***This summary aims to give investors an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to investors. Investors should read the entire document before they decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. Investors should read that section carefully before they decide to invest in the Offer Shares.***

## OVERVIEW

The Group comprises a mining business which is focused on exploring for, developing and operating industrial commodity projects in the Russian Far East and the north-eastern region of the PRC. The Group has successfully developed the Kuranakh Project from a greenfield site through to initial production of titanomagnetite and ilmenite concentrate. The Group is also implementing other projects in the Russian Far East for sale and distribution of its products into the Russian and adjacent PRC industrial markets. The Group's objective is to become a profitable Industrial Commodities Business. The Group's portfolio is diversified by project size, stage of development and location. The Group benefits from flexible infrastructure options (including the ability to transport its products by rail or by rail and sea), established relationships in Russia and the PRC, and the ability to deliver its products efficiently to the PRC (currently the world's largest importer of iron ore). The Directors believe these factors provide the Group with a platform for future growth.

The Group benefits from a combination of a resource base as described below, a skilled workforce, the proximity of its operations to the key growth markets of the PRC and Asia and well-developed local infrastructure. It has good access to the local road network, two major state-owned railways and the national electricity grid. This infrastructure supports secondary processing activities and bulk product delivery and which the Directors believe provide significant advantages over many competing industrial commodity mining groups.

As at the date of the Competent Person's Report, the Group had, in aggregate, JORC-Compliant Mineral Resources of approximately 1.1 billion tonnes comprising, 195.7Mt *Measured,* 638.5Mt *Indicated* and 304.61Mt *Inferred* Resources. For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

The Group's present priority is the development of mines and the production and processing of iron ore and ilmenite at the sites within its diversified portfolio of projects, which includes:

- the Kuranakh Project (consisting of the Kuranakh and Saikta deposits), a titanomagnetite and ilmenite project, located in the Amur Region, which is currently the Group's only producing project. The crushing and screening plant operated briefly in 2008 and ceased operations in the same year due to the downturn in the market for iron ore. In May 2010, the Olekma processing plant was commissioned and production re-commenced in June 2010. In September 2010, the first sale of titanomagnetite concentrate was made pursuant to the Offtake Agreement;

- K&S, a magnetite project, which is at the development stage and is located in the EAO;

- Garinskoye, a magnetite project, which is at an advanced stage of exploration and is located in the Amur Region;

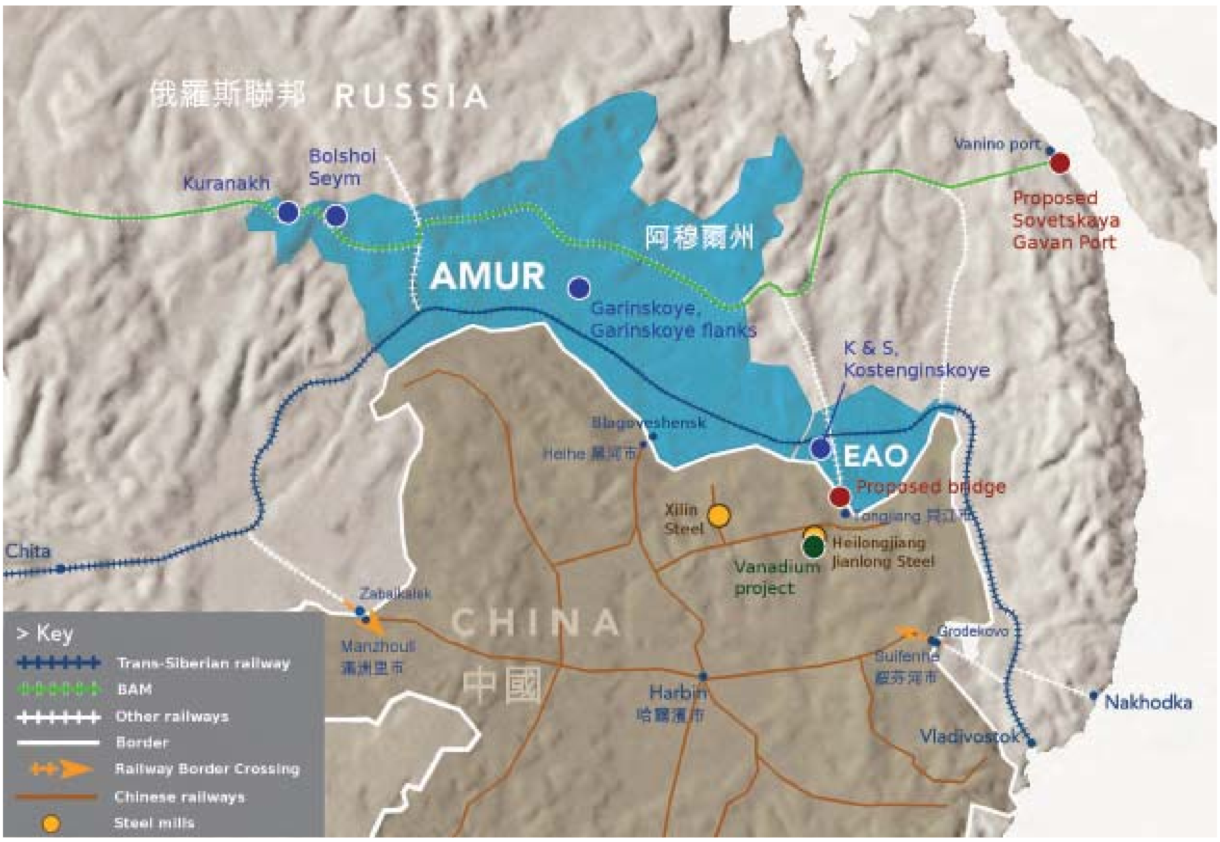
- Kostenginskoye, located in the EAO, and the Garinskoye Flanks, which surround Garinskoye and (through the Group's 49 per cent. interest in LLC Uralmining) Bolshoi Seym (located in the Amur Region), all of which are iron ore exploration projects; and

- the Vanadium JV, a downstream development joint venture project, located in the PRC, relating to vanadium pentoxide.

The Group has considerable in-house technical expertise. The Group's management team has a track record of implementing iron ore and ilmenite projects, including the successful development of the Kuranakh Project. The Group's project implementation team also has extensive experience in both constructing and operating industrial commodity projects in Russia and the PRC. In addition, the Group has a 70.3 per cent. interest in Giproruda, a Russian mining engineering institute.

**Principal mining interests**

The following map shows the location of the Group's principal mining interests:



## SUMMARY

The following tables summarise the Mineral Resources and Ore Reserves in respect of the Group's principal assets as at the date of the CPR. The figures have been extracted without material adjustment from the sub-section headed "Executive Summary" of Appendix V — "Competent Person's Report" to this prospectus.

**Summary of Principal IRC Mineral Resources by Project[1]**
**In accordance with the Guidelines of the JORC Code (2004)**

| Project | Deposit | Cut-off grade[2] | Mineral Resources (Mt) | Resource Category | $Fe_{(Total)}$ (%) |
|---|---|---|---|---|---|
| Kuranakh | Saikta | 17% | 21.7<br>0.01 | *Indicated*<br>*Inferred* | 30.8<br>22.2 |
| Kimkan & Sutara | Kimkan Central | 25% | 99.7<br>15.0 | *Indicated*<br>*Inferred* | 34.3<br>33.3 |
| | Kimkan West | 25% | 51.1<br>43.0 | *Indicated*<br>*Inferred* | 33.5<br>33.6 |
| | Maisky | 25% | 15.1<br>20.7 | *Indicated*<br>*Inferred* | 32.0<br>31.9 |
| | Sovkhozniy | 25% | 4.4 | *Inferred* | 30.2 |
| | Sutara | 18% | 195.7<br>231.0<br>65.5 | *Measured*<br>*Indicated*<br>*Inferred* | 32.4<br>32.2<br>31.0 |
| Garinskoye | Garinskoye | 20% | 219.9<br>156.0 | *Indicated*<br>*Inferred* | 32.0<br>29.3 |
| ***Total*** | | | ***834.2*** | ***Measured+Indicated*** | ***32.5*** |
| ***Total*** | | | ***304.6*** | ***Inferred[3]*** | ***30.6*** |

1 The above Mineral Resources are presented as of the date of the CPR in Appendix V—"Competent Person's Report" to this prospectus.
2 Cut-off grade ("C.O.G.") means the lowest grade of mineralised material considered economic that is used in the calculation of Mineral Resources and Ore Reserves.
3 For a description of the categories of JORC-Compliant *Measured, Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

**Summary of Ore Reserves in accordance**
**with the guidelines of the JORC Code (2004)[1]**

| Project | Deposit | Probable[2] Ore Reserves | Fe | $TiO_2$ | Fe | $TiO_2$ |
|---|---|---|---|---|---|---|
| | | *Mt* | *%* | *%* | *Mt* | *Mt* |
| Garinskoye . . . . . . . . . . . . . | Garinskoye | 211.7 | 36.0 | n/a | 76.2 | n/a |
| | **Total** . . . . . . . . . . . . . . . . . | **211.7** | **36.0** | | **76.2** | |

1 Ore Reserves are presented as at the date of the CPR in Appendix V — "Competent Person's Report" to this prospectus.
2 For a description of the categories of JORC-Compliant Proven and Probable Ore Reserves, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

The Vanadium JV does not hold any mineral interests.

This prospectus contains JORC-Compliant data in relation to the Group's mining assets in accordance with Chapter 18 of the Listing Rules. Future disclosure of the Group's Ore Reserves and Mineral Resources will continue to comply with Chapter 18 of the Listing Rules.

The Group has historically produced reserve and resource data for its operations in Russia in accordance with the Russian System in order to satisfy relevant Russian regulatory requirements and for its own internal geological purposes. This information is publicly available, having been disclosed to the market in accordance with UK requirements which applied to the Group from time to time. It has not been included in the prospectus as Russian System reserve and resource data does not meet the current requirements of the Listing Rules.

The Sponsor does not consider that the omission of the Russian System reserve and resource data for the Group's mining assets will result in the omission of material information from the prospectus.

The following table summarises the Group's principal assets and their current status:

| Asset | Product | Region | Current status | Group interest | Control |
|---|---|---|---|---|---|
| Kuranakh Project (Kuranakh and Saikta deposits) | Titanomagnetite and ilmenite | Amur, Russia | In production | 100% | Yes |
| K&S (Kimkan and Sutara deposits) | Magnetite iron ore | EAO, Russia | Under development | 100% | Yes |
| Garinskoye | Magnetite iron ore | Amur, Russia | In exploration | 99.58% | Yes |
| Kostenginskoye | Magnetite iron ore | EAO, Russia | In exploration | 100% | Yes |
| Garinskoye Flanks | Magnetite iron ore | Amur, Russia | In exploration | 100% | Yes |

The following table provides a summary of the Group's principal non-subsidiary owned assets and their current status:

| Associate or joint venture | Product | Region | Current status | Group interest |
|---|---|---|---|---|
| Bolshoi Seym . . . . . . . . . . | Titanomagnetite | Amur, Russia | In exploration | 49% |
| Vanadium JV . . . . . . . . . . . | Vanadium pentoxide | Heilongjiang Province, PRC | Under development | 46% |

The Group's current development programme for K&S and Garinskoye comprises three stages:

### Stage 1

Stage 1 comprises the construction of a 10Mtpa mining operation at K&S with a processing plant with a capacity to produce 3.22Mtpa of 65 per cent. iron ore concentrate. The Group has estimated that this stage will cost approximately US$400 million and is in the process of negotiating project financing and an EPC contract for this work with ICBC and CNEEC respectively. A non-binding indicative term sheet has been entered into with ICBC in relation to the ICBC Facility and the Group has entered into a co-operation agreement with CNEEC and ICBC.

If definitive documentation for the ICBC Facility cannot be agreed and made available in a timely manner, the Group will be required to find alternative sources of financing for Stage 1 or modify the development programme for Stage 1. Alternative sources of financing may include: alternative debt financing, in respect of which other non-binding debt proposals have been received; reallocation of the Group's existing cash resources and/or the net proceeds of the Global Offering and/or raising of additional equity finance after Listing. If the ICBC Facility is completed, the Group intends to utilise that financing in connection with Stage 1, together with a portion of the net proceeds of the Global Offering as set out in further detail in the section headed "Future Plans and Use of Proceeds" in this prospectus.

**Stage 2**

Stage 2 involves the construction of a mine and a crushing and screening plant at Garinskoye and the expansion of the K&S processing plant to process the pre-concentrate to be produced at Garinskoye and associated transport infrastructure.

**Stage 3**

Stage 3 contemplates the construction of a facility to upgrade part of the Group's concentrate production to a metallised product. This facility would be constructed adjacent to the processing plant at K&S. There are a number of other development options for the construction of a mining and beneficiating facility at K&S which the Group could pursue which include altering the size of the facility and equipment options.

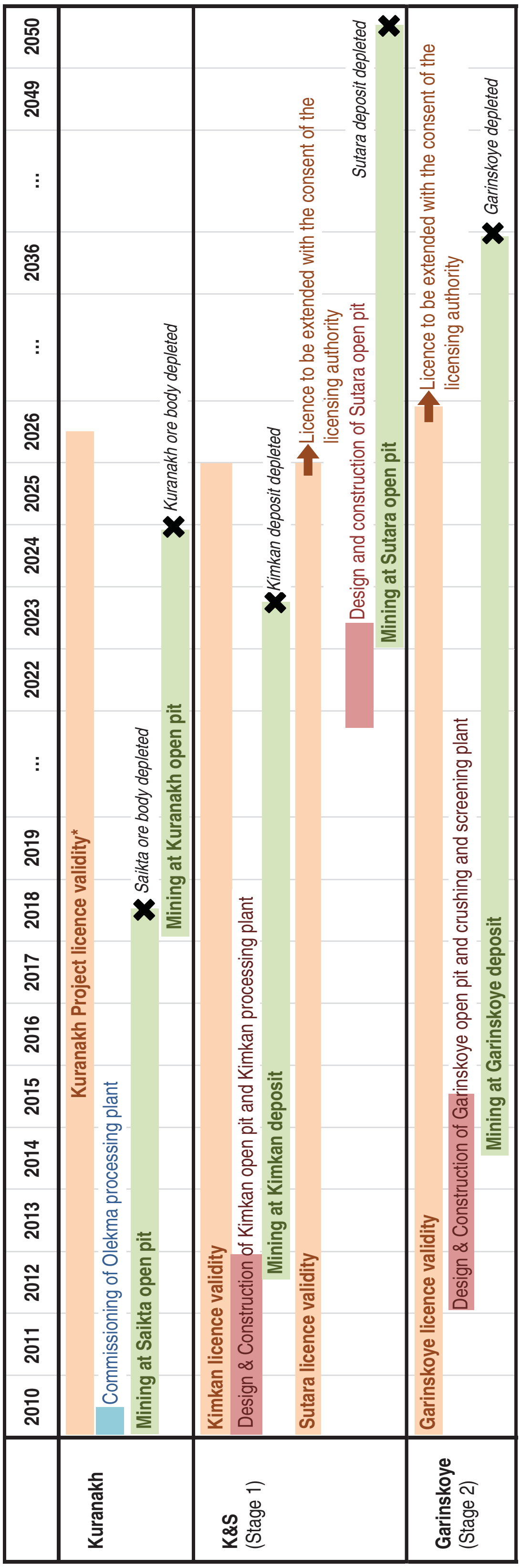
In addition to funding part of Stage 1 of the Group's development programme, the Group intends to use the net proceeds of the Global Offering in relation to Stage 2 of its development programme and other exploration and development projects, as set out in further detail in the section headed "Future Plan and Use of Proceeds" in this prospectus.

**Investors should be aware that without external financing, the net proceeds of the Global Offering will not be sufficient to finance in full the currently proposed development programme for Stage 1 or any later stages of the development programme and consequently the Group would review other sources of finance and/or a modified capital expenditure programme with an alternative production facility**. Further details are set out in the sub-section headed "Financing of the Group's development programme" of the section headed "Business" in this prospectus. See also the sub-section headed "The Group may not be able to finance its future planned capital expenditure" of the section headed "Risk Factors" in this prospectus.

Further information in relation to the current status of the Kuranakh Project and the Group's plans for Bolshoi Seym and the Garinskoye Flanks is set out in the section headed "Business" and in Appendix V — "Competent Person's Report" to this prospectus.

## SUMMARY

The table below sets out a timeline for the development of the projects stated below on the basis of current expectations and current financing plans (including reaching agreement on the ICBC Facility).



The table below sets out key dates in relation to the development of the projects on the basis of current expectations (including reaching agreement on the ICBC Facility).

| Dates | Kuranakh Project | | K & S | | Garinskoye |
|---|---|---|---|---|---|
| | Saikta deposit | Kuranakh deposit | Kimkan | Sutara | |
| Licence valid until | 01/06/2026 | | 30/12/2025 | 30/12/2025 | 31/12/2026 |
| Design, Construction to be completed by | completed | | 12/2012 | 2023 | 2015 |
| Mining to start | started | 2018 | 01/2012 | 2023 | 2014 |
| Production of concentrate to start | started[1] | | 2013 | 2023 | 2015[2] |
| Mine depleted | 2018 | 2024 | 2023 | 2050 | 2036 |

1 Ore from both Saikta and Kuranakh deposits is or will be processed at the Olekma processing plant
2 Pre-concentrate is to be produced at Garinskoye, and further beneficiated at the Kimkan processing plant

The current anticipated capital expenditure requirement for each of the Group's mining projects is set out in the sub-section headed "Capital and Operating Costs" of their respective sections of Appendix V — "Competent Person's Report" to this prospectus.

### Principal Products

The Group's current production at the Kuranakh Project is mined at Saikta, a medium-sized titanomagnetite deposit. The Kuranakh Project produces both titanomagnetite and ilmenite concentrates which are the products currently sold or stockpiled by the Group. It is intended that the ilmenite will be sold either on a spot contract basis or under medium- to long-term contracts. The titanomagnetite will be sold to Jianlong for steel production and the Directors intend that, assuming the construction of the Vanadium JV's proposed processing plant proceeds, the resultant slag will be sold to and processed by the Vanadium JV's proposed processing plant in order to produce vanadium pentoxide.

The main product of the Group, subject to financing, is intended to be magnetite concentrate (a different product to titanomagnetite concentrate) produced at K&S from the proposed mines at K&S and Garinskoye.

It is also intended that in due course, and subject to arranging financing, the major part of the iron ore concentrate that is intended to be produced from the predominantly magnetite ores at the K&S and Garinskoye projects will (once production commences and if the proposed new processing facility is constructed at the Kimkan site) be processed at the Kimkan site to produce higher value iron ore nuggets using ITmk3 technology, that will be produced and sold to steel mills. These end products have higher value-in-use than magnetite or ilmenite concentrates, which would allow the Group to maximise value from the iron ore concentrates it intends to produce at these projects. Further information on these processes, is set out in the sub-section headed "Details of producing, development and exploration assets" of the section headed "Business" in this prospectus.

Iron ore concentrate is feedstock for the production of steel. Ilmenite is an iron titanium oxide and the primary ore of titanium. It is used in the manufacture of titanium dioxide for paint pigments and can be further processed to titanium sponge or titanium ingots. Titanium is used to manufacture a wide variety of metal parts where light weight and very high strength are needed. Examples include: aircraft parts, artificial joints for humans and sporting equipment. Titanium is also used in a number of high-performance alloys.

## COMPETITIVE ADVANTAGES

The Directors believe that the key competitive advantages of the Group include:

- Attractive diversified portfolio of production, development and exploration assets
- Favourable location and logistics
- Technical expertise and skilled workforce
- Relationships in the PRC and Russia
- Experienced management team

## STRATEGY

The Group intends to capitalise on its competitive advantages set out above by pursuing the following core strategies:

- Develop a strong and balanced portfolio of high quality assets providing a base for success for the Group's long-term operations
- Maximise returns on the Group's mining assets by focusing on downstream stages of production
- Capitalise upon the Group's geographical advantages by developing transport infrastructure projects
- Leverage in-house technical expertise to develop and improve projects and identify new assets
- Selectively augment its portfolio with value-enhancing acquisitions in the areas adjacent to the Group's operations or regions in which it operates

## RESOURCES COMPARISON

Please refer to the table titled "Resources Comparison" in the sub-section headed "Competition" of the section headed "Business" in this prospectus for a comparison between the resources of the Group's K&S project and deposits owned by other international iron ore mining companies that are at a similar stage of development and that will serve a similar market.

## RELATIONSHIP WITH PETROPAVLOVSK

Following a reorganisation of the Petropavlovsk Group, the Group has formed its own separate and independently functioning business. The Group is independent of, and separate to, the Petropavlovsk Group as the Group will concentrate on the exploration for, and development and production of bulk and industrial commodities, while the Petropavlovsk Group will focus on the exploration for, development and production of precious metals.

While Petropavlovsk will remain a controlling shareholder of the Company after completion of the Global Offering and the Listing, the management of the Group as well as the administration, operations and finances of the Group will be independent of the Petropavlovsk Group. The Group and Petropavlovsk have entered into various documents detailing the terms of the independence (such as the tax indemnity and Deed of Non-Competition), which are described in further detail in the section headed "Relationship with Petropavlovsk", starting on page 237 in this prospectus.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

Prospective investors should read the summary historical financial information set out below in conjunction with the Group's combined financial information set out in Appendix I — "Accountants' Report" to this prospectus.

The tables below provide a summary of the results of operations for the Group prepared on a consistent basis for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 and a summary of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010. The information has been extracted from Appendix I — "Accountants' Report" to this prospectus and has been prepared on the basis described in the notes to the combined historical financial information of the Group in Appendix I — "Accountants' Report" to this prospectus.

### Combined Income Statements

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

## Combined Statements of Financial Position

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

During the Track Record Period, save for US$0.5 million of revenue which was generated from the sale of iron ore pre-concentrate from the Kuranakh Project in 2008, the Group's revenue has been derived from the Group's engineering services company, Giproruda, which was consolidated as a subsidiary from 14 July 2007. Going forward, the Group intends to derive its revenues principally from the sale of magnetite, titanomagnetite and ilmenite mined at the Group's deposits. To date, the Group has progressed only one of its projects, the Kuranakh Project, from the exploration to production stage. The crushing and screening plant operated briefly in 2008 and ceased operations in the same year due to the downturn in the market for iron ore. The Group commenced production at the Kuranakh Project in June 2010 and subsequent sales of titanomagnetite concentrate began in September 2010.

Further details in relation to revenue during the Track Record Period are set out in the sub-section headed "5 Segmental Information" of the section headed "Appendix I — Accountants' Report" to this prospectus on pages I-35 to I-42.

## LOSS FORECAST

The Directors estimate that, on the bases and assumptions set out in Appendix III — "Loss Forecast" to this prospectus and in the absence of unforeseeable circumstances, the forecast loss attributable to equity holders of the Company for the year ending 31 December 2010 will amount to no more than US$95.0 million.

### Sensitivity analysis on average selling price

The following table illustrates the sensitivity of the loss attributable to equity holders of the Company for the year ending 31 December 2010 to the average selling price for titanomagnetite and ilmenite concentrates produced at the Kuranakh Project from 1 August 2010 to 31 December 2010.

| **% change in average selling price per tonne** | **-30%** | **-20%** | **-10%** | **+10%** | **+20%** | **+30%** |
|---|---|---|---|---|---|---|
| Impact on loss attributable to equity holders of the Company for the year ending 31 December 2010 (US$ million) | | | | | | |
| Titanomagnetite | (5.0) | (3.3) | (1.7) | 1.7 | 3.3 | 5.0 |
| Ilmenite | (1.2) | (0.8) | (0.4) | 0.4 | 0.8 | 1.2 |
| Combined impact | (6.2) | (4.1) | (2.1) | 2.1 | 4.1 | 6.2 |

The sensitivity range has been selected with reference to historical movements in commodity prices. Given that ilmenite prices are set through buyer-seller negotiations without reference to a benchmark price, the sensitivity range has been set with reference to historical movements in iron ore prices. The period from 2005 to 2009 saw substantial volatility in iron ore prices with prices for benchmark Hamersley Fines increasing approximately 19.0 per cent. from 2005 to 2006, increasing approximately 9.5 per cent. from 2006 to 2007, increasing approximately 80.0 per cent. from 2007 to 2008, before decreasing approximately 33.0 per cent. from 2008 to 2009. It is important to note that the increase from 2007 to 2008 was unusually large due to extremely strong market demand for iron ore and tight supply. The current range used for the price sensitivity analysis is +/-30 per cent. for the period 1 August 2010 to 31 December 2010. On an annualised basis, this equates to a range of +/-87.7 per cent. which is greater than the largest annual move since 2005. Taking into account the historical volatility of iron ore prices, this sensitivity appears to be sufficiently broad so as to properly capture historical price volatility.

### Sensitivity analysis on exchange rate

The following table illustrates the sensitivity of the loss attributable to equity holders of the Company for the year ending 31 December 2010 to fluctuations in the RUR:US$ exchange rate for the period 1 August 2010 to 31 December 2010.

| **% change in RUR:US$ exchange rate** | **-10%** | **-5%** | **+5%** | **+10%** |
|---|---|---|---|---|
| Impact on loss attributable to equity holders of the Company for the year ending 31 December 2010 (US$ million) | (4.0) | (1.9) | 1.7 | 3.3 |

The sensitivity range for the RUR:US$ exchange rate analysis has been set with reference to the historical movement in the exchange rate since 2005. The spot exchange rate is currently RUR30.6:US$1.00. Since January 2005, the exchange rate has varied from RUR23.1:US$1.00 (appreciation of the Rouble by 24.6 per cent. from current exchange rate) to RUR36.4:US$1.00 (depreciation of the Rouble by 18.9 per cent. from current exchange rate). The current sensitivity analysis considers a range of +/-10 per cent. for the period 1 August 2010 to 31 December 2010. On an annualised basis this equates to a sensitivity range of +/-25.7 per cent., which is in excess of the range seen since 2005.

The income statement is impacted in two ways by fluctuations in the exchange rate, through the retranslation of RUR-denominated costs into the US$ functional currency at the rate ruling at the transaction date, and at the month end through gains and losses arising on retranslation into US$ of RUR-denominated working capital balances held in US$ functional currency entities. The above sensitivity considers the impact on the RUR-denominated operating expenses balances only, as the management believes that the effect on working capital balances is immaterial to the loss forecast.

## OFFER STATISTICS

| | **Based on an Offer Price of HK$2.20** | **Based on an Offer Price of HK$3.00** |
|---|---|---|
| Market capitalisation of the Company | HK$7,462 million | HK$10,176 million |
| Unaudited pro forma adjusted consolidated net tangible asset value per Hong Kong Offer Share | HK$1.98 (US$0.25) | HK$2.25 (US$0.29) |

## USE OF PROCEEDS

The Group estimates that it will receive net proceeds from the Global Offering of approximately HK$2,604.9 million (based on an Offer Price of HK$2.60, being the midpoint of the indicative Offer Price range), after deducting the underwriting commissions and estimated expenses payable by it in relation to the Global Offering and assuming that the Over-allotment Option is not exercised.

If the ICBC Facility is not agreed and the Group cannot procure alternative external financing for the full amount required for Stage 1 of its development programme (involving the construction of a mining operation at K&S), it would intend to use substantially all of the net proceeds of the Global Offering to part-finance the development of Stage 1. It would also seek further external financing.

Assuming that the ICBC Facility (representing approximately 85 per cent. of the total cost of Stage 1 of the Group's development programme) is agreed and made available on a timely basis, the Group intends to apply the proceeds of the ICBC Facility towards the funding of Stage 1 of its development programme and intends to use the estimated net proceeds from the Global Offering of approximately HK$2,604.9 million (based on an Offer Price of HK$2.60, being the midpoint of the indicative Offer Price range) for the following purposes:

- approximately 30.0 per cent. of net proceeds towards the development of Stage 1 of its development programme to cover the period until the ICBC Facility is agreed;
- approximately 28.4 per cent. of net proceeds towards development of Stage 2 of its development programme;
- approximately 31.6 per cent. of net proceeds towards the Group's other exploration and development projects; and
- 10.0 per cent. of the net proceeds for general working capital and other general corporate purposes.

In the event that the Offer Price is fixed at a higher or lower point in the indicative Offer Price range than the midpoint, any additional amount or shortfall in relation to the net proceeds described above shall be applied in full to the amount allocated to the development of the Group's other exploration and development projects.

If the Over-allotment Option is exercised in full, the Group estimates that it will receive additional net proceeds of approximately HK$501.2 million (based on an Offer Price of HK$2.60, being the midpoint of the indicative Offer Price range), after deducting the underwriting commissions and estimated expenses payable by it in relation to the Global Offering. The Group also intends to apply any additional proceeds received from any exercise of the Over-allotment Option to its other exploration and development projects. The Group will not receive any proceeds (net or otherwise) from the sale of the Sale Shares by the Selling Shareholder.

Pending the use of the net proceeds from the Global Offering for the purposes set out above, and to the extent permitted under applicable laws and regulations, the Group intends to invest the proceeds in short-term demand deposits and/or money market instruments.

None of the net proceeds of the Global Offering will be applied for the purposes of the construction of the bridge project over the Amur river or the sea port in Sovetskaya Gavan, as described in the sub-section headed "Infrastructure" of the section headed "Business" in this prospectus.

For further information regarding the proposed infrastructure at each of the Group's principal projects, and expected construction and development costs, refer to Appendix V — "Competent Person's Report" to this prospectus.

## DIVIDEND POLICY

Save for the dividend declared as part of the Group's restructuring earlier this year, the Company has not paid any dividends on its outstanding Shares since its incorporation and does not anticipate that it will do so in the near future. As the business of the Group develops, and subject to the availability of distributable reserves, the Directors intend to pursue a dividend policy which reflects the Group's cash flow and earnings, while maintaining an appropriate level of dividend cover and having regard to the need to further fund development of the Group's activities.

## RISK FACTORS

The Group believes that there is a range of risks involved in its operations. They can be broadly categorised into: (i) risks relating to the Group's operations in the Russian Federation and the PRC; (ii) risks relating to commodity prices, demand for the Group's products and other economic risks; (iii) environmental risks and hazards and risks relating to compliance with environmental laws and regulations; (iv) risks relating to licences, concessions, permits and other regulatory risks; (v) risks relating to the international operations of the Group; (vi) risks relating to the separation of the Group from the Petropavlovsk Group; and (vii) risks relating to the Global Offering. Set out below is a summary of the risks referred to above. For further details, please refer to the section headed "Risk Factors" in this prospectus.

### Risks relating to the Group's operations in the Russian Federation and the PRC

- The Group may not be able to finance its future planned capital expenditure
- The Group's stated Ore Reserves, Mineral Resources and mineralised potential are only estimates based on a range of assumptions and there can be no assurance that the anticipated tonnages or grades will be achieved
- Exploration and development are highly speculative activities and involve commercial risks and uncertainties
- The Group is currently dependent on revenue from Giproruda, its mining engineering services institute, and its sole operating, and smallest, mine at the Kuranakh Project, and the Group may not ever generate revenue from its other projects
- If the Group is unable to attract, retain and train key personnel, the Group's business and results of operations could be materially and adversely affected
- Potential local opposition to mining could lead to disruption of the Group's existing operations, mine development projects and exploration prospects
- The Group's operations are exposed to risks in relation to the mishandling of dangerous articles
- The operations of the Group are exposed to safety risks and the occurrence of industrial accidents
- The infrastructure on which the Group relies may prove to be inadequate or subject to constraints, or the Group may face difficulties with state-owned infrastructure

- The availability and cost of the Group's production inputs, such as utilities, equipment, spare parts and labour, could materially and adversely affect its profitability

- Labour disputes and disruptions could affect the Group's business, results of operations, financial condition and prospects

- The Group faces competition for mineral interests from other mining companies

- The Group may undertake strategic acquisitions or investments, which may prove difficult to integrate and manage successfully

- The Group's joint venture arrangements may not be successful

**Risks relating to commodity prices, demand for the Group's products and other economic risks**

- The Group's financial performance is dependent on, *inter alia*, the global prices of, and demand for, iron ore, ilmenite, titanium, steel making composites, steel and steel products, which have recently been, and may continue to be, volatile

- The Group is vulnerable to adverse changes in the PRC economy

- The Group currently operates at a loss and there can be no assurance that it will achieve profitability or generate positive cash flow from operations in the future

- Titanomagnetite concentrate produced at the Kuranakh Project is not suitable for use by all steel producers

- Adverse capital and credit market conditions and worldwide financial instability may adversely affect the Group's ability to raise new debt or equity financing and/or to refinance existing or future indebtedness

- An oversupply of minerals in the future could adversely affect the Group's profitability

- The Group could be adversely affected by changes in the exchange rates between the currencies in which it operates and restrictions on conversion of those currencies

- Uncertainties in relation to the application of taxation laws and regulations to mining profits could materially affect the Group's profitability

- The Group is exposed to risks relating to deposits held in banks

**Environmental risks and hazards and risks relating to compliance with environmental laws and regulations**

- The Group's operations are subject to a number of risks and hazards associated with the exploration for, and development and production of, mineral projects (many of which are outside of the Group's control), not all of which are fully covered by insurance

- Iron ore mining produces a significant amount of wastewater and tailings, which could expose the Group to material liabilities

- The Group is subject to significant environmental risks and issues arising from compliance with environmental regulations and permitting requirements

- The Group is subject to significant costs associated with environmental compliance and rehabilitation

- The Group may be subject to adverse publicity from consumer and environmental groups which could have an adverse effect on the reputation and financial position of the Group

**Risks relating to licences, concessions, permits and other regulatory risks**

- The Group is subject to a significant number of laws and government regulations, and the costs of compliance or changes to relevant laws may adversely affect the Group's business

- The Group is required to obtain, retain and renew governmental concessions, permits, authorisations, licences, property rights and other approvals in connection with its operations

- The Group's title to properties and mineral licences may be challenged or terminated

- The Group may be subject to risks associated with litigation

- The Group may not own certain of the intellectual property it uses or is likely to use as part of its operations

- The Group may be unable to utilise the ITmk3 technology in the processing of iron ore from K&S and Garinskoye

**Risks relating to the international operations of the Group**

- The Group is subject to risks relating to the general economic, regulatory, legal, social and political environment in the jurisdictions in which the Group operates

- The Group is subject to risks relating to the economic system in Russia

- The Group is subject to risks relating to the political system in Russia

- The Group is subject to risks relating to social instability in Russia

- The Group is subject to risks relating to the Russian tax system

- The Group is subject to risks relating to the Russian legal system and Russian legislation
- The Group is subject to risks relating to interested party transactions
- Russian foreign investment legislation may impact transactions by, and investments in, the Group
- From time to time some of the Russian companies in the Group may have negative net assets (as defined under RAS)
- Risks relating to the Group's operations in the PRC

**Risks relating to the separation of the Group from the Petropavlovsk Group**

- The Group is being spun off from the Petropavlovsk Group
- The Group relies on the Petropavlovsk Group for a number of services and indemnification in respect of certain potential tax liabilities
- The Petropavlovsk Group will remain the biggest shareholder of the Group. The interests of Petropavlovsk may differ from those of other Shareholders

**Risks relating to the Global Offering**

- The Share price may be subject to volatility
- Pre-emption rights may not be exercisable by United States and other non-Hong Kong holders of Shares
- A lack of liquidity in the Shares may mean that a return on an investment in the Shares is difficult to realise
- Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Shares in the public market could materially and adversely affect the prevailing market price of the Shares and the Company's ability to raise capital in the future
- The Company is primarily a holding company and its ability to pay dividends depends principally upon receipt of dividends from its subsidiaries
- Exchange rate fluctuations may adversely affect the foreign currency value of the Shares and any dividend distribution
- It may be difficult to serve process on and enforce legal judgments against the Company or its Directors
- An investment in the Shares is subject to risks relating to taxation
- Potential investors should not place any reliance on any information contained in press articles or other media regarding the Group and the Global Offering published prior to the date of this prospectus