 2011, the Group made the first drawdown amounting to US$6,958,000. During the years ended 31 December 2012, 2013 and 2014, the Group made further drawdowns amounting to US$281,018,000. Additional drawn downs amounting to US$52,024,000 were made by the Group during the year. The loan is carried at amortised cost with effective interest rate at 5.91% per annum (2014: 5.63%). The first installments of US$21,250,000 was repaid in December 2014. Further installments of US$42,500,000 in aggregate were repaid in June and December 2015. The outstanding loan principal was US$276,250,000 as at 31 December 2015 (31 December 2014: US$266,726,000).

As at 31 December 2015, the Group had no (2014: US$52,024,000) undrawn financial facility in relation to the ICBC Facility Agreement.

As at 31 December 2015 and 2014, US$2,119,000 and US$27,250,000 respectively, were deposited in a debt service reserve account with ICBC under a security deposit agreement ("DSRA Agreement") related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets. The deposit carries interest at prevailing market rate at around 1.0% per annum for the years ended 31 December 2015 and 2014. In January 2016, the Group has placed restricted bank deposits of an amount up to US$28,250,000 in order to replenish the restricted deposit level pursuant to the security deposit agreement.

Details of guarantee granted by Petropavlovsk PLC in relation to the ICBC Facility Agreement are set out below.

Guarantee arrangements

In relation to the ICBC loan as disclosed in this note, Petropavlovsk PLC has guaranteed the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee ("Recourse Agreement"). No fee will be payable by the Group in respect of the provision of the guarantee by Petropavlovsk PLC while Petropavlovsk PLC remains the parent company of the Company under relevant financial reporting standards. In the event that Petropavlovsk PLC ceases to be the parent company of the Company under the relevant financial reporting standards as agreed with Petropavlovsk PLC, a fee of no more than 1.75% on outstanding amount will be payable by the Company to Petropavlovsk PLC in respect of the guarantee. No security will be granted by the Group to Petropavlovsk PLC in respect of the guarantee. Pursuant to the Recourse Agreement, Petropavlovsk PLC will have the right to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk PLC's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

As at 31 December 2015, Petropavlovsk PLC beneficially owns approximately 35.83% (31 December 2014: 45.39%) of the issued share capital of the Company and accordingly as agreed with the directors of Petropavlovsk PLC, its voting rights in the Company are insufficient to give it the practical ability to direct the relevant activities of the Company unilaterally and does not retain control over the Company. Against this, pursuant to the Recourse Agreement, a fee equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement has been charged for the provision of the guarantee by Petropavlovsk PLC which amounted to US$2,086,000 in 2015 (2014: nil). Under the ICBC Facility Agreement, each of the following will constitute a covenant; and noncompliance with any covenant will constitute an event of default upon which the ICBC Facility Agreement will become immediately due and payable: (i) Petropavlovsk PLC must retain not less than 30% ("Minimal Holding") direct or indirect interest in the Company; (ii) Petropavlovsk PLC has an obligation to maintain a minimum tangible net worth of not less than US$750,000,000, a minimum interest cover ratio of 3.5:1 and a maximum leverage ratio of 4:1 and the group entity holding K&S Project has an obligation to maintain a minimum Debt Service Cover Ratio as defined in the ICBC Facility Agreement of 1.1x (the "Financial Covenants"); and (iii) there are also certain limited restrictions on the ability of Petropavlovsk PLC to grant security over its assets, make disposals of its assets or enter into merger transactions.

According to a waiver letter of 30 December 2014, ICBC has agreed to grant a waiver of the Financial Covenants until 31 December 2015 (or an earlier date of Petropavlovsk PLC and the group entity holding K&S Project manage to comply with their respective Financial Covenants), subject to the fulfillment of certain conditions precedent which were satisfied on 6 February 2015. ICBC has also agreed to amend the Minimal Holding from 30% to 15%.

At 31 March 2016, the Group is in the process of obtaining, and the directors believe that, a waiver of the Financial Covenants from ICBC and its insurance agent on (a) the financial covenants compliance requirements under the ICBC Facility Agreement until 31 December 2017; and (b) the debt service reserve account replenishment requirement under the DSRA Agreement, will be forthcoming.

23. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2015 and 31 December 2014 are as follows:

	Number of shares	*US$'000*
Authorised		
At 1 January 2014		
— Ordinary shares of HK$0.01 each	10,000,000,000	12,820
At 31 December 2014, 1 January 2015 and 31 December 2015	*Note*	*Note*

Note: Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

	Number of shares	*US$'000*
Issued and fully paid		
At 1 January 2014		
— Ordinary shares of HK$0.01 each	4,529,910,301	5,834
Issue of new ordinary shares of HK$0.01 each to General Nice Development Limited ("General Nice") in February 2014	165,000,000	213
Transfer from share premium upon abolition of par value	—	1,185,488
Issue of new ordinary shares to General Nice in April 2014	165,000,000	19,996
Transaction costs attributable to issue of new ordinary shares in April 2014	—	(300)
At 31 December 2014 and 1 January 2015		
— Ordinary shares with no par value	4,859,910,301	1,211,231
Issue of new ordinary shares pursuant to an open offer	1,295,976,080	52,656
Transaction costs attributable to issue of new ordinary shares	—	(3,222)
At 31 December 2015		
— Ordinary shares with no par value	6,155,886,381	1,260,665

The shares issued by the Company rank pari passu with the then existing issued shares and do not carry pre-emptive rights.

On 29 June 2015, the Company announced its equity fund raising plan in order to finance the completion of construction at the K&S Project and bring it into full commercial production and for providing general working capital to the Group. The fund raising was conducted by way of an open offer ("Open Offer") to qualifying shareholders on the basis of 4 offer shares ("Offer Shares") for every 15 existing shares held by the qualifying shareholders on the record date. The Offer Shares were offered at the subscription price of HK$0.315 each. On 5 August 2015, the Company announced the completion of the Open Offer. 1,295,976,080 ordinary shares were allotted and issued on 7 August 2015 with net proceeds of approximately US$49.4 million.

As disclosed in note 33 to the Group's 2014 consolidated financial statements, on 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK$1,845,000,000 (equivalent to approximately US$238,000,000) in aggregate.

At 31 December 2015 and 31 December 2014, excluding the shares subscribed by General Nice in the Company's Open Offer in 2015, a cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK$1,315.9 million (equivalent to approximately US$169.6 million). As General Nice has not made full payment for the outstanding balance, interest on the outstanding balance is payable on a monthly basis and calculated as follows:

(a) 6% per annum from 19 December 2014 to 18 March 2015;

(b) 9% per annum from 19 March 2015 to 18 June 2015; and

(c) 12% per annum from 19 June 2015 and thereafter.

As the General Nice Further Subscription has not completed, the subscription of shares by Minmetals cannot be completed. The Company is in discussions with General Nice, Mr. Cai Sui Xin and Minmetals about a further deferred completion and other available options.

During the year ended 31 December 2015, transaction costs of approximately US$3,222,000 (2014: US$600,000) directly attributable to the issuance of new shares were debited against equity.

CHAIRMAN & CHIEF EXECUTIVE OFFICER REVIEW

Ensuring Sustainability Amidst Volatile Markets

2015 was a difficult year for commodities producer, the iron ore industry is no exception. During the year, we felt the pressure brought by macro-economic downturn and structural adjustment of our industry. In the last quarter of 2015, China's economic growth has for the first time in 25 years slipped under the important 7% statistic. Together with the problem of global iron ore oversupply, the benchmark 62%Fe seaborne prices finished the year at US$43 per tonne.

In order for IRC to survive and hopefully thrive amidst volatile market stated above, we have responded in several ways to ensure our business remains sustainable and competitive: (1) Stay lean and efficient across the Group; (2) Commission K&S project as soon as possible — our cost-positive project should be handed over to IRC from the contractor within the promised timeframe of first half of 2016 and (3) Strengthen and maintain balance sheet at healthy level, explained further in the CFO's Statement in the following pages.

Cost Optimisation and Streamline Operations — Stay Lean and Efficient

To match the deteriorating commodity markets and uncertain global economic environment, we continued to carry out cost optimisation programme across the Group, with an even more stringent effort compared to last year. In terms of our operation, the site operating expenses decreased by 35%. At the Group level, the overall central administrative expenses were also reduced by 39%. These initiatives include but were not limited to optimising the mine plan, streamlining overheads and processing process and other corporate cost-cutting measures, such as salary reductions and office relocation. It is because of these relentless efforts that we can produce a significant reduction in losses this year. During the year, we are proud to report that Kuranakh's operational team completed an excellent job in terms of production, beating its iron ore production target by 24%.

Consolidating Resources on Positive Operating Margin Project — K&S

Despite the above cost optimising efforts, due to continuously weak pricing environment, it is sad to report that in December 2015, we decided to move Kuranakh to care and maintenance. Kuranakh is our first operating mine and Russia's first vertically integrated titanomagnetite plant. Mothballing the site is a difficult decision, but it is also necessary for us to stay lean in difficult times such as now. We believe this decision is in the best interests of the Company, our shareholders and other stakeholders. We will focus our resources on K&S, which will generate operating margin even at current price environment.

2016 will be a transformational year for the Group as the hot commissioning of K&S comes closer to completion. The project has encountered several delays and the blame is borne mainly by our contractor, CNEEC. As much as we share the frustration as our investors, currently only two milestones remain until the full completion of hot commissioning of K&S and based on guidance from CNEEC, we expect that the operational plant will be completed during the first half of 2016. More importantly, we are working closely with CNEEC to avoid further slippage of full commissioning timeline and settlement of negotiated penalty payments for further delay.

K&S is one of the lowest operating cost iron ore projects in the world. Based on our cost optimisation analysis on K&S announced in 2015, when in full capacity, K&S can produce 3.2 million tonnes of 65.8% Fe grading iron ore concentrate delivered to the Chinese border at a cash cost per tonne of c.US$35. In addition, the operating cost will be further lowered thanks to (1) the current Rouble depreciation and (2) Amur River Bridge:

(1) Rouble depreciation — The Russian Roubles depreciated significantly since December 2014 and the currency remained weak throughout 2015 and continued into 2016. The group's operating costs are predominately in Roubles while revenues are mainly in US Dollars.

(2) Amur River Bridge is a Sino-Russian railway bridge that will span the two countries' borders over the Heilongjiang River. It is expected to be completed in 2017. During 2015, the basic construction of the Chinese side of the Bridge was completed. The Bridge will shorten IRC's transportation distance by 10 times (K&S to Bridge: c.150km) and thus cash cost per tonne is estimated to further reduce to well below US$30/t.

Positive Geopolitical Environment — Deepening Sino-Russian Relationship

With China's latest "One Belt One Road" initiatives, the Sino-Russia ties in bilateral trade and investment may benefit IRC in the future. In the Far East of Russia, where K&S lies, we are foreseeing more bilateral trades and investment.

Two months ago, Mr. Arkady Dvorkovich, the Deputy Prime Minister of Russia, visited Hong Kong and reassured of a series of strategic economic collaborations in place between Russia and China, such as more infrastructure constructions and integrations across the border, especially in the Russian Far East region. Mr. Yury Trutnev, the Deputy Prime Minister of Russia and Presidential Envoy to the Far Eastern Federal District, visited our K&S mine site in February 2016 and discussed a potential decrease in export tariffs.

Like all players in the commodities sector, 2015 was a challenging year, but we took proactive steps to mitigate the negative impacts. We believe that in 2016, these market challenges will persist but as K&S comes on stream, our financial outlook will change, with the hope of significant returns. Lastly, we would like to thank our team, especially the Kuranakh operation team, for their hard work during the year, and we wish extend our gratitude to our shareholders, for your patience and ongoing support in IRC.

CFO STATEMENT & RESULTS OF OPERATION

With the backdrop of a slower economy and weak commodity price environment, the Group reported a loss but the overall financial position remained sound and solid. The loss before impairment is almost halved compared to last year as a result of extensive cost cutting measures implemented across the Group. Our net loss attributable to owners of the Company before impairment amounted to US$28.9 million, which was 49% less than last year.

As the global iron ore supply surplus persists and the weakening of demand as a result of the slowdown in China, the price of iron ore in 2015 was under a downward pressure. The benchmark price for 62% iron ore content delivery to China fell by 43% year-on-year from an average of US$97 per tonne in 2014 to US$55 per tonne in 2015.

In view of a worsening iron ore price environment, similar to our peers, we are guided by accounting rules to book an impairment loss in relation to our mining assets. In 2015, the Group's total impairment amounted to US$480 million. However, it is important to note that this impairment does not affect our cash flow.

Protecting the balance sheet is essential to the Group at tough times like now. We are grateful to have the support from our investors, who despite all negative sentiments on the market, maintained faith in IRC. In August 2015, the Group successfully completed a fundraising exercise by way of a fully-underwritten Open Offer of approximately US$50 million, on the basis of 4 Offer Shares for every 15 existing shares at the subscription price of HK$0.315 per Offer Share. This support has strengthened our cashflow position on the critical stage of K&S being moved into hot commissioning.

Last but not the least is the support from our lenders and Chinese partners. It is apparent that the economic landscape has changed since the credit agreement with ICBC was signed in 2010, and we are now in the need of adjusting some of the original terms of the agreement, with the aim to obtain waivers of maintaining certain cash deposits with ICBC, and the obligations of IRC and its guarantor Petropavlovsk plc to comply with certain financial covenants. The Group has received positive feedbacks for the waivers and it is envisaged that an amicable solution could be reached in due course. At the end of 2015, total debt outstanding was US$286.9 million made up of US$276.3 million of the ICBC credit facility for K&S, and US$10.6 million of working capital facility for the Kuranakh project.

We are also pleased to announce that our main contractor, CNEEC, has recently agreed to payment terms that will alleviate our cash flow, allowing outstanding construction payments to be paid on a deferred basis over several years.

At the end of 2015, we reported cash and deposits of US$58.3 million. This figure included US$2.1 million which was in the debt service reserve account at ICBC, and does not include the fully funded bond payments that ICBC hold and which IRC may call upon in the event certain circumstances under the contract with CNEEC arise. We remain fully funded to complete K&S project.

The table below shows the consolidated results of the Group for the year ended 31 December 2015 and 2014:

	For the year ended 31 December		
	2015	2014	Variance
Key Operating Data			
Iron Ore Concentrate			
— Sales volume *(tonnes)*	**1,091,600**	1,027,595	6.2%
— Average price *(US$/tonne)*	**51**	91	(44.0%)
Ilmenite			
— Sales volume *(tonnes)*	**205,632**	165,716	24.1%
— Average price *(US$/tonne)*	**119**	151	(21.2%)
Consolidated Income Statement ***(US$'000)***			
Revenue			
Iron Ore Concentrate	**55,906**	92,917	(39.8%)
Ilmenite	**24,445**	25,055	(2.4%)
Engineering Services	**1,559**	4,442	(64.9%)
Total Revenue	**81,910**	122,414	(33.1%)
Site operating expenses and service costs	**(95,896)**	(147,963)	(35.2%)
Central administration expenses	**(10,160)**	(16,787)	(39.5%)
Impairment charges	**(480,050)**	(260,828)	84.0%
Share of results of a joint venture	**1**	2,900	(100%)
Net operating loss	**(504,195)**	(300,264)	67.9%
Other gains and losses and other expenses	**(4,389)**	(10,170)	(56.8%)
Financial expenses, net of financial income	**(414)**	(876)	(52.7%)
Loss before taxation	**(508,998)**	(311,310)	63.5%
Taxation	**(247)**	(6,020)	(95.9%)
Loss after taxation	**(509,245)**	(317,330)	60.5%
Non-controlling interests	**276**	(314)	n/a
Loss attributable to owners of the Company	**(508,969)**	(317,644)	60.2%
Underlying Results ***(US$'000)***			
Loss attributable to owners of the Company, excluding impairment charges	**(28,919)**	(56,816)	(49.1%)

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operation of Kuranakh. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. However, as with most of IRC's international industry peers, the Group's income statement includes material non-cash impairment provisions. These impairments are provided mainly in light of the volatility of the global economy, such as the weakness in global bulk commodity markets, and are therefore non-operating and non-recurring in nature.

To facilitate a better understanding of the Group's operating results, the calculation of the Group's underlying results, which excludes the effect of the impairments, is set out below:

	For the year ended 31 December		
US$'000	**2015**	2014	Variance
Loss attributable to owners of the Company	**(508,969)**	(317,644)	60.2%
Impairment charges	**480,050**	260,828	84.0%
Underlying loss for the year	**(28,919)**	(56,816)	(49.1%)

It is worth noting that, despite the further softening of the iron ore and ilmenite prices in 2015 which decreased the Group's revenue by 33.1%, IRC managed to significantly reduce its underlying loss by 49.1%. This underlines the Group's continuous effort to control cost in the midst of the current challenging operating environment.

REVENUE

Iron ore concentrate

During 2015, IRC increased the sales volume of its iron ore by 6.2% compared to last year, suggesting good demand for the Group's iron ore concentrate. However, the significant increase in iron ore supply in the market, and commensurate fall in iron ore prices, have resulted in a 44.0% decrease in selling price from US$91 per tonne to US$51 per tonne. As a result, sales revenue of iron ore decreased by 39.8% from US$92.9 million to US$55.9 million.

Ilmenite

205,632 tonnes of ilmenite were sold in 2015, a 24.1% increase compared to 165,716 tonnes last year, reflecting the premium quality of the Group's ilmenite and a reasonable ilmenite market in terms of quantity demand. However, the positive effect of the increase in sales volume was offset by the 21.2% fall in selling price from US$151 per tonne to US$119 per tonne. As a result, revenue from ilmenite sales decreased slightly by 2.4% from US$25.1 million to US$24.4 million.

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, reduced by US$2.9 million to US$1.6 million, due to decreased billing for its consulting services and the impact of the Rouble depreciation.

SITE OPERATING EXPENSES AND SERVICE COSTS

Site Operating Expenses and Service Costs mainly represent the mining and operating expenses incurred by the Group's sole mine in production, the Kuranakh mine. The expenses decreased by 35.2% from US$148.0 million to US$95.9 million.

Considering that the sales volumes of iron ore and ilmenite increased by 6.2% and 24.1% respectively, and also taking into account the relatively high inflation in Russia, the 35.2% reduction in cost is particularly notable. This is the result of successful implementation of the cost cutting measures and revised mining plan with the help of the depreciation in Russian Roubles.

During the year ended 31 December 2015, 1,114,153 tonnes (31 December 2014: 1,010,360 tonnes) of iron ore concentrate and 193,236 tonnes (31 December 2014: 178,426 tonnes) of ilmenite were produced, ahead of the Group's 2015 production targets by 23.8% and 20.8% respectively. In accordance with the general market practice and for presentation and analysis purposes, the table below classifies ilmenite sales as a by-product credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore. The details of the key cash cost components are as follows:

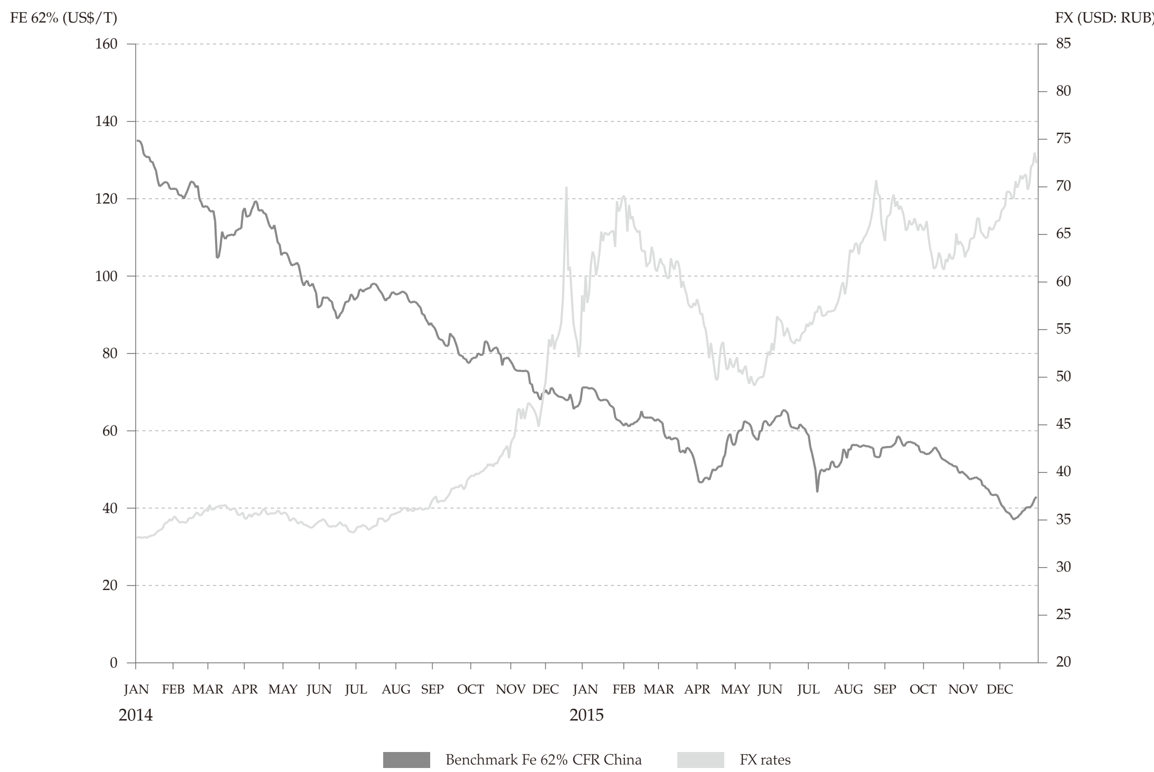
	2015		2014
	Total cash cost US$ million	**Cash cost per tonne US$/t**	Cash cost per tonne US$/t
Mining	**9.8**	**8.8**	29.6
Processing	**12.6**	**11.4**	17.1
Transportation to plant	**6.3**	**5.7**	8.3
Production overheads, site administration and related costs	**18.4**	**16.4**	26.4
Transportation to customers	**21.2**	**19.4**	30.7
Movements in inventories and finished goods	**3.8**	**3.5**	6.9
Contribution from sales of ilmenite* and others	**(11.5)**	**(10.3)**	(11.9)
Net cash cost	**60.6**	**54.9**	107.1

* net of tariff and other railway charges for ilmenite

The significant decrease in cash cost is mainly attributable to the cost cutting measures coupled with adopting a revised mining plan. As widely reported in the press, the Russian Roubles depreciated significantly since December 2014 and the currency remained weak in 2015. While the Group's income is mainly US Dollars denominated and therefore unaffected by the Roubles depreciation, the Group's operating costs, which are mostly denominated in Roubles, reduced significantly in 2015.

The chart below shows how the depreciation of Roubles helps offsetting the drop in iron ore prices:

Benchmark Fe 62% CFR China VS. FX rates (USD:RUB)



SEGMENT INFORMATION

Despite the Group's effort to reduce operating costs, the decline in selling prices of iron ore and ilmenite in 2015 had resulted in the "Mine in production" segment reporting a segmental loss before impairment of US$12.7 million, an improvement compared to last year (31 December 2014: loss of US$23.7 million). The "Engineering" segment also recorded a loss of US$0.7 million (31 December 2014: profit of US$0.3 million) following a decrease in consultancy billings.

CENTRAL ADMINISTRATION EXPENSES

In light of the challenging market and operating environments, special attention continues to be given to controlling administrative costs. The successful implementation of the cost savings initiatives continued to provide benefits, with the Group's central administration costs reducing 39.5% to US$10.2 million.

IMPAIRMENT CHARGES

As the weak iron ore price environment deteriorated further during 2015, and as our business model is sensitive to iron ore price, it is considered appropriate to record a one-off non-cash impairment provision of US$480.1 million, of which a partial impairment of US$437.3 million was made against K&S mine and US$36.9 million against certain exploration and evaluation assets and other assets. (31 December 2014: impairment provision of US$63.6 million against the full carrying value of Kuranakh mine and partial impairment provision of US$197.3 million against the K&S mine). The production and sales of the joint venture is dependent on the concentrate from Kuranakh mine. Due to challenging operating environment and falling iron ore and ilmenite prices, the Group has announced to move the Kuranakh mine to care and maintenance during the year ended 31 December 2015. It is therefore considered prudent to record a full impairment of approximately US$5.9 million (31 December 2014: nil) to the interest in the joint venture.

SHARE OF RESULTS OF JOINT VENTURE

In 2015, the vanadium joint venture, 46% owned by IRC, provided the group with a nominal profit (31 December 2014: share of profit of US$2.9 million).

OTHER GAINS AND LOSSES AND OTHER EXPENSES

The Other Gains and Losses and Other Expenses of US$4.4 million (31 December 2014: US$10.2 million) mainly represents the exchange losses following the depreciation of Russian Roubles.

NET FINANCIAL EXPENSES

Net financial expenses mainly represent the interest income from bank deposits arising from the proceeds of the open offer, net of the interest expenses of the working capital facilities from Asia Pacific Bank.

TAXATION

Tax charge decreased significantly from US$6.0 million to US$0.2 million. In 2014, a deferred tax liability of US$5.2 million was recognised, and hence tax charge of the same amount was booked as a non-cash item, primarily due to the depreciation of Russian Roubles against US Dollars which gave rise to temporary differences between the value of non-monetary fixed assets and the tax base of such non-monetary fixed assets. In 2015, as Roubles remained weak throughout the year, deferred tax movement arising from the changes in Roubles exchange rate was less significant.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As a result of the above, the Loss attributable to the Owners of the Company in 2015 amounted to US$509.0 million (31 December 2014: US$317.6 million).

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2015 and 31 December 2014:

	For the year ended 31 December	
US$'000	**2015**	2014
Net cash used in operations	**(799)**	(25,598)
Interest paid	**(11,022)**	(9,818)
Capital expenditure	**(52,599)**	(100,990)
Proceeds on issuance of shares, net of transaction costs	**49,434**	38,871
Proceeds from bank borrowings, net of repayment	**(926)**	72,957
Disposal of subsidiaries	**—**	3,150
Other payments and adjustments, net	**(815)**	(1,964)
Net movement during the year	**(16,727)**	(23,392)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	**74,990**	98,382
— At 31 December	**58,263**	74,990

The net cash used in operations reduced significantly from US$25.6 million to US$0.8 million, mainly due to the cost cutting measures implemented and other working capital movements. Capital expenditure of US$52.6 million was spent mainly on the K&S mine, as the construction progress of the project stepped up for commissioning.

For financing, the Group had allotted and issued 1,296.0 million shares under an open offer and received a net proceeds of approximately US$49.4 million. A net bank repayment of US$0.9 million represents mainly the drawing down of the remaining ICBC project finance facility of US$52.0 million offset by the repayments. The ICBC facility was to finance the construction of the K&S project.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

On 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice Development Limited ("General Nice") and Minmetals for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK$1,845 million (equivalent to approximately US$238 million) in aggregate. The share placements not only provided the Group with strong strategic Chinese investment partners, but also solidified the Group's financial strength by unlocking the value in IRC's extensive portfolio of development projects. The transaction also includes off-take and marketing arrangements, providing IRC with both sales volume and cash-flow security. As at 31 December 2015, General Nice has completed more than 80% of its commitment by investing approximately US$170 million into the Company, while the completion of the subscription by Minmetals is subject to further agreement between the parties. The Company is in discussions with General Nice and Minmetals about a further deferred completion and other available options.

On 29 June 2015, the Company announced its equity fund raising plan by way of an Open Offer in order to finance the completion of construction of K&S and for providing general working capital to the Group. The Open Offer was completed on 7 August 2015 after allotting and issuing 1,295,976,080 ordinary shares and receiving a net proceeds of approximately US$49.4 million. In accordance with the intended use of proceeds of the transaction as disclosed in the shareholders' circular dated 17 July 2015, out of the total net proceeds of US$49.4 million, not less than 80% would be used to finance the completion of the final stage of construction of the K&S Project and the working capital needs of K&S during the initial period of commercial production. The remaining net proceeds would be used for general working capital purposes of the Group. As of 31 December 2015, the proceeds had been used in accordance with the intention above-mentioned. Approximately US$31 million and US$8 million had been spent on financing the construction of the K&S project and funding the general expenses of the Group respectively, with the remaining US$10 million deposited in banks.

Cash Position and Capital Expenditure

As at 31 December 2015, the carrying amount of the Group's cash and bank balances was approximately US$58.3 million (31 December 2014: US$75.0 million) of which US$2.1 million (31 December 2014: US$27.3 million) was under restricted cash deposit. The balance represents a decrease of US$16.7 million, mainly to fund the K&S development and the Group's administrative costs and to service the bank loans. In accordance with the ICBC loan facility agreement, the Group replenished US$26 million to the restricted cash deposit account in January 2016.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2015, US$146.1 million (31 December 2014: US$236.4 million) was incurred on development and mining production activities. No exploration activity was carried out for the year ended 31 December 2015 and 2014. The following table details the capital and operating expenditures in 2015 and 2014:

	For the year ended 31 December 2015			For the year ended 31 December 2014		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
Kuranakh	**93.1**	**0.1**	**93.2**	136.0	1.1	137.1
K&S development	**0.5**	**52.0**	**52.5**	0.3	97.7	98.0
Exploration projects and others	**—**	**0.4**	**0.4**	—	1.3	1.3
	93.6	**52.5**	**146.1**	136.3	100.1	236.4

The table below sets out the details of material new contracts and commitments entered into during 2015 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to completion.

		For the year ended 31 December	
US$'m	**Nature**	**2015**	2014
Kuranakh	Purchase of property, plant and equipment	**—**	0.3
K&S	Purchase of property, plant and equipment	**1.3**	0.1
	Sub-contracting for excavation related works	**—**	0.4
Others	Other contracts and commitments	**—**	0.1
		1.3	0.9

Borrowings and Charges

As 31 December 2015, the Group had gross borrowings of US$286.9 million (31 December 2014: US$287.7 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US$10.6 million (31 December 2014: US$21.0 million) was bank borrowing for funding the working capital of the Group while the remaining US$276.3 million (31 December 2014: US$266.7 million) represents long term borrowing drawn from the US$340 million ICBC loan facility which is guaranteed by Petropavlovsk. The Group has been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.1% (31 December 2014: 6.0%) per annum. As of 31 December 2015, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, increased to 63.4% (31 December 2014: 25.0%) mainly due to the drawing of the ICBC loan facility to finance the construction of the K&S project and decrease of the Group's net assets following the provision of the non-cash impairment charge mentioned above.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

Employees and Emolument Policies

As at 31 December 2015, the Group employed approximately 1,800 employees (31 December 2014: 2,300 employees). The total staff costs excluding share based payments decreased to US$26.5 million for 2015 (31 December 2014: US$45.3 million) following decreases in headcount, adjustments in remuneration, and the effect of the Russian Roubles depreciation. As part of the cost reduction program, directors and senior management of the Group are subject to a remuneration reduction of up to 15% with effect from March 2015. The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited financial statements for the year ended 31 December 2015:

"Basis for Disclaimer of Opinion

As set out in note 2 to the consolidated financial statements, the Group incurred a loss for the year ended 31 December 2015 and the Group had outstanding bank borrowings due for repayment in 2016, significant capital and other commitments and the Group's financial covenants requirements under the project finance facility agreement ("ICBC Facility Agreement") with Industrial and Commercial Bank of China ("ICBC"), against the cash and cash equivalents and the credit facilities maintained by the Group. As the directors of the Company have forecasted that the loan covenants under the ICBC Facility Agreement will be breached in the foreseeable future and this violation will cause the loan to become immediately due and payable, the Group's ability to continue as a going concern is dependent on a waiver to be granted by ICBC and its insurance agent on (a) the compliance requirements of the Financial Covenants as defined in note 38 to the consolidated financial statements under the ICBC Facility Agreement until 31 December 2017; and (b) the debt service reserve account replenishment requirement under the DSRA Agreement as defined in note 29 to the consolidated financial statements. As of the date of this report, the waiver application is still under review by ICBC and its insurance agent. If the waiver cannot be obtained and the loan becomes immediately due and payable, the Group would be unable to meet its financial obligations as and when they fall due in the foreseeable future. In view of the significant uncertainty relating to the ability of the Group to continue as a going concern, we disclaim our opinion in this respect. Should the going concern assumption be inappropriate, adjustments may have to be made to (i) reflect the situation that assets may need to be realised other than their carrying amounts; and (ii) provide for further liabilities that may arise. No adjustments have been made in the accompanying consolidated financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance."

The aforesaid note 2, note 29 and note 38 to the consolidated financial statements in the extract from the Independent Auditor's Report are disclosed in note 2, note 22 and note 22 respectively to this Results Announcement.

OTHER INFORMATION

Resources and Reserves information

In conjunction with rule 18.14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), IRC has updated its Resources and Reserves information and further details are set out in IRC's 2015 annual report.

Corporate Governance

The Board of Directors (the "Board") of IRC is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2015 Annual Report.

Throughout the year, the Company was in compliance with the code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save that the Non-Executive Directors, Mr Simon Murray and Mr Cai Sui Xin, were unable to attend the annual general meeting of the Company held on 4 June 2015 as provided for in code provision A.6.7 as they had overseas engagements.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any noncompliance with the Model Code during the year and they have confirmed their full compliance with the required standard set out in the Model Code. The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and of the Company (www.ircgroup.com.hk). The annual report of the Company for the year ended 31 December 2015 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

By Order of the Board
IRC Limited
Yury Makarov
Chief Executive Officer

Hong Kong, People's Republic of China
Thursday, 31 March 2016

As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr George Jay Hambro, Mr Cai Sui Xin, Mr Liu Qingchun and Mr Raymond Kar Tung Woo. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Chuang-Fei Li and Mr Jonathan Martin Smith.

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