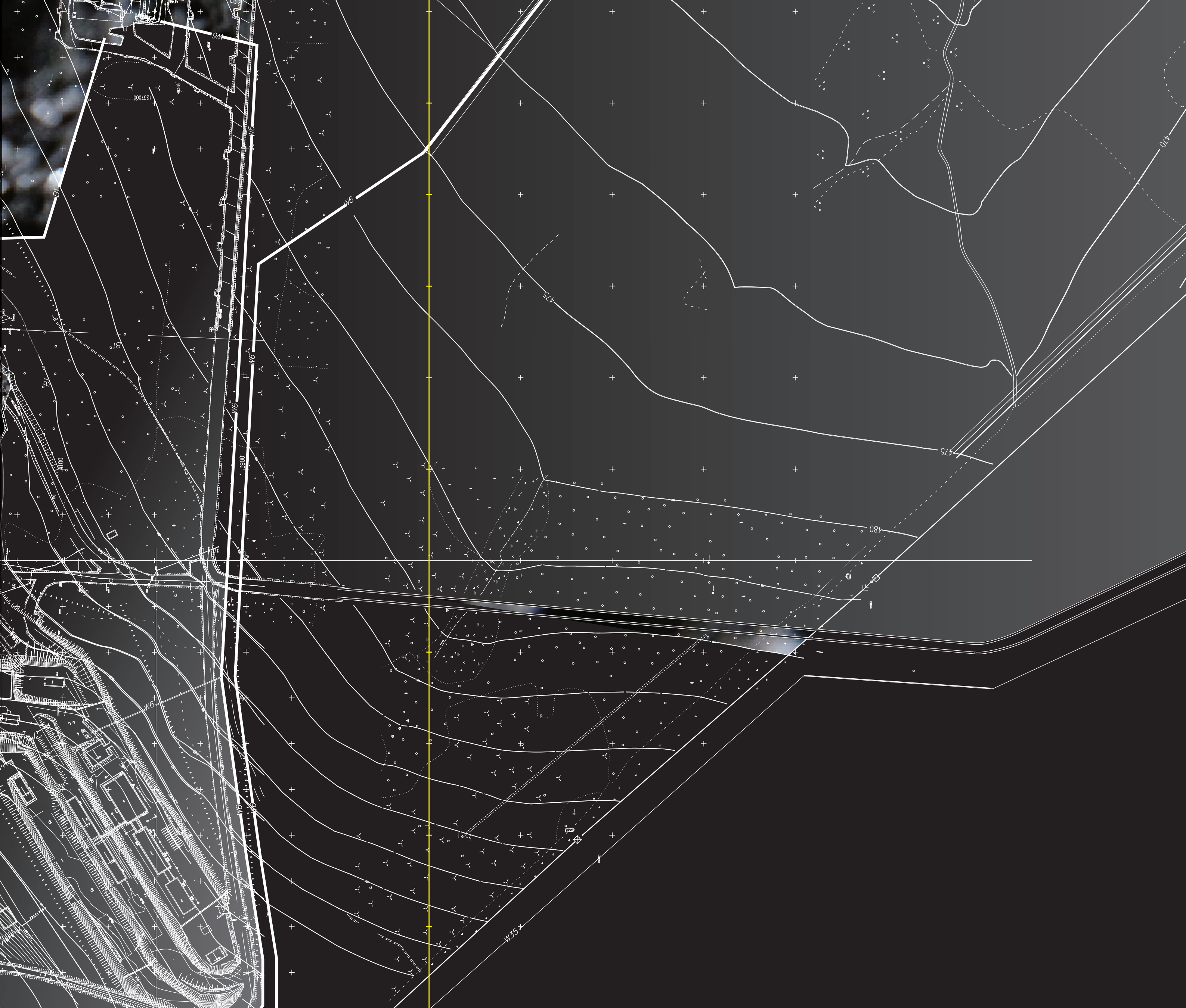


铁货 IRC

HONG KONG STOCK CODE:1029

ANNUAL REPORT

2010

Where we operate

IRC operates in north-eastern China and the Far East of Russia.

Who we are

IRC is an international producer of industrial commodities, with a current focus in iron ore. IRC is operating and developing five main projects:

Assets	Product	Location	Status
Kuranakh	Iron ore concentrate Ilmenite concentrate	Amur, Russia	In production
Giproruda	Mining research and design	Regional offices	Operating
K&S	Iron ore concentrate	EAO, Russia	In production 2013
Vanadium JV	Vanadium pentoxide	Heilongjiang, China	In production 2011
Garinskoye	Iron ore concentrate	Amur, Russia	In production 2015

Our experience

IRC builds on the tradition of a group that has been finding, developing, constructing and operating mining projects in this region for nearly seventeen years.

Most recently, IRC management has developed Kuranakh from a greenfield site to a producing mine.

Our goal

IRC exists to bring value to stakeholders through responsible and sustainable management, growth, cashflow and return.

Contents

Kuranakh.

Developing a Sino-Russian industrial commodities champion from Hong Kong.

The President and the Prime Minister

Russian Prime Minister Vladimir Putin (left),
Amur Governor Oleg Kozhemyako and
IRC Chief Executive Yury Makarov.

Dr Pavel Maslovskiy (left) and the Russian President Dmitry Medvedev, at the Kuranakh commissioning ceremony.

IRC begins trading

First day of trading of IRC shares on the Hong Kong Stock Exchange

IRC raised US$240 million in its listing on the main board of the Stock Exchange of Hong Kong. Senior officers of the Stock Exchange officiated at the start of trading, and Jay Hambro, IRC Chairman, delivered a speech to traders and journalists from the trading floor of the Exchange. The occasion was important, because IRC was the first company with substantial Russian assets to list in Hong Kong with a public offer.

Jay Hambro and Yury Makarov are congratulated by the Russian Consul General, Sergey N. Gritsay.

"I am proud to have the opportunity to tell you about our operating and financial performance, which is considerably ahead of plan."

"We have achieved the primary objectives that we promised at the time of the IPO."

IRC Chairman, Jay Hambro.

"In 2010 our total workforce expansion reflected growth in our geological resource base."

铁货 IRC

From the Chairman, G. Jay Hambro

Dear Stakeholder,

I am pleased to present this first annual report of IRC since our listing on the Hong Kong stock market last year. I am proud to have the opportunity to tell you about our operating and financial performance, which is considerably ahead of plan.

We have achieved the primary objectives that we promised at the time of the IPO:

- We have raised the necessary finance for the full development of the K&S mine, which will commence production in 2013, increasing our overall production by a factor of three and reducing our operating costs per tonne by almost half. This financing with the Industrial and Commercial Bank of China (ICBC) has been realised on favourable terms. The Chinese participation in our financing and the fact that the Chinese market is our principal customer is a strong sign of our position as a Sino-Russian industrial commodity developer;

- We have executed the main development and construction contract for the K&S project with a major Chinese state contractor; I am able to report very satisfactory progress with this work; and

- There has been significant advancement of the bridge project across the Amur/Heilongjiang River. Although not essential to our core business, the bridge will reduce our transportation and handling costs.

I am delighted to report that, as I write, iron ore prices are at an all time high of nearly US$200 a tonne. While I am sure the market will continue to be volatile, our cost base means that we should enjoy a substantial margin on our production at such levels generating excellent cashflow and returns for shareholders.

As well as the geological advantage provided by our substantial resource base, our geographical position close to the largest market in the world for iron ore with an existing infrastructure base is of exceptional benefit to us. We use both the Trans-Siberian and BAM railways, which provide us with a route to an international customer base at very obvious freight cost advantages over our main competitors in Australia and South America.

The potential of our ore resource base of over one billion tonnes will only be realised with the help of our valuable human resource. I would particularly like to thank our entire workforce in Russia and China, as well as our supporters in government and local administration. In 2010 our total workforce expansion reflected growth in our geological resource base, as our production and construction sites develop and our administrative facilities ramp up ahead of production.

I believe that what we have achieved will be fully recognised in due course and I would like to thank all stakeholders for their support and continued interest.

Yours faithfully,

Jay Hambro

Jay Hambro,
Chairman

8H, 9 Queen's Road Central, Central District, Hong Kong Telephone 電話：+852 2772 0007 Website 網站：www.ircgroup.com.hk

IRC Chief Executive Yury Makarov addressing an investor conference.

Back Row - from left to right

Liu Yandong, State Councillor, People's Republic of China

Xi Jinping, Vice President, People's Republic of China

Alexander Zhukov, Deputy Prime Minister, Russian Federation

H.E. Sergey Razov, Russian Ambassador to China.

Front Row – from left to right

Zhao Ruolin, President, China National Electric Engineering Co. Ltd.

Yi Huiman, Vice President, Industrial and Commercial Bank of China

Yury Makarov, Chief Executive Officer, IRC Limited.

"IRC is now a fully-funded, cashflow-generating mining operator."

"It is a unique success of ours that IRC has been receiving such political, social and economic acclaim for our work."

"IRC has been responsible for the creation of more than 2,500 new jobs."

From the Chief Executive Officer, Yury Makarov

Dear Stakeholder,

2010 has been witness to substantial progress for the IRC operations, matched by recognition of our work at an economic and political level.

On his tour of the Far East in July, the President of Russia gave me the order to formally start continuous production at the Kuranakh plant. We are now producing a quality product, sold at market on favourable terms. In March, the Vice President of China, Xi Jinping, the Russian Deputy Prime Minister, Alexander Zhukov, and Chinese State Councillor and Politburo member Liu Yandong attended our first signing ceremony with the China National Electric Equipment Corporation, and watched as IRC formalised the group's long-standing cross-border ties. In December, I met the Russian Prime Minister, Vladimir Putin, who spoke of the importance of our projects for development in the Far East and dubbed K&S a 'Super Project'. What we are doing in bringing together the best of Russian and Chinese industry is special, and it is a unique success of ours that IRC has been receiving such political, social and economic acclaim for our work. IRC has been responsible for the creation of more than 2,500 new jobs, and our role as a responsible employer and taxpayer is being recognised. The volume of trade between China and Russia grew in 2010 by almost 50%. IRC is proud to be part of that growth. In November, the Chinese and Russian currencies became convertible. The governments are building an additional cross-border bridge. Economic dialogue is a profitable necessity.

IRC is now a fully-funded, cashflow-generating mining operator. The passage of 2010 has unlocked the door to K&S, IRC's most exciting project yet. K&S, which is now in construction, is a world-class 10 Mtpa magnetite operation with a processing plant that will produce 3.22 Mtpa of 65 per cent iron ore concentrate.

This year, we planned and dug, and IRC's efforts have been rewarded. Our agreement with the China National Electric Equipment Corporation puts this respected institution behind our ability to deliver. Meanwhile, we have been in discussion with nine customers about the off-take from K&S. It is good for a business to be in demand.

IRC is constantly working to move up the value chain by working downstream to maximise our returns. Substantial progress this year has been made with IRC's Vanadium project, which is a joint venture with a major Chinese steel company. It is scheduled to come into production in the autumn of 2011. A by-product from the production of steel includes Vanadium, which has a variety of uses including as a critical material used as an alloy for the hardening of steel, and as a catalyst in batteries. Henry Ford commercialised Vanadium in the last century, by using it to boost the shock resistance of the steel in his car axles. What he learnt, initially from the wreckage of a crashed French race-car, is that Vanadium alloy doubles the strength while halving the weight of ordinary carbon steel. Today, Vanadium is used in steel and titanium in cars and modern heavy machine tools around the world.

IRC has also been capitalising on our portfolio of assets and availability of quality local expertise through IRC's 70% stake in a leading mining engineering insitute Giproruda. 174 specialists are employed by Giproruda to undertake contract work both for IRC and for other companies in our sector. Giproruda generates profit for IRC and helps us to better understand our industry. The news of 2010 also includes the commissioning and licensing of IRC's in-house laboratory at Kuranakh, about which I hope you will read on page 18 of this report. I am excited about our prospects in 2011: of particular note will be our progress towards the ISO 14001:2004 certification.

I am confident that we have the necessary ingredients to complete the development and operations targets that face us. New facilities at K&S are expanding rapidly and I am happy to report that the China National Electric Equipment Corporation has now opened a full operations office in the regional capital of the EAO to service their site team. Having the benefit of a construction partner at K&S, our attention can also be on our wider portfolio of development assets (of which you may read in this report). I believe that the suite of assets offers an exceptional growth pipeline.

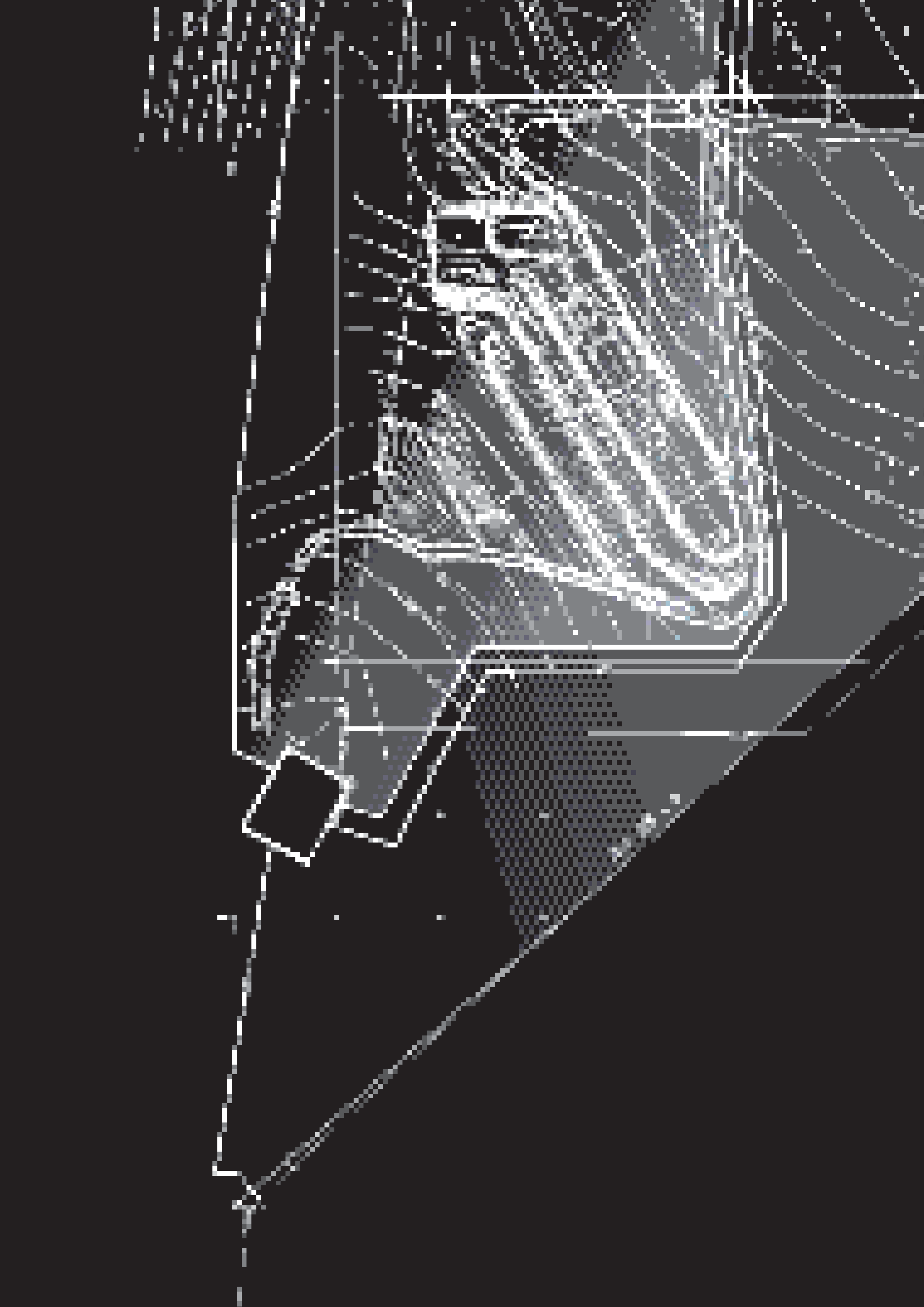
In all of IRC's work, we are fortunate to have a senior management team that collectively has nearly two centuries of experience in the industries in which we operate. This experience is critical to IRC's success and our investments in human capital are now reflected in the minerals that we are producing.

Yours faithfully,

Yury Makarov,
Chief Executive Officer

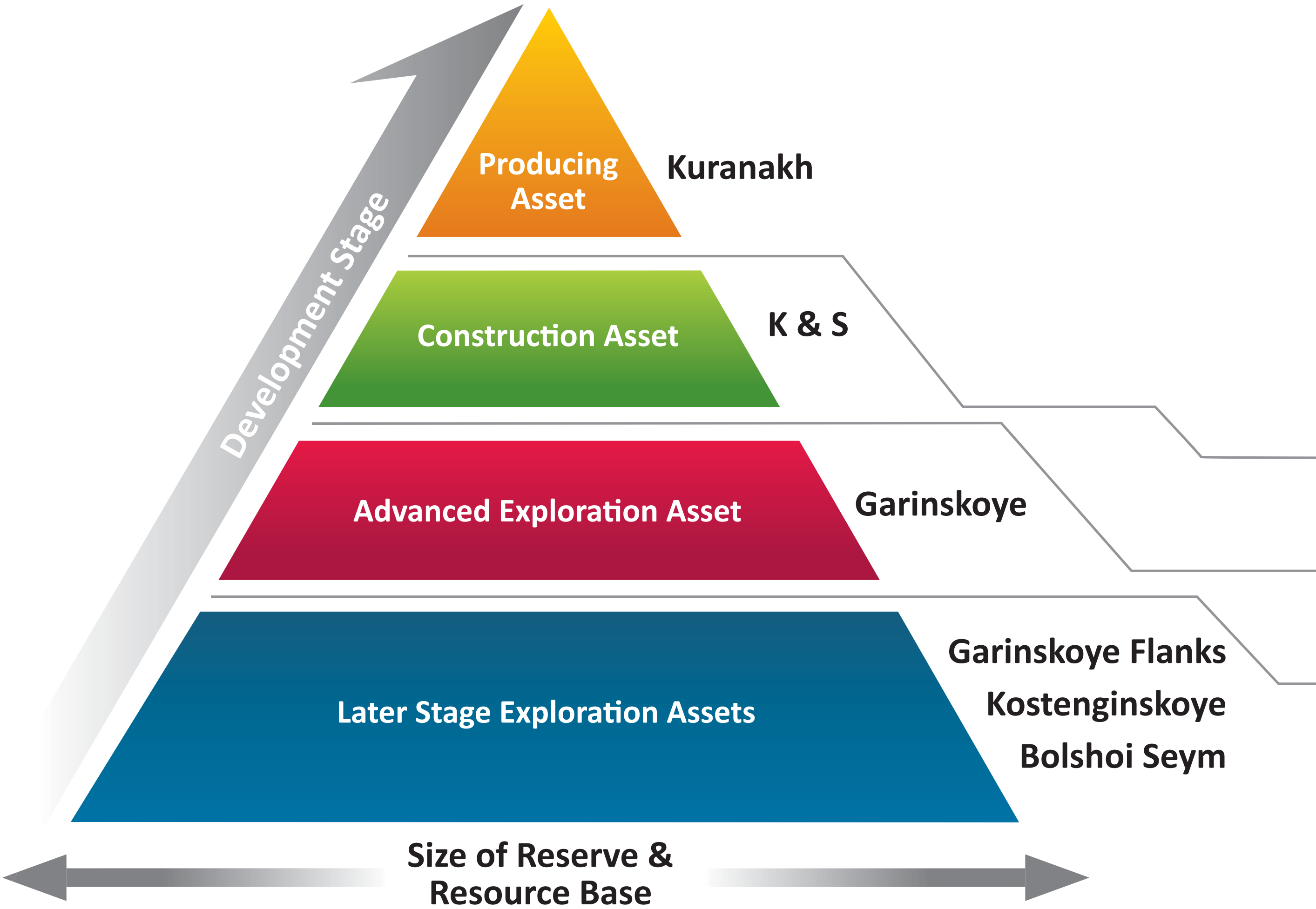
8H, 8 Queen's Road Central, Central District, Hong Kong Telephone +852 2772 0007 Website www.ircgroup.com.hk

Assets



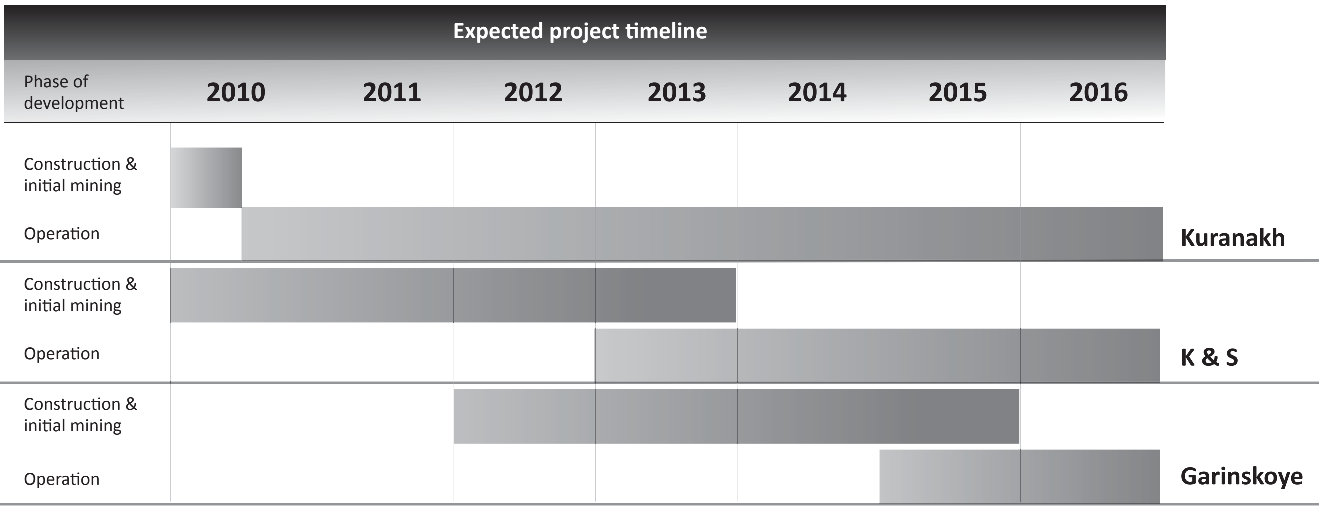
Assets

IRC Development Pyramid



Attractive portfolio of production assets, development and advanced exploration assets

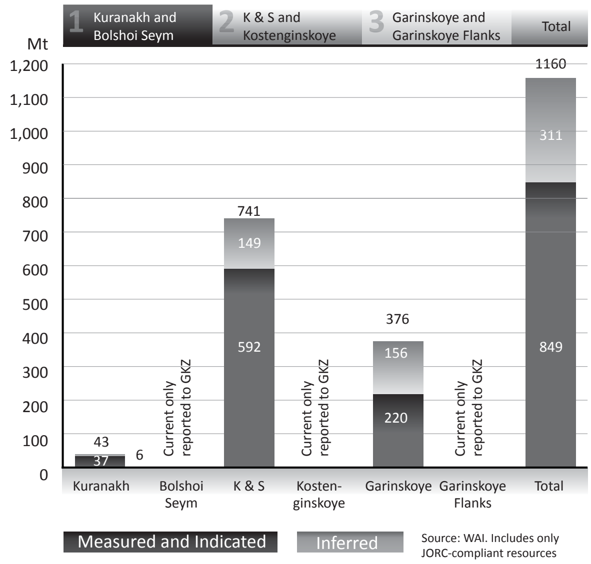
An iron ore concentrate producer with significant development potential



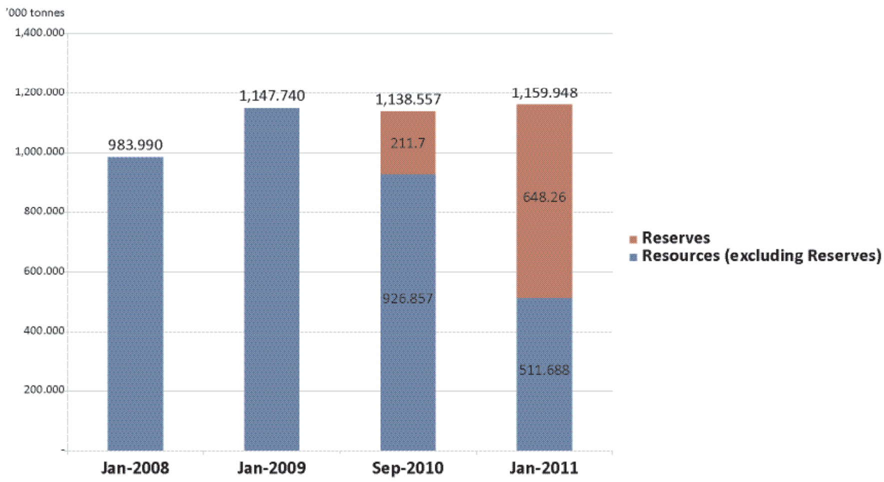
Sizeable resource base with synergistic natural extensions to existing projects

In 2010, total capital expenditure on our exploration, development and mining production activities amounted to approximately US$116.9 million. IRC spent approximately US$113.6 million in mining and development activities, primarily relating to K&S and Kuranakh. Another US$3.3 million was spent on exploration projects, including Kostenginskoye, Garinskoye and Garinskoye Flanks.

Three clearly-defined groups of projects with complementary advanced development and exploration deposits

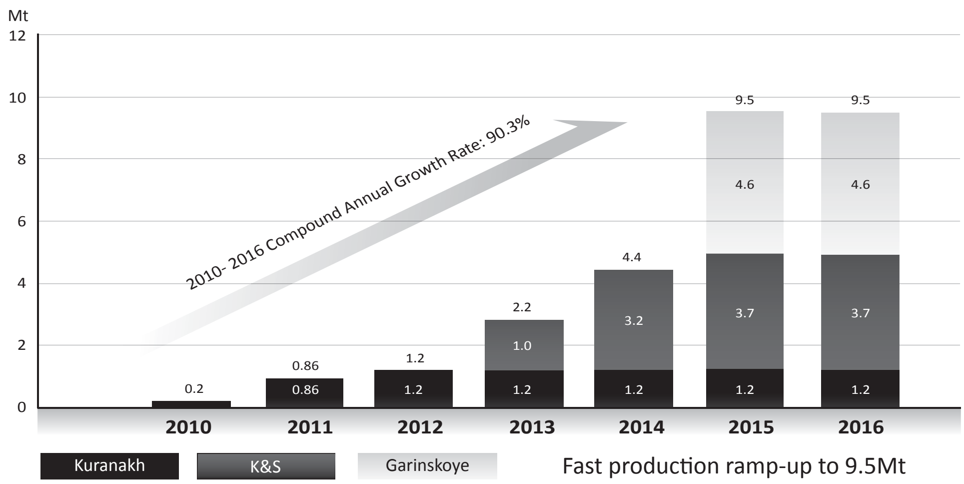


Expansion of JORC-accredited reserves and resources



Strong production growth profile

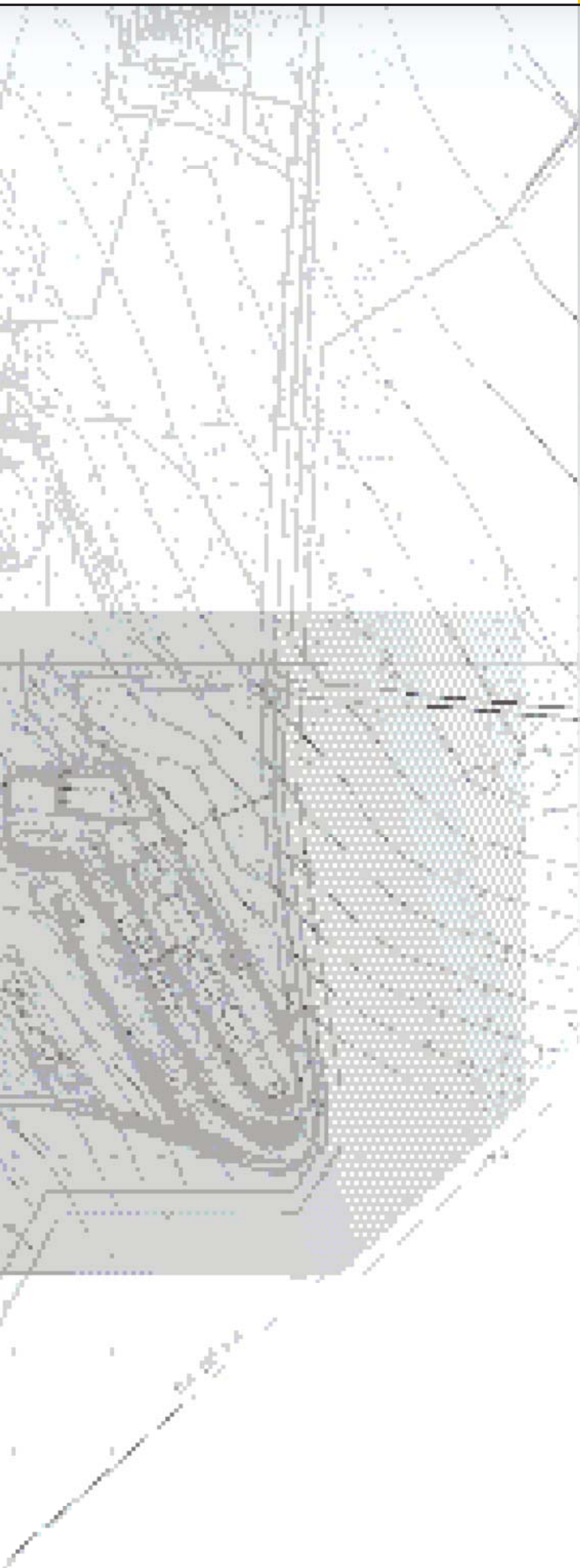
Expected iron ore concentrate production capacity



Fast production ramp-up to 9.5Mt

Spiral classifier and ball mill, Kuranakh.

Assets - Kuranakh



Kuranakh

Location
Amur Region, Russia

Infrastructure
Directly connected to the BAM Railway, which in turn connects to the Chinese railway network through the Trans-Siberian Railway. The site is also connected to the main roads, and to local electricity and water supplies, which it uses in addition to its own facilities.

Ownership
LLC Olekminsky Rudnik – 100% IRC subsidiary

Licence area
85km²

Estimated mine life
15 years

Design capacity
0.9mtpa titanomagnetite concentrate; 0.29mtpa ilmenite concentrate

Introduction

2010 was a year of achievement for Kuranakh.

In May 2010, the Kuranakh site began trial production, and on 3 July 2010, President Medvedev visited IRC's facilities and issued the order to IRC's Chief Executive, Yury Makarov, for the formal commissioning of the mine and processing plant.

Commercial sales from Kuranakh began in September 2010 under a long-term offtake agreement that prices IRC's product at a formula related to spot price. The price achieved rose steadily thereafter, with the price in December agreed at US$131/tonne. As sales volume rose, so too prices achieved increased, and IRC is now realising a price close to the local spot price.

Highlights

- Production ramped up during the second half of the year with some adjustments being needed for the ilmenite circuit. By December 2010, the plant was working toward reaching full capacity and producing titanomagnetite concentrate with the grade of approximately 62.8% Fe and ilmenite concentrate with the grade of 47-48 % TiO_2.
- The ilmenite circuit has not achieved optimal yields due to issues with the concentrators. The supplier of the high intensity electroseparation circuits for the ilmenite concentrate has visited Kuranakh to correct the yield issue and will report to IRC shortly. IRC is also carrying out independent testing of the materials and circuit.
- The pit, crushing and screening plant and process plants are now working on a 24-hour a day basis.
- Mining operations concentrated on bench development on the 740-680m elevations with ore being mined mainly from the 720m elevation. The total amount of overburden moved in 2010 was 2.3M m^3 and the total amount of ore mined was 0.9Mt.
- In September 2010, two new Liebherr hydraulic excavators were commissioned in the open pit; these, together with currently-used EKG excavators and one front-end loader will achieve the full mining rate of 2.6Mt of ore per annum.
- Kuranakh's laboratory was commissioned and federally certified in September 2010, bringing in-house expertise directly to IRC's site.
- The Kuranakh plant's primary ball mills and spiral classifiers have been working since May 2010. They initially worked with low-grade ore and waste in order to test the equipment and provide a base lining for the tailings dam.
- 288.5Kt of pre-concentrate with a grade of 41% were fed to the Processing plant.
- 149.1Kt of titanomagnetite concentrate with a grade of 63.5% Fe (TiO_2 – 4.76 %) were produced.
- 2.5Kt of ilmenite concentrate with a grade of 48 % TiO_2 (Fe total – 34.6 %) were bagged. A further 280 tonnes of ilmenite were produced and wasted as part of the testing process. Very small quantities of cobalt, nickel and chrome were identified.


Mining operations, Kuranakh.

Process

The processing of ore at the Kuranakh Project is a two-stage, integrated operation:

1. The ore undergoes crushing and magnetic pre-concentration at a plant adjacent to the pit;
2. Further beneficiation at the processing plant is undertaken to produce concentrate.

- Transfer and pre-concentration stage
Ore is delivered from the pit to the adjacent jaw crusher using 55-tonne CAT 773 trucks and the ore is crushed and transported on a conveyor belt to a stockpile.

Ore is recovered via underground feeders and is further crushed in two parallel processing lines consisting of secondary cone crushers. The secondary crushed product is screened and the screen undersize reports as the product. The oversize fraction undergoes dry magnetic separation to produce a magnetic product and a non-magnetic tailings product. The magnetic concentrate is stockpiled before being conveyed to tertiary cone crushers where the material is further crushed. The crushed product is again screened and the oversize fraction is treated by a second stage of dry magnetic separation. The magnetic concentrate and the non-magnetic product area conveyed to the pre-concentrate stockpile and tailings stockpile respectively.

The pre-concentration stage is designed to result in an increase in Fe grade to an average grade of 39.4%. Fe at an iron recovery of 96.4% (mass recovery of 71%.). Equivalent data for TiO_2 suggest that grades may be raised to an average grade of 13.4%. TiO_2 at a recovery of 97.5%.

The pre-concentrate is then trucked along a dedicated, all-weather haul road to the main processing plant at Olekma, a distance of approximately 40km.

- Beneficiation and separation stage
The processing plant is designed to produce two separate titanomagnetite and ilmenite concentrates.

At the processing plant, the pre-concentrated ore is crushed in ball mills in order to complete the disassembly of the ore. The crushed ore slurry is pumped to low intensity magnetic separators where the non-magnetic ilmenite is separated from magnetic titanomagnetite.

Titanomagnetite circuit
The titanomagnetite is filtered to remove excess moisture and silos stockpiled in covered storage silos ready for loading into railway wagons.

Ilmenite circuit
The ilmenite pre-concentrate is passed through high-intensity magnetic separators, and then dried.

After drying, the ilmenite is conveyed to electrostatic separators for final cleaning and then to separate storage silos located adjacent to the rail loadout. The ilmenite concentrate is then loaded into polythene bags for despatch by rail. These bags hold 1.8t of ilmenite concentrate.

Infrastructure, Power and Water

All infrastructure necessary for the ordinary course of production at Kuranakh has been completed.

This infrastructure includes extensive power lines, a rail-loading facility, a network of more than 50km of roads, railway connections, an administration complex, a laboratory, residential accommodation blocks and a medical centre. These were all formally commissioned in 2010.

Coal, which is sourced by rail on a contract basis, is solely used for heating. Electricity is purchased from the regional supply operating within the Russian Federal Grid, from which the supply is sufficient. Fuel for machinery and transport vehicles is transported by rail and by fuel tanker.

Kuranakh has two boreholes for water reserves. Their combined capacity is approximately 5,043.4 m^3 per day. Water for the pit is supplied by water tanker from the water supply system at the Olekma village, and at the process plant, water is sourced from the tailings management facility. Drinking water for the site is provided directly from the Olekma system by a pipeline. The pipeline is heated from the main Kuranakh heating plant: supply is therefore not interrupted in the winter.

Employees

As at 31 December 2010, 1,015 people were employed at the Kuranakh site, in addition to other employees working on the Kuranakh project from regional offices. At any given time, approximately half of these employees are at site, because Kuranakh operates on a shift system, with employees working at site on a one month on/one month off basis. Kuranakh now has accommodation, dining, recreation and medical facilities for 740 people employed at site.

Equipment

Major equipment used at Kuranakh includes:

- Electric powered rotary drills for blast-hole drilling;
- EKG excavators for ore extraction;
- Diesel-hydraulic excavators for waste excavation;
- Diesel dump trucks for hauling ore to the crushing plant and waste to surface stockpiles;
- Ball mills and cone crushers; and
- Magnetic separators.

2011 Forecast

Titanomagnetite concentrate and Ilmenite concentrate production estimate

The ramping-up process at Kuranakh is underway, and IRC expects to produce 800,000–830,000 tonnes of titanomagnetite concentrate in 2011. IRC is confident that full production capacity will be achieved in due course.

As the ramping-up process began in mid-2010, minor issues occurred in the ilmenite circuit: two conveyors needed to be replaced, and the heaters and driers adjacent to the high intensity electroseparation circuit needed substantial adjustment and testing. These problems are now being resolved, and the ramping-up process is continuing with an effort to address the current low yield. IRC's current estimate for ilmenite concentrate production at Kuranakh in 2011 is therefore substantially lower than design capacity, and the company expects to produce 65,000-70,000 tonnes.

Preconcentrate stockpile, Kuranakh.

Geology and reserves

The Kuranakh and Saikta deposits are located at the intersection of structures within the Aldan shield and the Stanovoy fold-block system. Eight separate iron-titanium ore fields (deposits) have been identified within this area. The largest deposits include those of the Bolshoi Seym project and Kuranakh. The structure of the region involves a wide range of rocks, from modern and ultrabasic to acid and sub-alkaline. Associated with them are iron-titanium and rare-earth mineralisation. The iron-titanium mineralisation in the region is polygenetic, associated with both early and late magmatic stages.

The Kuranakh licence area contains two major areas of mineralisation, namely (from west to east):

- the Kuranakh deposit (comprising the South, Intermediate and North Zones); and
- the Saikta deposit (containing Ore Zones 1,2, 4 and 8 of which Ore Zone 1 is the largest).

The main ore minerals in the Kuranakh Project licence area are ilmenite and titanomagnetite. The main useful components include titanium and iron. Other components include vanadium, chromium, nickel and cobalt, but only vanadium is considered by IRC as a useful by-product.

Summary of principal IRC mineral resources for Kuranakh

In accordance with the *Guidelines of the JORC Code (2004)*

Project	Cut-off grade	Resource Category	Mineral Resources (Mt)	Fe (%) (total)
Kuranakh (incorporating Saikta)	17%	Indicated	37.38	31.17%
		Inferred	5.68	31.55%
		Total	43.06	31.22%

Kuranakh Laboratory

In September 2010, the laboratory at the Kuranakh mine was formally commissioned, having been in provisional operation since 2008. The laboratory undertakes analysis of the technological processes of mining and beneficiation, with particular focus on iron ore-related minerals.

The laboratory works at all stages of the production process, providing testing and analysis of the geological samples, balanced samples from the crushing and screening complex and process plant, as well as of the final product before it is delivered for sale. In order to ensure the precision and accuracy of the sampling, standard samples, internal-methodological and external control are used. The laboratory allows IRC to maintain ongoing research and development on-site, as well as to achieve timely, accurate and cost-effective analysis of the materials with which the company works.

An early achievement for the Kuranakh laboratory, prior to the formal commissioning of the facility, is the development of state-of-the-art methods of analysis to eliminate the use of the mercury salts, in an effort to make the facility environmentally-friendly. These methods have been through metrological examination at Tomsk Polytechnic University's internationally-accredited metrological department and were referred to VNIIMS (the All-Russian Research Institute of the Metrological Service.) There they have been nominated and approved for inclusion in the Federal Register of Scientific Methods.

The Kuranakh laboratory complements IRC's mining portfolio, and works closely with the engineering and design teams, to ensure efficient and environmentally-sound practices at site.


Ore being loaded into the crusher, Kuranakh.

Assets - K&S

K&S

In production
2013

Location
EAO, Russia

Infrastructure
Connected to the Trans-Siberian Railway and the Federal Highway, both of which connect to China. The site is also connected to local electricity and water supplies, which it uses in addition to its own facilities.

Ownership
LLC KS GOK – 100% subsidiary of IRC

Licence area
49.4km²

Estimated mine life
25-40 years

Design capacity
3.2 mtpa iron ore concentrate

Office block, K&S.

Excavations at K&S.

Highlights

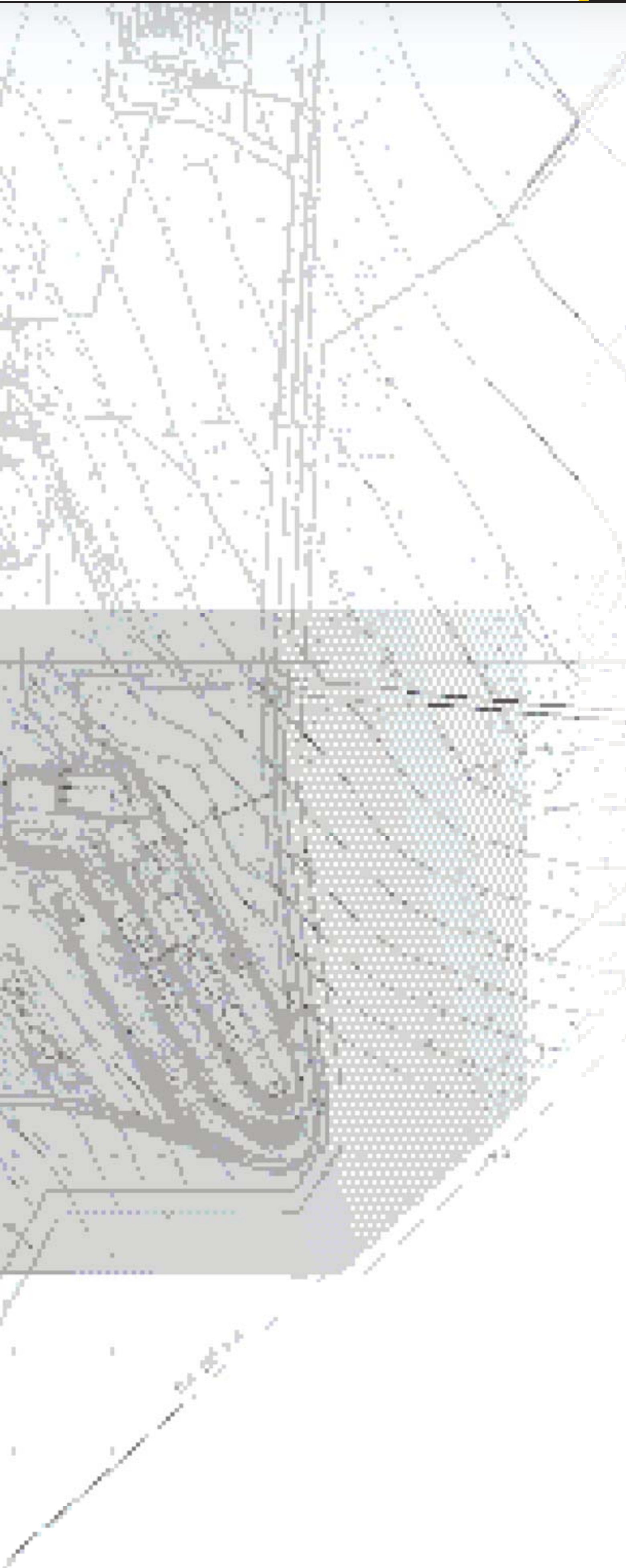
2010 saw the first production of 1,000 tonnes of test ore from K&S; which is located some 40 kilometres from the Chinese border. The signing ceremony for the initial memorandum for the construction of the project was attended by Chinese Vice President Xi Jinping in March 2010, and the fixed-cost US$400 million construction agreement was signed in December 2010. The contract will be part-funded from IRC's US$340 million project finance facility from ICBC, with the remaining 15% of the project funded from a portion of the proceeds from IRC's listing on the Stock Exchange of Hong Kong in October 2010. The contract provides the quality imprimatur of an experienced Chinese state contractor, working with IRC's management and engineering team to ensure the timely and cost-effective delivery of the first stages of commercial production at K&S in 2013. K&S is designed to comprise a 10mtpa mining operation at two open pits.

Key achievements in 2010 included:

- A total of 1,570,700 m^3 of overburden was moved into the dumps and for the construction of road, and 1,000 t of ore was stockpiled.
- The transfer of formal status of construction area has been completed and certified;
- Water reserves have been confirmed and usage permissions have been obtained;
- Geotechnical research for all construction facilities has been finalised: 75% of geodetic survey, geophysical and earthquake conditions exploration have been completed;
- Environment and social public consultations and hearings on the project have been carried out;
- Technical specifications for connecting electric lines and rail connections have been received;
- The design of the processing plant has been completed and agreed with the contractor, the China National Electric Equipment Corporation;
- Clearing and preparation of the area for construction of the processing plant, explosive storage, ash dump and the main haul road for the processing plant has been completed;
- The first accommodation block for 200 people has been completed;
- Administration offices at site have been built;
- A temporary canteen at K&S is operational, construction of a permanent dining and recreation facility is nearly complete; and
- The construction of a new regional headquarters has been completed at Birobidzhan, the capital of the EAO.

Liebherr 984 hydraulic back acter with 7m^3 bucket and a Belaz 50t at work at K&S.

Assets - K&S



Infrastructure, Power and Water

K&S is located in the EAO, c.40 kilometres from the Chinese border, 4km to the west of Izvestkovaya railroad station on the Trans-Siberian Railway, which connects directly to China. The railway line passes 400 metres from the pit. During 2010, adjustments were made to the old Chita-Khabarovsk Federal road, such that it now bypasses the mine site.

Heating plants and a 220/35/6 kV substation will be built at the K&S project site in 2011-2012.

There are two power lines passing near the K&S project site (220 and 500 kV) and pursuant to an agreement with the Federal Grid System, IRC will connect to a 220kV line with allocated capacity of 88 mW (only 60.9 mW will initially be required). IRC buys electricity from this system at spot price.

In addition, as part of its development plan, in 2009 IRC acquired the Ushumun coal deposit, situated in the EAO approximately 40km to the south of Birobidzhan. IRC will use the coal from this deposit in the K&S heating plant, and sell any excess production locally and to China.

IRC owns nine water boreholes at the K&S site, two of which are currently operational. Their combined capacity is 21,300 m^3 per day: sufficient for K&S' needs in the production stage. These boreholes have been independently certified.

- Employees

As at 31 December 2010, K&S project employed 431 people.

Geology and reserves

The K&S twin deposits are situated within the South Malo-Khinganskiy metallogenic belt of the EAO.

K: The deposit is divided into four distinct ore zones with the most important being the Central Zone. The ore is approximately 63% magnetite, approximately 20% haematite-magnetite, and approximately 17% oxidised martite and haematite-martite within those parts that have been drilled. The ore also contains manganese (0.5-1.5%), germanium, vanadium, titanium and gold.

S: The deposit is divided into three ore zones with the most important being Yuzhni, which lies on either side of the Sutara river. The ore is mainly magnetite with some silicatemagnetite.

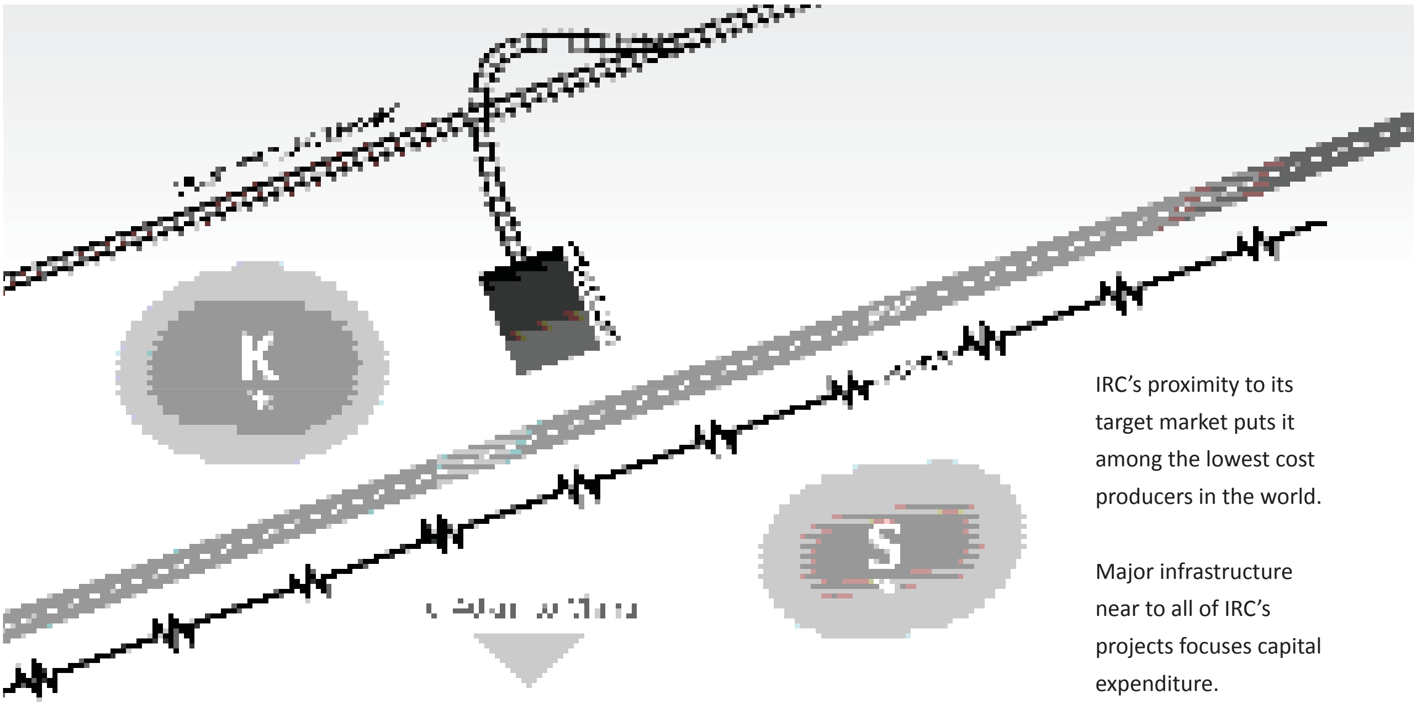
Testing of the ore by IRC and potential customers has proved that it is a highly-attractive project with no significant impurities.

Summary of principal IRC mineral resources for K&S

In accordance with the *Guidelines of the JORC Code (2004)*

Project	Cut-off grade	Resource Category	Mineral Resources (Mt)	Fe (%) (total)
K&S	25%	Measured	195.66	32.45%
		Indicated	396.77	32.91%
		Inferred	148.65	32.07%
		Total	741.08	32.62%

Simplified layout of the K&S mine, in relation to infrastructure



IRC's proximity to its target market puts it among the lowest cost producers in the world.

Major infrastructure near to all of IRC's projects focuses capital expenditure.

Garinskoye

In production
2015

Location
Amur Region, Russia

Infrastructure
Located between the Trans-Siberian and BAM Railways, 148 km North-East from Shimanovsk station. A full railway connection is planned.

Ownership
LLC GMMC – 99.58% subsidiary of IRC

Licence area
11.2 km^2
The project is adjacent to a further exploration project, Garinskoye Flanks, the IRC licence for which covers 3,530 km^2.

Estimated mine life
26 years

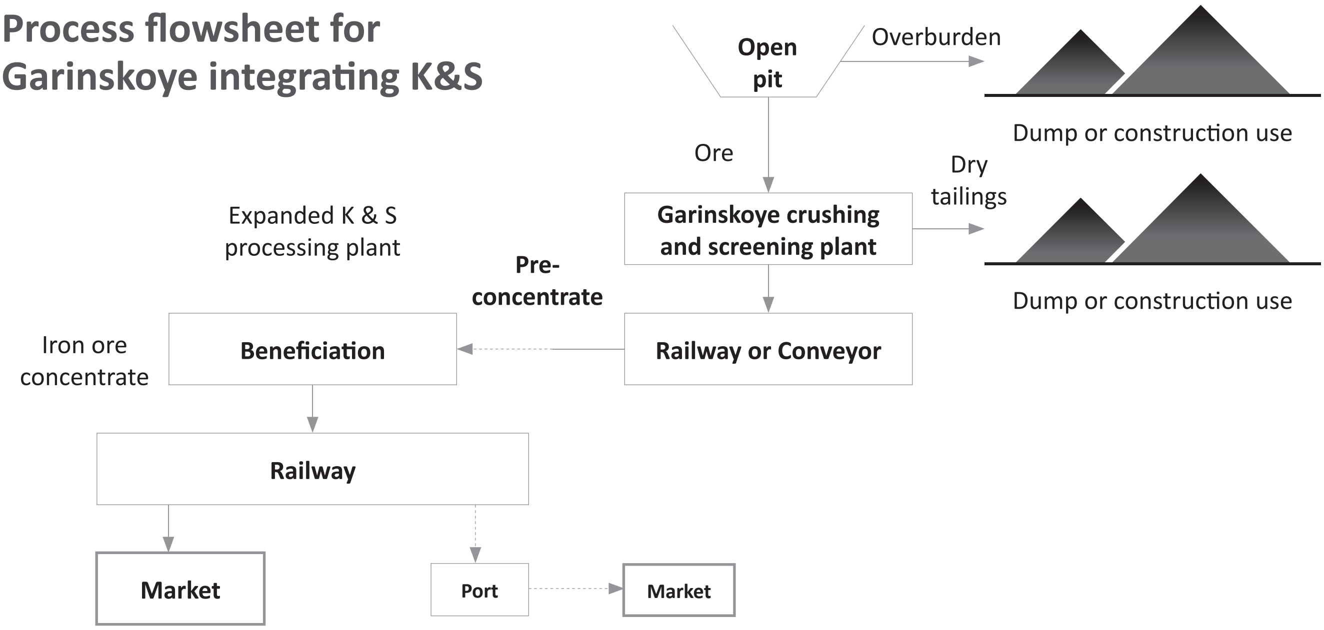
Design capacity
7.3 mtpa iron ore pre-concentrate

In 2010, preparatory and preliminary works continued at Garinskoye.

In January 2010, the State Geological Committee approved the plan for additional geological exploration work at Garinskoye. This work will investigate additional magnetic anomalies close to the main pit, thought to represent further magnetite mineralisation, which would allow an increase in the size of the pit.

Work to refine the design and structure of the pit continued in 2010 for greater project efficiency.

Process flowsheet for Garinskoye integrating K&S



Geology and reserves

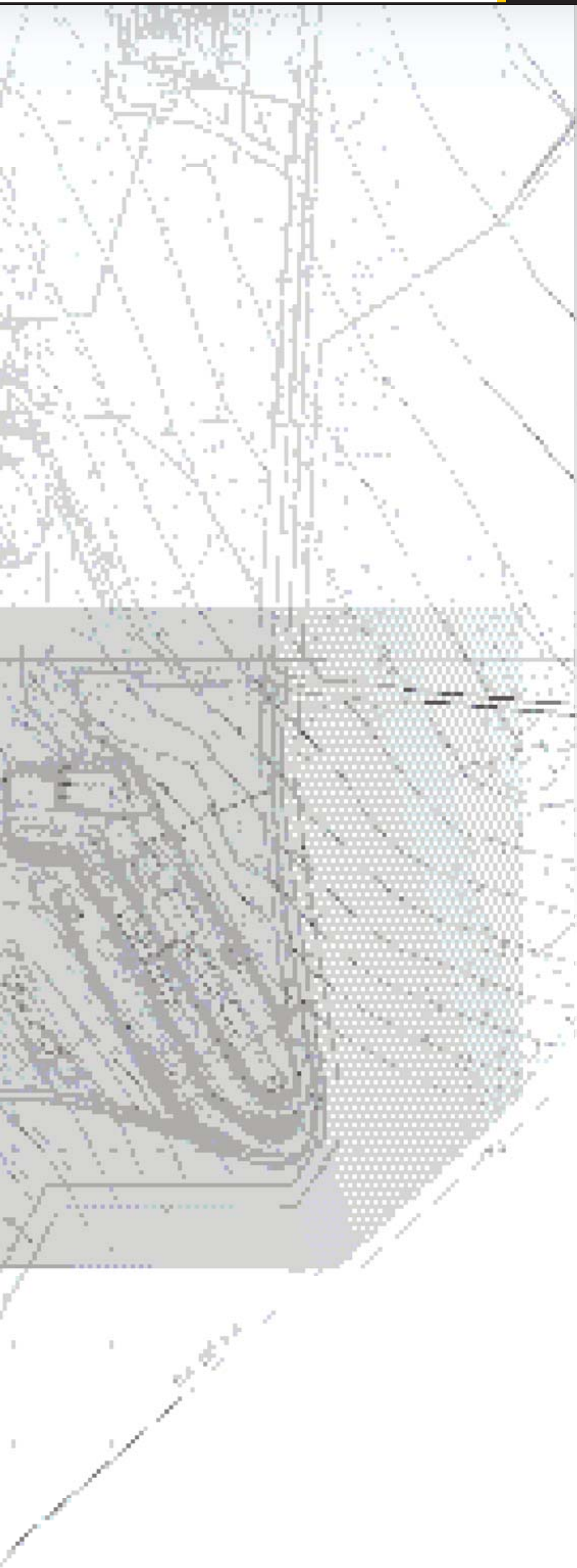
The original exploration carried out at Garinskoye in the nineteen-fifties identified 54 ore bodies with thicknesses ranging between 1.6 – 49m and strike lengths ranging between 60 – 1,500m. Mineralisation was determined to reach to a depth of 500m and it was identified that all of the ore bodies dipped steeply at 70° – 80° with a north-easterly strike.

Summary of principal IRC mineral resources for Garinskoye

In accordance with the *Guidelines of the JORC Code (2004)*

Project	Cut-off grade	Resource Category	Mineral Resources (Mt)	Fe (%) (total)
Garinskoye	20%	Indicated	219.86	32.0%
		Inferred	155.94	29.3%
		Total	375.80	30.9%

The Garinskoye development site from the air.



Vanadium joint venture

Expected production
2011

Location
Shuangyashan, Heilongjiang, China

Infrastructure
Customer and supplier is c.80 metres from the project site.

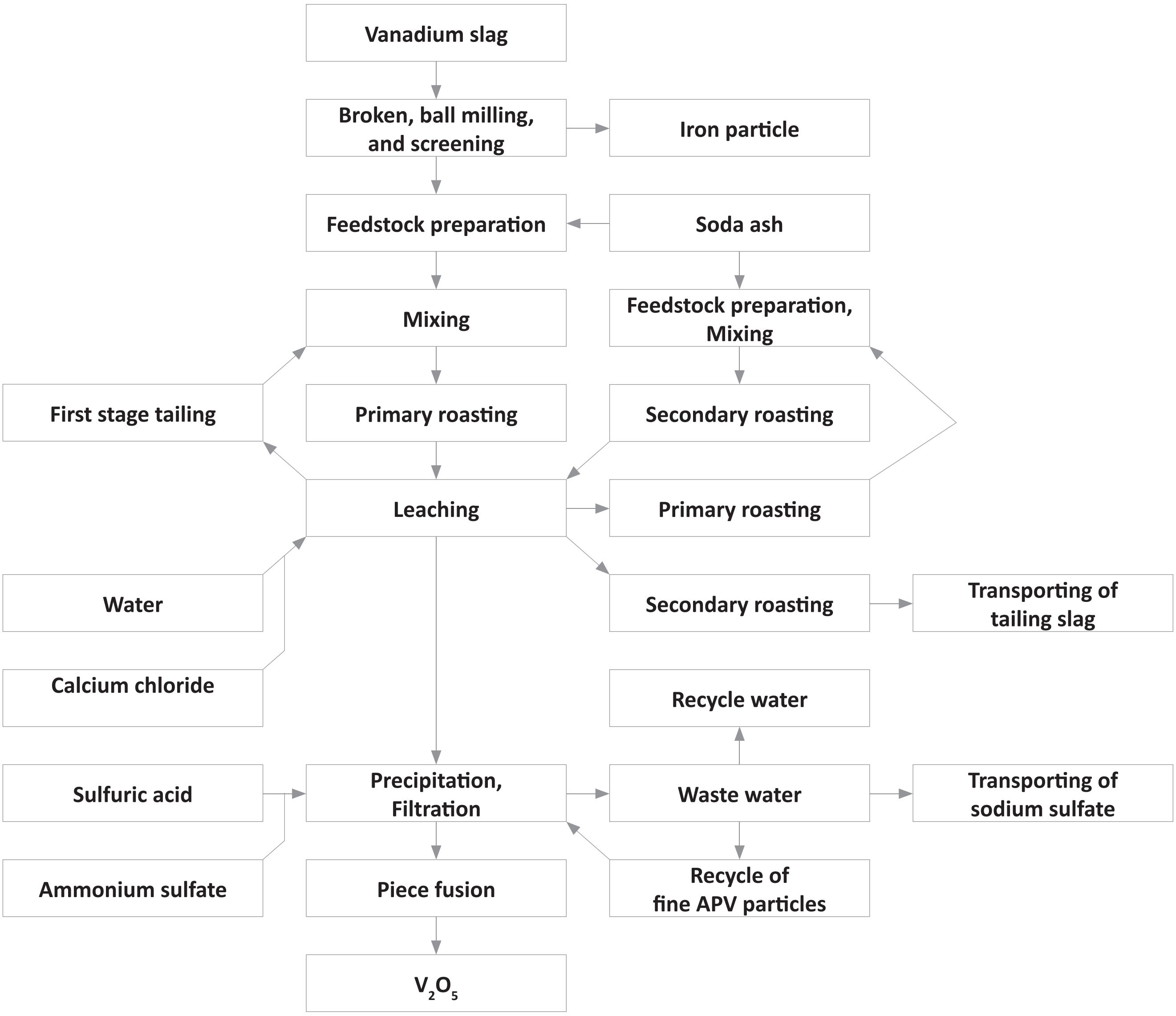
Ownership
Sino-Russian joint venture project, of which IRC owns 46%.

Land area
Plant land area is 71,906 m^2

Design capacity
6,000 tonnes per annum of Vanadium Pentoxide

In March 2010, the Vanadium joint venture approved a comprehensive development scheme for the project. The scheme was drawn up by IRC in conjunction with its partners, and the Sichuan Runbang Urban Architecture Design Limited Company. Sichuan Runbang Urban Architecture Design is an independent design company based in Chengdu, and is an acknowledged market leader in the design of industrial process facilities related to bulk commodities. Following design approval, construction began at the site. By August 2010, the foundations for the plant had been laid and initial equipment had been ordered. As planned, construction was halted with the onset of winter, and is due to resume in early 2011, with the project currently on target for completion in the fourth quarter of 2011.

The process used by IRC's Vanadium joint venture



This project requires nearly 60,000 tonnes of vanadium slag (containing 10% vanadium pentoxide) per annum. The vanadium slag is transported by trucks from steel-making operations. The distance between the boundaries of the vanadium project and the steel-making operations is c.80 metres. After processing in IRC's Vanadium joint venture, it may be used in the form of Vanadium Pentoxide as a catalyst in batteries, or as Ferrovanadium, which is used to strengthen steel.

The main reagents used in the project are:

- Soda ash
  18,502 tons of soda ash per annum.
- Ammonium sulfate
  6,000 tons of ammonium sulfate per annum.
- Industrial sulphuric acid
  5,500 tons of industrial sulphuric acid per annum.
- Calcium chloride
  750 tons of calcium chloride per annum.

These four products are purchased under contract from regional vendors.

The vanadium project represents IRC's successful work in building Sino-Russian partnership.

Giproruda

Operating

Location
St Petersburg, Russia, with regional and international field offices.

Ownership
IRC acquired 70.3% of Giproruda and consolidated it as a subsidiary of IRC from July 2007.

Employees
174 technical staff

Giproruda is one of the leading mining research and consultancy institutes with operations in Asia. With an established and expanding client base, Giproruda has provided technical and design support to more than 200 clients, undertaking mining projects in four continents. Giproruda has historically been involved with a number of Chinese projects, including projects in Liaoning and Inner Mongolia. Giproruda's work includes the design, coordination, construction and commissioning of quarries and mines for mining clients, particularly those located in challenging geological and climatic conditions.

In 2010, Giproruda serviced fourteen clients, with particular focus in iron, phosphates and diamonds. In June 2010, Giproruda opened a representative office in the city of Rudny, Kazakhstan.

In 2009–10, Giproruda made a number of significant steps to improve its design capabilities and technology. The institute has updated its software, making the move to 3D modelling for the conceptual design of quarries and their expansion, production, planning and optimisation. Giproruda uses advanced modern mining design software, including Micromine, Surpac, Whittle and NPV Scheduler.

Ilmenite from IRC's Kuranakh mine.

IRC's stake in Giproruda gives IRC access to quality in-house mining engineering and development expertise. Giproruda has been involved with the design of a number of IRC projects, including Garinskoye. IRC's minority equity partner in Giproruda is JSC PhosAgro, Russia's largest producer of phosphate-based fertilisers.

Giproruda is certified according to the ISO 9001:2008 quality management standard.

Above: the Giproruda logo.

Exploration Projects

As part of IRC's commitment to establishing value for its assets, IRC has acquired licences for assets near its main development sites.

These are:

Garinskoye Flanks
which surrounds the area of the main Garinskoye deposits (wholly-owned by IRC);

Kostenginskoye
24km south of the main K&S deposits (wholly owned by IRC); and

Bolshoi Seym
40km south east of the Kuranakh deposit (49% owned by IRC).

These sites provide a potential option to substantially extend the lives of IRC's main mine sites, as well as the possibility to exercise full and efficient use of existing IRC infrastructure and facilities.

During 2010, design, planning and exploration for the three sites continued in earnest.

At Garinskoye Flanks, the licence covers an area of 3,530km^2. A full exploration and development planning programme is in progress.

At Kostenginskoye, the licence covers an area of 24km^2. Preliminary exploration works have been undertaken, a preliminary resource estimation has been performed and aerial magnetometer surveys have taken place.

At Bolshoi Seym, the licence covers an area of 26km^2. In 2010, exploration fieldworks were completed and a report is being prepared. Potentially economic mineralisation at Bolshoi Seym comprises massive ilmenite and magnetite. Massive mineralisation comprises 90-99% (by volume) of ilmenomagnetite, magnetite and ilmenite.

The exploration projects host a substantial resource base as identified by Russian studies delivered to the GKZ standard. IRC is working to transfer these GKZ resource figures to JORC standard on a project-by-project basis.

Jiatai Titanium

In 2008, IRC entered into a joint venture with a Chinese conglomerate, to establish Jiatai Titanium, to produce titanium sponge in Jiamusi city, Heilongjiang province, China. It was intended that the downstream plant operated by the joint venture would source ilmenite from IRC's Kuranakh mine, and process it to high-value 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.

The design for the plant was completed, and preparation of the project site began.

In 2010 however, the building of the titanium sponge production plant was deferred following the joint venture partner's decision to withdraw from some of its non-core ventures and as a result to dispose of its 35% share in the joint venture. The 35% interest will be disposed of through a public listing and bidding process in accordance with the applicable provisions of mainland Chinese law.

IRC has bid for the 35% interest, but it is considering how it would proceed if it does acquire that interest. Strategic options under consideration may include finding other partners for the joint venture or proceeding with the project alone.

Executive Directors

Jay Hambro,
Executive Director and Chairman

Mr Jay Hambro, aged 36, is an Executive Director and the Chairman of IRC. He is the Chairman of the Board of Directors, as well as the Executive Committee.

Mr Hambro began his career in metals and mining at NM Rothschild and later at HSBC. He joined Petropavlovsk (then Peter Hambro Mining) as a non-executive director before its listing on the London Stock Exchange in April 2002 and was subsequently appointed Chief Executive of Aricom, which developed part of IRC's current portfolio. Following the acquisition of Aricom by Petropavlovsk, he became the chief investment officer of Petropavlovsk, retaining responsibility for the Industrial Commodities Business of the Petropavlovsk Group. He relinquished this role in 2010 to become Chairman of IRC Limited.

Mr Hambro also serves as an independent non-executive director for Winsway Coking Coal Holdings Limited, a company which operates in China and is listed on the Stock Exchange of Hong Kong (stock code: 1733).

Mr Hambro holds a Bachelor of Arts in Business Management. He is a member of the Pan-European Reserves and Resources Reporting Committee (PERC) and is a Liveryman of the Worshipful Company of Goldsmiths.

Yury Makarov, Executive Director and Chief Executive Officer

Mr Yury Makarov, aged 36, is an Executive Director and the Chief Executive Officer of the Company. He is the Chairman of IRC's Operations Committee.

Prior to his tenure as Chief Executive of IRC, he served as Group Head of operations of the Industrial Commodities Business of the Petropavlovsk Group and was Chief Operating Officer of Aricom.

Mr Makarov also served as Commercial Director of NT Computers in Moscow.

Mr Makarov qualified from the Moscow State Aircraft Technology Institute in 1998 as an engineer.

Raymond Woo, Chief Financial Officer, Executive Director and Company Secretary

Mr Raymond Woo, aged 41, is an Executive Director, the Chief Financial Officer and the Company Secretary of the Company.

Mr Woo began his financial career as an accountant at Arthur Andersen & Co in Hong Kong. He has occupied various senior positions in a number of financial institutions in Hong Kong including Credit Suisse, China Resources Land Limited and at CITIC Securities (HK) Limited, where he was latterly managing director and head of corporate finance.

Mr Woo graduated from the University of New South Wales (Australia) with a Bachelor of Commerce in 1991. He has been a member of the Australian Society of Certified Practising Accountants (CPA Aust.) since 1992 and has been Fellow of the Hong Kong Institute of Certified Public Accountants since 2005.

The IRC board of directors at the K&S mine:
(L to R) C.F. Li, Dr P.A. Maslovskiy, D.R. Bradshaw, J.E. Martin Smith, S. Murray, Y.V. Makarov, R.K.T. Woo, G.J. Hambro

Independent Non-Executive Directors

Daniel Rochfort Bradshaw

Mr Daniel Bradshaw, aged 64, **(Senior Independent Non-Executive Director, and Chairman, Health, Safety and Environment Committee)** is a leading Hong Kong lawyer with a specialist shipping practice. He has worked at Johnson Stokes & Master (now known as Mayer Brown JSM) in Hong Kong as a solicitor since 1978 and is now a senior consultant of the firm.

Mr Bradshaw graduated from Victoria University of Wellington (New Zealand) with a Bachelor and Master of Laws, and is admitted as a solicitor in England & Wales and Hong Kong. Mr Bradshaw is an independent non-executive director of Euronav N.V., a Euronext listed tanker company and an independent non-executive director of Pacific Basin Shipping Limited (Stock Code: 2343), a Hong Kong listed shipping company.

Mr Bradshaw is also a director of the Kadoorie Farm and Botanic Garden and a member of the executive council of the World Wide Fund for Nature Hong Kong. He was also a member of the Maritime Industry Council in Hong Kong from 2003 to 2008.

Jonathan Eric Martin Smith

Mr Jonathan Martin Smith, aged 52, **(Chairman, Remuneration Committee)** is the founder and managing director of Smith's Corporate Advisory, an advisory business with particular specialisation in mining companies and investment trusts, in London since April 1999. Smith's is a subsidiary of Westhouse Holdings PLC.

Prior to establishing Smith's, Mr Martin Smith specialised in mining at the UBS Group, Credit Suisse Group and at Williams de Broë.

Mr Martin Smith has been approved by the Financial Services Authority (UK) ("FSA") as an FSA "approved person" since 2006 to perform various FSA controlled functions for Smith's Corporate Advisory Limited.

Mr Martin Smith graduated from the Royal Military Academy Sandhurst in 1979 where he served as an officer in the British Army until 1982.

Chuang-fei Li

Mr CF Li, aged 64, **(Chairman, Audit Committee)** joined the London branch of the Bank of China in 1978. From 2002-2010, Mr Li worked as Deputy General Manager and the Chief Lending Officer of the London-based division of the Bank of China. He was in charge of Corporate Banking, Treasury and Capital Markets, financial institutions coverage, structural finance, trade finance, syndications, shipping finance and retail banking.

Throughout his career, Mr Li has been involved in bullion trading, export credit (both as borrower and lender), aircraft financing, soft-loans and major project advisory work, and was involved in the establishment of Bank of China International, the first Chinese-owned investment banking operation. Mr Li was instrumental in helping the London branch of the Bank of China to obtain its investment banking licence from the United Kingdom Financial Services Authority, and set up the first SWIFT operation of any Chinese bank. He was also responsible for establishing the first syndication and financial institutions departments in the London branch of the Bank of China.

Mr Li is a past Fellow of the Asia Centre at Harvard University.

Non-Executive Directors

Dr Pavel Maslovskiy

Dr Pavel Maslovskiy, aged 54, is a co-founder and the chief executive of Petropavlovsk PLC. He has been the Chairman of OJSC Pokrovskiy Rudnik since 1994.

In his capacity as a director of Petropavlovsk PLC and predecessor companies of Petropavlovsk, Dr Maslovskiy has extensive experience in the direct operations management of mines producing a variety of precious and non-precious metals.

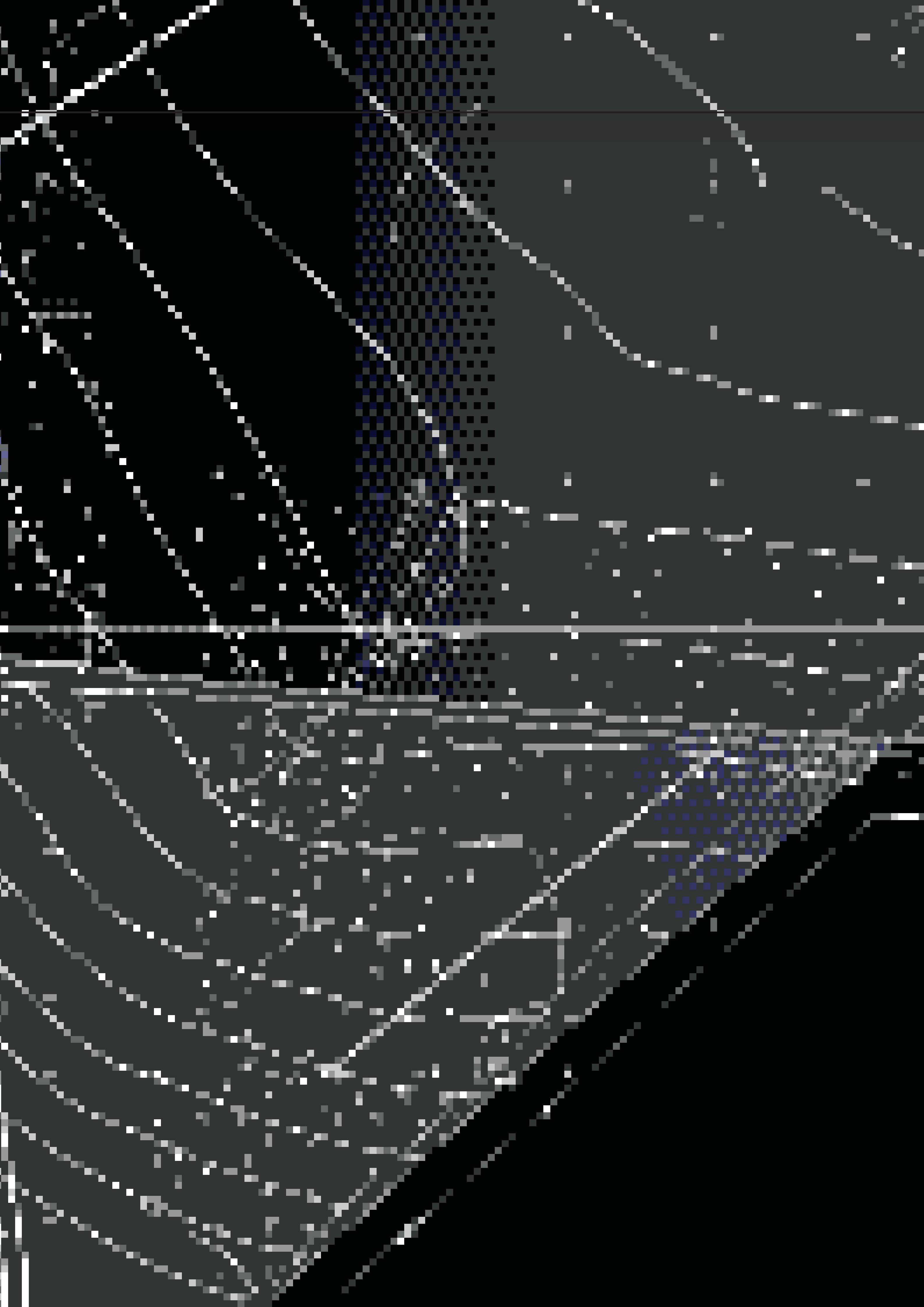
Prior to embarking on his business career, Dr Maslovskiy taught and researched Metallurgy and Plasticity at the Moscow Aircraft Technology Institute.

Simon Murray, CBE, *Chevalier de la Légion d'honneur*

Mr Murray, aged 71, is the chairman of GEMS Limited, a private equity investment group operating across Asia, which he founded in 1998.

Mr Murray worked for Jardine Matheson from 1966 to 1980, after which he set up his own company, Davenham Investments. In 1984, Mr Murray joined Hutchison Whampoa as the group managing director, a post in which he served until 1993. From 1994-1997 Mr Murray was the executive chairman of Deutsche Bank Group for the Asia Pacific region.

Mr Murray has been a member of the board of directors of Cheung Kong (Holdings) Limited, Orient Overseas (International) Ltd., Arnhold Holdings, Wing Tai Properties Limited, Omnicorp Limited, Compagnie Financière Richemont SA, Essar Energy Ltd, and Sino Forest Corporation. Mr Murray is a past director of Vodafone Group plc, and Hutchison Whampoa Ltd. In 1993, Mr Murray was appointed a CBE in honour of his contribution to the Hong Kong community. Mr Murray has also been awarded the Order of Merit of the French Republic and is a *Chevalier de la Légion d'honneur.*



Corporate Governance Report

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Throughout the year, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' securities transactions

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 Directors have complied with the standard set out in the Model Code throughout the year ended 31 December 2010.

Board of Directors

The Board of Directors (the "Board") of the Company provides leadership and supervises the overall direction of the Group's businesses. The day-today management however has been delegated to the Executive Directors. The Board comprises of eight Directors; three Executive Directors, three Independent Non-Executive Directors and two Non-Executive Directors. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided on a timely manner.

The Company Secretary keeps the minutes of Board meetings.

The full Board met twice in 2010. Attendance of individual Directors is listed below:

Attendance

Executive Directors

Mr G.J. Hambro, Chairman 2/2
Mr Y.V. Makarov, Chief Executive Officer 2/2
Mr R.K.T. Woo, Chief Financial Officer 2/2

Independent Non-Executive Directors

Mr D.R. Bradshaw, Senior Independent Non-Executive Director 2/2
Mr J.E. Martin Smith, 2/2
Mr C.F. Li, 2/2

Non-Executive Directors

Dr P.A. Maslovskiy, 2/2
Mr S. Murray, CBE, *Chevalier de la Légion d'honneur**, 2/2

* Appointed on 3 September 2010, resigned on 14 September and reappointed on 16 November 2010.

Mr Y.V. Makarov, Chief Executive Officer, is the stepson of Dr P.A. Maslovskiy, a Non-Executive Director. Mr G.J. Hambro is the son of Mr P.C.P. Hambro, a substantial shareholder in Petropavlovsk PLC.

The Independent Non-Executive Directors are appointed for a specific term and are subject to retirement by rotation.

Corporate Governance Report

Continued

Remuneration Committee

The Remuneration Committee was established by the Board on 3 September 2010. The Committee consists of the three Independent Non-Executive Directors.

The Committee met once in 2010. Attendance of individual Directors is listed below:

Attendance

Mr J.E. Martin Smith – Chairman of the Remuneration Committee 1/1

Mr D.R. Bradshaw – Independent Non-Executive Director 1/1

Mr C.F. Li – Independent Non-Executive Director 1/1

The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. In doing this, professional advice may be sought if considered necessary. No Directors or any of his/her associates is involved in deciding his/her own remuneration.

Auditor's Remuneration

For the year ended 31st December 2010, fees payable to IRC's auditor for audit and non-audit services amounted to US$459,000 and US$2,838,000 respectively.

Audit Committee

The Audit Committee was established by the Board on 3 September 2010.

The Committee met once in 2010. Attendance of individual Directors is listed below:

Mr C.F. Li – Chairman of the Audit Committee 1/1
Mr D.R. Bradshaw – Independent Non-Executive Director 1/1
Mr J.E. Martin Smith – Independent Non-Executive Director 1/1

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and the code provision C3.3 (the "Code Provision") of the Code on Corporate Governance Practices, Appendix 14 of the Listing Rules, written terms of reference (the "Terms") which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of the Company on 3 September 2010. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures. During 2010, the Audit Committee met to review the 2010 annual report and accounts and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence and reported to the Board.

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board is responsible for reviewing the internal control policies and has delegated the day-to-day management of operational risks to the Executive Committee. During the year, independent consultants were hired to assist the Board to perform a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. By reference to a globally recognised internal controls framework, the high-level risk assessment covered all key controls including financial, compliance and operational controls and risk management systems.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee was established by the Board on 3 September 2010.

The Health, Safety and Environment Committee oversees the Company's position in relation to these matters.

Directors' Responsibility Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner.

The Auditors' Report to the shareholders states the auditors' reporting responsibilities.

On behalf of the Board

G.J. Hambro
Chairman

Hong Kong, 28 February 2011

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

Corporate reorganisation and Initial Public Offering

The Company was incorporated with limited liability in Hong Kong on 4 June 2010 under the Hong Kong Companies Ordinance.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 5 August 2010.

Details of the group reorganisation are set out in note 2 to the consolidated financial statements and the Company's Prospectus dated 30 September 2010.

The shares of the Company were listed on the Stock Exchange with effect from 21 October 2010.

Principal activities

The Company is principally engaged in the production and development of industrial commodities products that are used in industry across the world. The activities of the Group are set out in note 45 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2010 is set out in note 6 to the consolidated financial statements.

Results

The results of the Group are set out in the consolidated income statement and statement of comprehensive income on page 60 and in the accompanying notes to the consolidated financial statements.

A discussion and analysis of the Group's performance during the year is set out in the Results of Operations section on page 54 of this annual report.

Dividend

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2010.

Property, plant and equipment

Details of the movements in property, plant and equipment during the year are set out in note 20 to the consolidated financial statements.

Share capital

Details of the movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

Share option scheme

Information on the share option scheme is set out in note 38 to the consolidated financial statements.

Reserves

Details of movements in reserves during the year are set out in the section "Consolidated Statement of Changes in Equity" of the consolidated financial statements.

Directors

The directors of the Company (the "Directors") during the year and up to the date of this report were:

George Jay Hambro (appointed on 4 June 2010)
Yury Makarov (appointed on 4 June 2010)
Raymond Kar Tung Woo (appointed on 30 July 2010)
Dr Pavel Maslovskiy
(appointed on 3 September 2010)
Daniel Rochfort Bradshaw
(appointed on 3 September 2010)
Jonathan Eric Martin Smith
(appointed on 3 September 2010)
Chuang-fei Li (appointed on 3 September 2010)
Simon Murray, CBE, *Chevalier de la Légion d'honneur*
(appointed on 3 September 2010,
resigned on 14 September 2010, and
re-appointed on 16 November 2010)
The Hon. Nicholas John Powell*
(appointed on 3 September 2010 and
resigned on 14 September 2010)
Karen Jane Benest**
(appointed on 4 June 2010 and
resigned on 6 August 2010)
Mark Patrick Gerard Lewis**
(appointed on 4 June 2010 and
resigned on 6 August 2010)
Richard John Stobart Prosser**
(appointed on 4 June 2010 and
resigned on 6 August 2010)

* alternate to Simon Murray for the pre-IPO period.
** appointed as temporary directors for the purpose of re-structuring.

Directors' service contracts

The Company has entered into letters of appointment with each of its Directors, pursuant to which each Director is appointed for a term of three years and are subject to termination in accordance with their respective terms.

Directors' interests

As at 31 December 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules and adopted by the Company (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company
George Jay Hambro	Contingent beneficial interest[1]	23,220,000	0.69%
Yury Makarov	Contingent beneficial interest[1]	20,317,500	0.60%
Raymond Kar Tung Woo	Contingent beneficial interest[1]	14,512,500	0.43%

Name of director	Nature of interest	No. of shares in Petropavlovsk PLC ("Petropavlovsk")	Percentage of issued shares in Petropavlovsk
George Jay Hambro	Contingent beneficial interest	54,166	0.08%[2]
Yury Makarov	Contingent beneficial interest	41,666	0.02%[2,3]
	Beneficial interest	53,846	0.03%[4]
Dr Pavel Maslovskiy	Interest of a controlled corporation and beneficial interest	16,861,696	8.98%[5]

Mr George Jay Hambro is the son of Mr Peter Hambro, the Chairman of Petropavlovsk PLC. Mr Yury Makarov is the stepson of Dr Pavel Maslovskiy, the Chief Executive Officer of Petropavlovsk PLC and a Non-Executive Director of IRC.

1 An Employee Benefit Trust ("EBT") was established for the purpose of making appointments and settling awards made under the Long-Term Incentive Plan (the "LTIP"). The LTIP is to provide equity incentives over already issued Shares to selected employees of the Group, including executive directors of the Company but excluding directors of Petropavlovsk. The trustee of the EBT is SG Hambros Trust Company (Channel Islands) Limited. It is intended that the EBT shall not hold more than 5% of the outstanding share capital of the Company at any time. As at 31 December 2010, the EBT held 116,100,000 shares of the Company, representing 3.45% of the total issued share capital of the Company. Awards may be granted and appointments may be made in accordance with the terms of the EBT to eligible employees for the benefit of their families under the terms of the LTIP by the EBT. Any such award shall be subject to the recommendation of the Remuneration Committee of the Board (the "Committee"), with respect to the terms of such award and the exercise of any discretions. The same vesting conditions shall be applied to awards granted by the EBT as are applied to awards granted at the same time by the Committee.

2 These are conditional interests in shares in Petropavlovsk held in Petropavlovsk's employee benefit trust (the "Petropavlovsk EBT") and relate to performance share awards which the trustee of the Petropavlovsk EBT granted on 26 June 2010 under Petropavlovsk's long term incentive plan and in accordance with the terms of the Petropavlovsk EBT for the benefit of the families of each of Jay Hambro and Yury Makarov.

3 Assuming the issued share capital of Petropavlovsk is increased only by the number of shares to be issued to Yury Makarov upon the vesting of the shares awarded to him pursuant to Petropavlovsk's long term incentive plan on 26 June 2010.

4 Yury Makarov was awarded shares in Petropavlovsk in April 2009 pursuant to the merger of Aricom and Petropavlovsk (then known as Peter Hambro Mining plc). These shares vested in February 2010 and are currently held in the Petropavlovsk EBT.

5 Dr Pavel Maslovskiy and his associated corporations had, in aggregate, a 8.98% interest in Petropavlovsk. Subsequent to 31 December, 2010, Dr Pavel Maslovskiy and his associated corporations decreased their Shareholdings to 14,798,486 shares, representing a 7.88% interest in Petropavlovsk.

Long positions in shares of an associated corporation

Name of Director	Name of associated corporation	Capacity and nature of interest	Number of Shares
Dr Pavel Maslovskiy	Petropavlovsk	Beneficial owner and interest of a controlled corporation	16,861,696 [1]
Mr George Jay Hambro	Petropavlovsk	Contingent beneficial interest	54,166
Mr Yury Makarov	Petropavlovsk	Contingent beneficial interest and beneficial owner	95,512

Directors' interests in competing businesses

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk is the ultimate holding company of the Company after group reorganisation. Petropavlovsk and its subsidiaries ("Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company. However, the Company and Petropavlovsk have entered into a Deed of Non-Competition (the "Deed") to ensure that their respective businesses do not compete. The Deed, dated 22 September 2010, commenced from the Listing Date (21 October 2010) and shall continue in force until such time as the shares of the Company cease to be listed on the Stock Exchange or until Petropavlovsk controls less than 50% of the issued share capital of the Company.

The directors confirm that the company was in compliance with the terms of the Deed during the year ended 31 December 2010.

During the year and up to the date of this report, the following Directors (not being the independent non-executive directors) have interests in Petropavlovsk:

(i) Dr Pavel Maslovskiy is a director and shareholder of Petropavlovsk;

(ii) George Jay Hambro and Yury Makarov are shareholders of Petropavlovsk; and

(iii) George Jay Hambro serves as a part-time consultant to Petropavlovsk.

Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2010.

Appointment of Independent Non-Executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

1 Dr Pavel Maslovskiy and his associated corporations had, in aggregate, a 8.98% interest in Petropavlovsk. Subsequent to 31 December, 2010, Dr Pavel Maslovskiy and his associated corporations decreased their Shareholdings to 14,798,486 shares, representing a 7.88% interest in Petropavlovsk.

Substantial shareholders' and other persons' interests

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of Shares
Petropavlovsk PLC	Corporate interest	2,205,900,000
Cayiron Limited*	Interest of a controlled corporation	2,205,900,000
Blackrock, Inc.	Interest of a controlled corporation	219,600,000
General Enterprise Management Services Limited ("GEMS")	Interest of a controlled corporation	215,568,000
ARF Investment Management Limited	Investment manager	215,568,000
Asia Resources Fund Limited	Interest of a controlled corporation	215,568,000
Development Bank of Japan Inc. ***	Interest of a controlled corporation	215,568,000
General Enterprise Management Services (International) Limited	Interest of a controlled corporation	215,568,000
Marbella Holdings Limited **	Beneficial owner	215,568,000

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC.

** Marbella Holdings Limited is a wholly-owned subsidiary of Asia Resources Fund Limited, which is managed by ARF Investment Management Limited, which is a wholly owned subsidiary of General Enterprise Management Services (International) Limited.

*** Development Bank of Japan Inc. holds a 46.51% interest in Asia Resources Fund Limited.

Save as disclosed above and those disclosed under "Directors' Interests", the Group had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 December 2010.

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.

As at 31 December 2010, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Continuing Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following non-exempt connected transactions require disclosure in the annual report of the Company:

	Connected transactions	Connected Persons	Cap for 2010 US$'000	Actual amount for 2010 US$'000
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	1,437
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	42,000	28,939
C	Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	805
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	218
E	Aircraft Agreement	Millennium Implementation Limited	1,000	Nil
F	Banking Arrangements	OJSC Asian-Pacific Bank	30,000	13,531
G	Apatit Services Agreements	OJSC Apatit	5,000	3,974

The actual amount of these transactions did not exceed the respective caps.

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

A. Shared Services Agreement

The Group procures certain services from Petropavlovsk, and provides certain services to Petropavlovsk ("Shared Services"). On 29 September 2010, the Company and Petropavlovsk entered into an agreement in respect of Shared Services (the "Shared Services Agreement"), for a term of three years. The Shared Services Agreement is intended to provide an overarching framework for provision of the shared services. The Shared Services comprise: (i) shared office space; (ii) legal services; (iii) management and information technology services; (iv) administrative services and (v) an equipment lease. Except for (v) equipment lease, which is based on arm's length basis, all other services are recharged based on cost plus a markup of 10%.

B. Technical Services Agreement

On 29 September 2010, the Group and Petropavlovsk entered into a technical services agreement (the "Technical Services Agreement") for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk's provision of technical services to the Group. Prior to the merger of Aricom and Petropavlovsk, Aricom procured technical services from Petropavlovsk on a "cost plus margin" basis. The independent directors of Aricom considered that this was a reasonable arm's length basis on which technical services could be procured. The Group has adopted a "cost plus 10% markup" approach, and the Directors consider that it represents reasonable arm's length terms. The technical services comprise: (i) construction services; (ii) engineering and design services and (iii) exploration and geological services.

C. Helicopter Lease Agreement

LLC GMMC, a subsidiary of the Company, provides MC Petropavlovsk with helicopter services pursuant to a helicopter lease agreement (“Helicopter Lease Agreement”) dated 29 September 2010. Under the Helicopter Lease Agreement, LLC GMMC leases its helicopter to MC Petropavlovsk for use in Petropavlovsk’s operations. MC Petropavlovsk is a subsidiary of Petropavlovsk, and therefore it is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Although the Petropavlovsk Group owns two helicopters, it is still necessary for it to procure helicopter services from the Group. This is because at various times one or both of the helicopters may be under repair and maintenance. This arrangement provides the Petropavlovsk Group with continuous access to a helicopter service. The terms and conditions of the Helicopter Lease Agreement are no more favourable to MC Petropavlovsk than those that would be offered to independent third parties. The agreement has been in place for a year, with MC Petropavlovsk paying US$900,000 for helicopter services provided in 2009. The Helicopter Lease Agreement has been amended and varied pursuant to a deed of variation to ensure compliance with Chapter 14A of the Listing Rules and, under the terms of the amended agreement, the amount charged to MC Petropavlovsk is calculated on the total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

D. Helicopter Services Agreement

On 29 September 2010, the Group and MC Petropavlovsk entered into an agreement relating to the provision of helicopter services (“Helicopter Services Agreement”). The Helicopter Services Agreement is a continuing connected transaction. Under the agreement, MC Petropavlovsk provides the Group with the use of its helicopter. The use of a helicopter is critical for the Group’s business due to the distances between the Group’s assets and offices. The Group owns a helicopter and, as noted above in item C, it leases its helicopter to MC Petropavlovsk. The reason the Group procures a helicopter service from MC Petropavlovsk under the present arrangement is to ensure that it has continuous access to a helicopter service. This will be relevant where the Group’s own helicopter is under repair and maintenance, or where the Group’s personnel require an extended service. MC Petropavlovsk recharges the Group for total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

The following continuing connected transactions are between the Group and persons other than Petropavlovsk or its subsidiaries.

E. Aircraft Agreement

The Group uses an aircraft owned by Millennium Implementation Limited. Millennium Implementation Limited is a company associated with Dr Pavel Maslovskiy, a Non-Executive Director, and is accordingly a connected person of the Company. The arrangement assists directors and employees to visit the locations of the Group's major operations quickly.

On 29 September 2010, the Company and Millennium Implementation Limited entered into an agreement (the "Aircraft Agreement") under which the Company agrees to reimburse Millennium Implementation Limited for the use of the aircraft by the Group. The cost paid by the Company is based on a fixed hourly charge which includes fixed cost and variable cost components. The hourly charge is multiplied by the number of hours flown.

F. Banking Arrangements

On 29 September 2010, the Group entered into an agreement with OJSC Asian-Pacific Bank ("Asian-Pacific Bank") to maintain bank deposits on commercial terms ("Banking Arrangements"). Dr Pavel Maslovskiy, a Non-Executive Director, and Mr Peter Hambro, the father of a Director, each hold a 25% interest in the company, V.M.H.Y. Holdings Limited, a 98% shareholder of the Russian company PPFIN Holding, which in turn holds a 67.6% interest in Asian-Pacific Bank. The interests of Dr Pavel Maslovskiy and Mr George Jay Hambro are aggregated under Listing Rule 14A.11, with the result that Asian-Pacific Bank is a connected person of the Company. Accordingly, the Banking Arrangements are classified as a continuing connected transaction for the purposes of the Listing Rules.

The Group elects to deposit a portion of its surplus funds with Asian-Pacific Bank for two reasons.

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

Secondly, Asian-Pacific Bank is located in Blagoveshchensk in the Amur Region. It is one of the most established banks in the Amur Region and the EAO, and accordingly it is familiar with the area in which the Group's operations are located. The Directors believe that maintaining a rolling deposit with Asian-Pacific Bank of an amount up to the annual cap of US$30 million will enable the Group to meet its anticipated day to day working capital requirements and to procure supplies and capital expenditure from vendors located in the Russian Far East, while also earning a competitive deposit rate, which is in the best interests of the Group.

G. Apatit Services Agreements

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

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

Each Continuing Connected Transaction has been reviewed by the Directors, including the Independent Non-executive Directors. The Directors confirm that the Continuing Connected Transactions set out above have been entered into:

- in the ordinary and usual course of business of the Company;
- on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from, as appropriate, independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ending 31 December 2010 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the cap disclosed in the Prospectus issued by the Company on 30 September 2010 in connection with the Hong Kong Offering and the listing of its shares on the Stock Exchange of Hong Kong Limited.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The above connected transactions are also reported in Note 42 of the Financial Statements of this Annual Report as Related Party Transactions.

Emolument policy

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements.

The emolument policy of the employees of the Group is set up by the Executive Committee on the basis of their merit, qualifications and competence.

The emoluments payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts as approved by the board of directors of the Company on the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

A key element of senior management remuneration is the Long Term Incentive Plan ("LTIP"). The LTIP is designed to align the interests of management with those of shareholders, and to incentivise performance.

Major customers and suppliers

The aggregate sales attributable to the Group's five largest customers accounted for 93% of the total revenue for the year. The largest of them accounted for 49% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 48% of the Group's total purchases for the year. The largest supplier represented 23% of the Group's total purchase for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

Purchase, sale or redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

Guarantee

During the year, the Group obtained a banking facility of US$340,000,000 which is guaranteed by Petropavlovsk, the controlling shareholder of the Company. The banking facility agreement contains certain covenants on Petropavlovsk, the details of which are set out in note 41 to the consolidated financial statements.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 36 of this annual report.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules.

Auditor

During the year, Messrs. Deloitte Touche Tohmatsu was appointed as the auditor of the Company. A resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Review by the Audit Committee

The audited financial statements have been reviewed by the Audit Committee of the Company, which comprises three Independent Non-executive Directors: Mr C.F. Li, Mr D.R. Bradshaw and Mr J.E. Martin Smith. Mr C.F. Li is the Chairman of the Audit Committee.

On behalf of the Board

CHAIRMAN
28 February 2011

"IRC is moving into 2011 executing a funded plan of action."

Raymond Woo addresses an investor conference.

"The Group's two principal sources of funding are US$240 million from the October 2010 listing, and US$340 million from IRC's financing agreement with the Industrial and Commercial Bank of China."

"The exceptional developments of 2010 ought to stand IRC in good stead for 2011 and beyond."

铁货 IRC

From the Chief Financial Officer, Raymond Woo

Dear Stakeholder,

The board believes that IRC has ended 2010 in a strong position to capitalise on IRC's assets and management team.

IRC's mathematics is simple. The Group's two principal sources of funding are approximately US$240 million, from the October 2010 listing, and approximately US$340 million from IRC's financing agreement with the Industrial and Commercial Bank of China. The money raised in the agreement will go towards bringing K&S into production by 2013. IPO proceeds will be spent in four main categories:

- To bring K&S into production;
- For the development of the Garinskoye deposit, including a crushing and screening complex and the expansion of the K&S processing facility;
- For other exploration and development projects; and
- For general working capital.

All of this means that in addition to revenue from ongoing sales from Kuranakh, IRC is moving into 2011 executing a funded plan of action.

I spent nearly twenty years in banking and accounting before I joined the IRC team. Junior accountants learn that they are not soothsayers, and I am not allowed to predict the future. I can tell you, however, that I am very excited about our business and that the exceptional developments of 2010 ought to stand IRC in good stead for 2011 and beyond.

I recognise that it is difficult to measure the financial performance of a company such as ours, which makes substantial investments over a number of years before it sees profit. I ask that you look carefully at our assets, management team and the calculated manner in which we are moving towards full production. Our industry is often thought of as being speculative. With the wisdom derived from our experience, we are trying to impose fiscal conservatism to deliver shareholder value for money.

IRC prides itself on efficient capital expenditure, and on behalf of IRC's board of directors, I commend to you the balance sheets in this annual report: IRC is a fully-funded operator and developer.

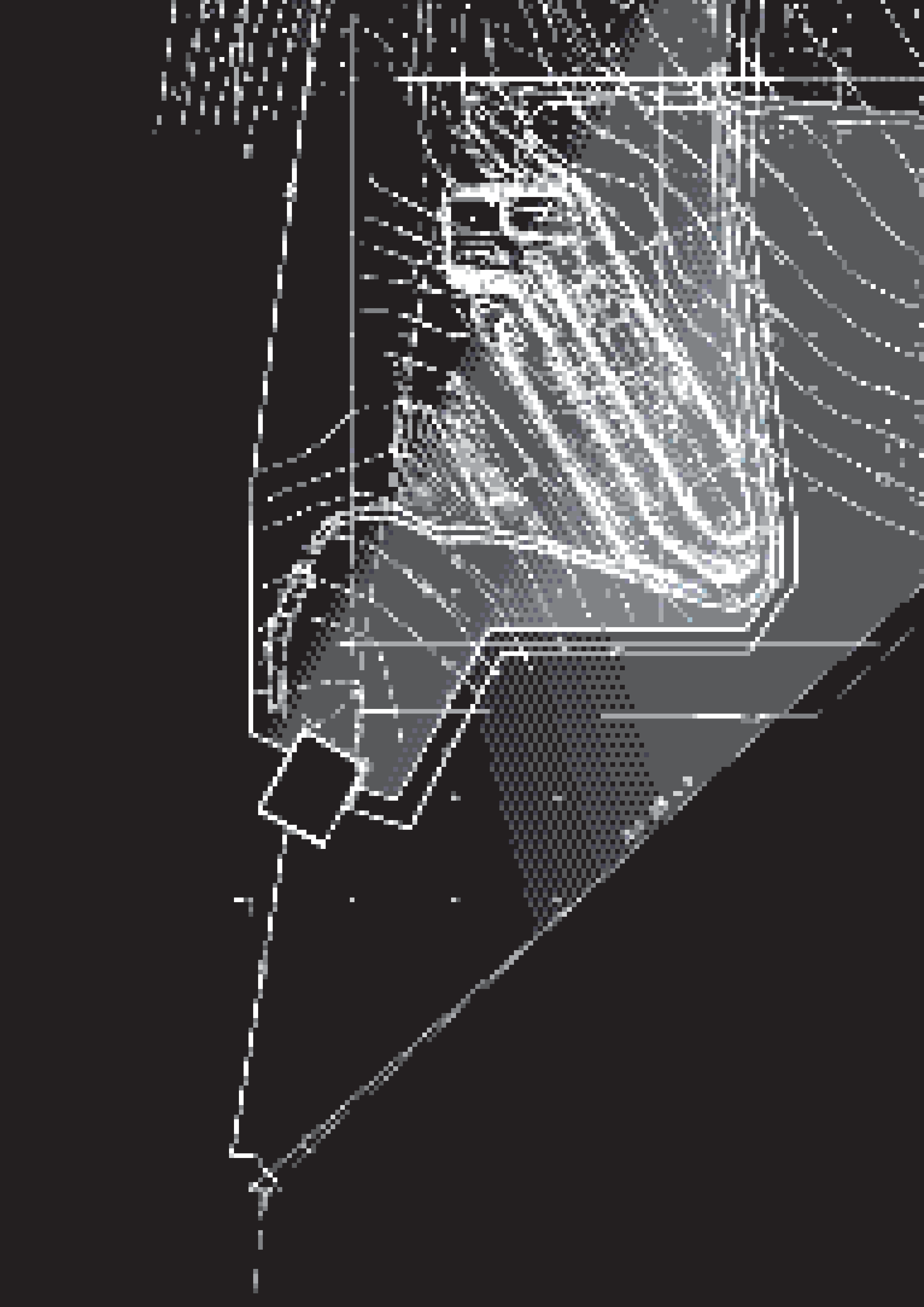
Yours faithfully,

Raymond Woo.

Raymond Woo
Chief Financial Officer

8H, 8 Queen's Road Central, Central District, Hong Kong Telephone +852 2772 0007 Website www.ircgroup.com.hk

Financial Review



Results of operations

The following table sets forth income statement data for IRC for the years ended 31 December 2009 and 2010. As 2010 has been a year of transformation for IRC with the Company's first mine moving into production, 2010 results are not directly comparable to those of 2009.

	For the year ended 31 December 2010 US$'000	2009 US$'000
Revenue	25,792	8,260
Net operating expenses		
Costs of sales and service costs	(22,258)	(5,305)
Administration expenses and other net operating income	(39,326)	(35,250)
	(61,584)	(40,555)
Impairment charges	(35,972)	(97,371)
	(71,764)	(129,666)
Share of results of joint ventures	(135)	(90)
Net operating loss	(71,899)	(129,756)
Other gains and losses and other expenses	(5,570)	(13,552)
Financial income	10,929	15,145
Financial expenses	(11,813)	(10,337)
Loss before taxation	(78,353)	(138,500)
Taxation expense	(3,676)	(637)
Loss for the year	(82,029)	(139,137)
Loss for the year attributable to:		
Owners of the Company	(82,358)	(139,291)
Non-controlling interests	329	154
	(82,029)	(139,137)

Revenue

Compared to 2009, revenue increased by US$17.5 million to US$25.8 million in 2010. This was primarily attributable to the commencement of operations and sales generated from Kuranakh, IRC's first producing mine. IRC began the first regular sales to a customer in China in September 2010 and recorded revenue of US$12.6 million. Engineering service revenues from IRC's Giproruda business increased by 59% from US$8.3 million to US$13.2 million, compared to 2009, reflecting recovery of the mining sector in the second half of 2009, which also contributed to revenue growth this year.

Net operating expenses

Costs of sales and service costs

IRC's costs of sales and service costs increased by US$17.0 million from US$5.3 million in 2009 to US$22.3 million for 2010. This increase was primarily attributable to the commencement of operations of IRC's Kuranakh processing plant in the second half of 2010, including the cost of iron ore concentrate sold and the railway tariff incurred. The increase in corresponding staff cost in IRC's engineering business to generate additional engineering service revenue as mentioned above also contributed to the increase in IRC's operating expenses.

Administration expenses and other net operating income

IRC's administrative expenses increased by 11.6% to US$39.3 million (2009: US$35.3 million). This was due in part to an increase in staff costs in relation to increase in personnel at IRC's project sites at Kuranakh and K&S, and to the establishment of IRC's Hong Kong headquarters, as well as to an increase in professional fees incurred during 2010, attributable to audit, legal and consultancy fees and fees relating to financing transactions in addition to engineering consultancy fees paid.

Impairment charges

IRC recognised impairment charges of US$36.0 million in 2010 compared to US$97.4 million last year.

The impairment in 2010 arose primarily as a result of writing down IRC's assets in relation to the Jiatai Titanium joint venture (US$34.9 million) due to uncertainty regarding future prospects, as IRC's partner advised us of its intention to retire from this venture. The balance (US$1.1 million) related to the impairment of amounts advanced to an associate, LLC Uralmining, in connection with Bolshoi Seym Project.

Impairment charges in 2009 related to Kuranakh Project (US$87.9 million) and Bolshoi Seym Project (US$9.5 million).

Net operating loss

As a result of the above, compared to 2009 IRC's net operating loss in 2010 amounted to US$71.9 million, decreased by US$57.9 million, or 44.6%.


Kuranakh - in operation.

Other gains and losses and other expenses

The net decrease of US$8.0 million from US$13.6 million in 2009 to US$5.6 million in 2010 arose as a result of the extinguishment of the financial liability related to Aricom warrants, which were converted in May 2010, and an increase in net foreign exchange gain contrary to foreign exchange loss in 2009 as a result of a weakening of the Russian rouble against the US dollar. Against this, IRC incurred expenses of US$9.4 million as a result of IRC's IPO which exceeded costs incurred in 2009 of US$5.6 million in relation to the merger of Aricom with Petropavlovsk.

Financial income

Financial income decreased by US$4.2 million, or 27.8% from US$15.1 million in 2009 to US$10.9 million in 2010, primarily due to the reduction of interest income received on amounts loaned to Petropavlovsk Group after the acquisition of Aricom in April 2009. The loan amount has been fully repaid in second half of 2010.

Financial expenses

Financial expenses increased by US$1.5 million, or 14.3%, from US$10.3 million for 2009 to US$11.8 million for 2010. This increase was primarily attributable to the increase of interest paid on the amounts loaned by the Petropavlovsk Group following the acquisition of Aricom in April 2009. The amounts loaned by the Petropavlovsk Group were transferred to entities within IRC in June 2010 as part of the restructuring of IRC, and subsequent repaid in second half of 2010.

Taxation

While IRC's Russian tax expense remained flat at approximately US$0.5 million in 2010 compared to US$0.6 million in 2009, IRC's total tax charge increased by US$3.1 million to US$3.7 million for 2010. This was primarily attributable to an increase of approximately US$2.7 million in UK corporate tax expense, due to the increase in financial income and intra-group financing activities in 2010. IRC has used a tax loss previously incurred by Petropavlovsk Group to offset such tax expense.

Loss for the year attributable to owners of the Company

As a result of the above, IRC recorded a loss of US$82.4 million for 2010, a decrease of 40.9% from 2009 of US$139.3 million.

Independent auditor's report

TO THE MEMBERS OF IRC LIMITED
鐵江現貨有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 141, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2011

Wagons transporting IRC's iron ore concentrate at Suifenhe.

Consolidated income statement

For the year ended 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
Revenue	7	25,792	8,260
Net operating expenses	8	(61,584)	(40,555)
Impairment charges	11	(35,972)	(97,371)
		(71,764)	(129,666)
Share of results of joint ventures	23	(135)	(90)
Net operating loss		(71,899)	(129,756)
Other gains and losses and other expenses	12	(5,570)	(13,552)
Financial income	13	10,929	15,145
Financial expenses	14	(11,813)	(10,337)
Loss before taxation		(78,353)	(138,500)
Taxation expense	15	(3,676)	(637)
Loss for the year		(82,029)	(139,137)
Loss for the year attributable to:			
Owners of the Company		(82,358)	(139,291)
Non-controlling interests		329	154
		(82,029)	(139,137)
Loss per share (US cents)	17		
Basic and diluted		(3.62)	(7.66)

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	2010 US$'000	2009 US$'000
Loss for the year	(82,029)	(139,137)
Other comprehensive income (expenses) for the year (net of tax):		
Exchange differences on translation of foreign operations and translation to presentation currency	766	(458)
Total comprehensive expenses for the year	(81,263)	(139,595)
Total comprehensive expenses attributable to:		
Owners of the Company	(81,552)	(139,633)
Non-controlling interests	289	38
	(81,263)	(139,595)

Consolidated statement of financial position

At 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
NON-CURRENT ASSETS			
Intangible assets	19	31,533	28,690
Property, plant and equipment	20	499,270	404,741
Interest in an associate	22	-	-
Interests in joint ventures	23	10,346	22,692
Other non-current assets	24	44,550	4,173
		585,699	460,296
CURRENT ASSETS			
Inventories	25	27,121	13,033
Trade and other receivables	26	29,231	19,739
Loans due from related parties	27	-	375,384
Cash and cash equivalents	29	225,468	18,415
		281,820	426,571
TOTAL ASSETS		867,519	886,867
CURRENT LIABILITIES			
Trade and other payables	30	(57,085)	(16,437)
Current income tax payable		(185)	(270)
Derivative financial instruments	40	-	(1,711)
		(57,270)	(18,418)
NET CURRENT ASSETS		224,550	408,153
TOTAL ASSETS LESS CURRENT LIABILITIES		810,249	868,449
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	(2,024)	(1,961)
Provision for close down and restoration costs	32	(3,607)	(2,990)
Loans due to a related party	27	-	(264,158)
		(5,631)	(269,109)
TOTAL LIABILITIES		(62,901)	(287,527)
NET ASSETS		804,618	599,340

Consolidated statement of financial position

At 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
CAPITAL AND RESERVES			
Share capital	33	4,330	2,265
Share premium		1,028,468	1,183,520
Treasury shares	34	(43,000)	-
Capital reserve		16,946	6,908
Reserves		29,684	21,983
Accumulated losses		(236,136)	(619,700)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		800,292	594,976
NON-CONTROLLING INTERESTS		4,326	4,364
TOTAL EQUITY		804,618	599,340

The consolidated financial statements on pages 60 to 141 were approved and authorised for issue by the Board of Directors on 28 February 2011 and are signed on its behalf by:

Jay Hambro   Raymond Woo

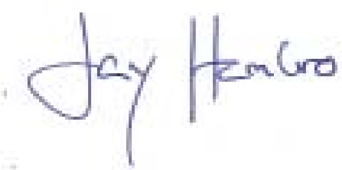
DIRECTOR   DIRECTOR

Silos at Kuranakh.

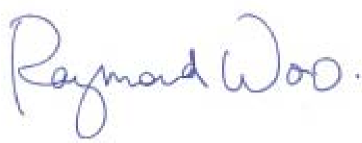
Statement of financial position

At 31 December 2010

	NOTES	US$'000
NON-CURRENT ASSETS		
Property, plant and equipment	20	51
Investment in subsidiaries	21	877,300
		877,351
CURRENT ASSETS		
Other receivables	26	134
Amounts due from subsidiaries	28	11
Cash and cash equivalents	29	146,793
		146,938
TOTAL ASSETS		1,024,289
CURRENT LIABILITIES		
Amount due to ultimate holding company	28	(246)
Accruals and other payables	30	(5,951)
		(6,197)
NET CURRENT ASSETS		140,741
NET ASSETS		1,018,092
CAPITAL AND RESERVES		
Share capital	33	4,330
Share premium		1,028,468
Capital reserve		254
Share-based payment reserve	38	1,334
Accumulated losses	35	(16,294)
TOTAL EQUITY		1,018,092



DIRECTOR



DIRECTOR

Consolidated statement of changes in equity[(a)]

For the year ended 31 December 2010

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000
Balance at 1 January 2009	2,265	1,183,520	-
Loss for the year	-	-	-
Other comprehensive expenses for the year			
Exchange differences on translation of foreign operations and translation to presentational currency	-	-	-
Total comprehensive expenses for the year	-	-	-
Share-based payments	-	-	-
Transfer to an equity holder (note 33)	-	-	-
Deemed contribution from an equity holder[(b)]	-	-	6,908
Derecognition of Employee Benefit Trust ("EBT") (note 38(b))	-	-	-
Balance at 31 December 2009 and 1 January 2010	2,265	1,183,520	6,908
Loss for the year	-	-	-
Other comprehensive expenses for the year			
Exchange differences on translation of foreign operations and translation to presentational currency	-	-	-
Total comprehensive (expenses) income for the year	-	-	-
Exercise of warrants issued	192	153,040	-
Capital reduction[(c)]	-	(1,336,560)	-
Interim dividend (note 16)	-	-	-
Share-based payments	-	-	-
Shares acquired by EBT	-	-	-
Deemed contribution from an equity holder[(b)]	-	-	10,038
Transfer to an equity holder (note 33(b))	-	-	-
Transfer from an equity holder (note 33(c))	-	-	-
Issue of shares and combination of Aricom Limited ("Aricom") and Aricom's subsidiaries (collectively the "Aricom Group") (note 33(a))	-	697,637	-
Deemed contribution arising from Group Restructuring[(d)]	(2,457)	-	-
Capitalisation of share capital	2,990	(2,990)	-
Transaction costs attributable to issue of new shares	-	(11,578)	-
Issue of new shares	1,340	299,813	-
Contribution from a parent company	-	45,586	-
Dividend distribution to non-controlling interests	-	-	-
Balance at 31 December 2010	4,330	1,028,468	16,946

(a) This consolidated statement of changes in equity is presented in pages 64 and 65.

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

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

(d) As part of the Group Restructuring set out in note 2, Thorholdco Limited, a subsidiary of the Company, acquired from Petropavlovsk PLC the entire issued share capital of Aricom on 5 August 2010 and became the holding company of the Aricom Group. The amount payable by the Company to its then shareholders for the acquisition of the interest in Aricom is regarded as a deemed distribution to shareholders and the share capital of Aricom is thus regarded as a deemed contribution from its shareholders since the consolidated financial statements have been prepared as if the Company had always been the holding company of Aricom.

(e) The amount arose from acquisition of minority interests and deemed contribution arising from Group Restructuring.

Consolidated statement of changes in equity (Continued)[a]

For the year ended 31 December 2010

Attributable to owners of the Company

Treasury shares US$'000	Accumulated losses US$'000	Share-based payments reserve US$'000	Translation reserve US$'000	Other[e] reserves US$'000	Sub-total[a] US$'000	Non-controlling interests US$'000	Total equity[a] US$'000
(24,801)	(435,623)	10,955	(12,376)	29,600	753,540	4,326	757,866
-	(139,291)	-	-	-	(139,291)	154	(139,137)
-	-	-	(342)	-	(342)	(116)	(458)
-	(139,291)	-	(342)	-	(139,633)	38	(139,595)
-	2,007	153	-	-	2,160	-	2,160
-	(46,582)	-	-	-	(46,582)	-	(46,582)
-	-	-	-	-	6,908	-	6,908
24,801	(211)	-	(6,007)	-	18,583	-	18,583
-	(619,700)	11,108	(18,725)	29,600	594,976	4,364	599,340
-	(82,358)	-	-	-	(82,358)	329	(82,029)
-	-	-	806	-	806	(40)	766
-	(82,358)	-	806	-	(81,552)	289	(81,263)
-	-	-	-	-	153,232	-	153,232
-	1,336,560	-	-	-	-	-	-
-	(644,437)	-	-	-	(644,437)	-	(644,437)
-	-	1,334	-	-	1,334	-	1,334
(43,000)	-	-	-	-	(43,000)	-	(43,000)
-	-	-	-	-	10,038	-	10,038
-	(171,613)	-	3,104	-	(168,509)	-	(168,509)
-	205,412	-	-	-	205,412	-	205,412
-	(260,000)	-	-	-	437,637	-	437,637
-	-	-	-	2,457	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(11,578)	-	(11,578)
-	-	-	-	-	301,153	-	301,153
-	-	-	-	-	45,586	-	45,586
-	-	-	-	-	-	(327)	(327)
(43,000)	(236,136)	12,442	(14,815)	32,057	800,292	4,326	804,618

Consolidated statement of cash flows

For the year ended 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
OPERATING ACTIVITIES			
Cash used in operations	36	(49,111)	(26,094)
Interest expenses paid		-	(1,178)
Income tax paid		(674)	(457)
NET CASH USED IN OPERATING ACTIVITIES		(49,785)	(27,729)
INVESTING ACTIVITIES			
Interest received		1,505	2,239
Proceeds on disposal of short-term investments		-	311
Proceeds on disposal of property, plant and equipment		3,713	-
Purchases of property, plant and equipment and intangible assets		(122,680)	(73,945)
Loan issued to related parties	27	(6,035)	(176,194)
Joint venture registered capital contribution	23	(4,731)	(2,021)
Repayment of loan issued to related parties		22,506	-
NET CASH USED IN INVESTING ACTIVITIES		(105,722)	(249,610)
FINANCING ACTIVITIES			
Dividends paid to shareholders of Aricom Limited		(22,460)	-
Dividends paid to non-controlling interests of subsidiaries		(327)	-
Debt arrangement costs		(4,090)	(290)
Proceeds on issuance of new shares		301,153	-
Expenses paid in connection with the issue of new shares		(6,564)	-
Purchase of own shares by EBT	34	(43,000)	-
Loans advanced from a related party	27	94,370	38,944
Contribution from a parent company		45,586	-
NET CASH FROM FINANCING ACTIVITIES		364,668	38,654
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR		209,161	(238,685)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		18,415	257,822
Effect of foreign exchange rate changes		(2,108)	(722)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		225,468	18,415

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010

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. Its immediate holding company is Cayiron Limited, which was incorporated in the Cayman Islands. The directors of the Company (the "Directors") consider that its ultimate holding company is Petropavlovsk PLC. The Company together with its subsidiaries are hereinafter referred to as the "Group".

The address of the registered office 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 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. The activities of the Company's principal subsidiaries are set out in note 44.

Under a group restructuring to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Aricom Limited ("Aricom") and its subsidiaries (collectively referred as the "Aricom Group") on 5 August 2010. Details of the Group Reorganisation are set out below.

2. Group restructuring and basis of preparation of consolidated financial statements

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

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

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

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

On 14 June 2010, the Company acquired the entire issued share capital of Thorholdco Limited (a company incorporated in the Cayman Islands) from Cayiron Limited in exchange for the issue of shares to Cayiron Limited. Following receipt of the necessary Russian regulatory approvals on 23 July 2010, Thorholdco Limited acquired from Petropavlovsk PLC the entire issued share capital of Aricom, which is the indirect holding company of the Group's mineral and processing assets, on 5 August 2010, for US$260,000,000, payment for which has been offset against the promissory note of the same amount owed by Petropavlovsk PLC to Thorholdco Limited. As part of this restructuring, related party payables and receivables of the Aricom Group due to and from the subsidiaries of Petropavlovsk PLC were transferred to two subsidiary companies of Thorholdco Limited ("Thorholdco"), Thorrouble Limited ("Thorrouble") and Thordollar Limited ("Thordollar"), respectively. In addition, certain subsidiaries held by Aricom Limited and Aricom UK Limited (Aricom's subsidiaries), which were unrelated to the Aricom business listed on the London Stock Exchange plc, representing shares in Aricom Finance UK Limited and Aricom Treasury UK Limited and respective subsidiaries, were sold to Petropavlovsk PLC (see note 42) (collectively referred to as the "Restructuring").

The consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Aricom Group. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for each of the year ended 31 December 2010 and 2009 have been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2010 and 2009, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group where this is a shorter period.

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

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

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

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

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

Allocation of the total comprehensive income to non-controlling interests

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

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2010 financial year.

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments (as issued in November 2009)* introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments (as revised in November 2010)* adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the year ending 31 December 2013 and that application of the standard may not have significant impacts on the amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKFRS 7 titled *Disclosures - Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. If the Group, however, enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures (as revised in 2009)* modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because certain counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) - Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) - Int 19 will affect the required accounting. In particular, under HK(IFRIC) - Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. Significant accounting policies

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below.

Business combinations not under common control

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

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at fair value at the acquisition date. Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess, after reassessment, is recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

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

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

At the acquisition date, the acquiree's identifiable assets acquired and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Acquisition of assets

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

Interests in joint ventures

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

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

When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Investments in subsidiaries

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

Investments in associates

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

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

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate, with exchange differences arising recognised in the translation reserve.

From 1 January 2010 onwards, upon the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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

Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

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

Exploration and evaluation expenditure comprise costs directly attributable to:

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

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment.

In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Other intangible assets

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

Property, plant and equipment

Non-mining assets

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

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

Mine development costs

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as “mine development costs”, this includes any property, plant and equipment acquired to undertake mining activities. Mine development costs are reclassified as “mining assets” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. Depreciation policy for mining assets are set out in below under “Depreciation”. Mine development costs are tested for impairment.

Deferred stripping costs

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

Such costs when incurred during the development of the mine are deferred on the statement of financial position as part of mine development costs, and charged to the profit or loss over the life of the mine on a units of production basis. During the production phase of a mine such costs are deferred based on the ratio obtained by dividing the tonnage of the waste mined by the quantity of the ore mined (“stripping ratio”). Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the life-of-mine ratio for each mine. Such deferred costs are then amortised in subsequent periods to the extent that the period’s stripping ratio falls below the life-of-mine ratio. The life-of-mine ratio is based on the mineable reserves of the mine.

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

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

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

Depreciation

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

Mining assets for which economic benefits from the asset are consumed in a pattern linked to the production level, are depreciated using a 'units of production method based on ore reserves', which in turn results in a depreciation charge proportional to the depletion of reserves.

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

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

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

THE GROUP	
	Estimated useful life
	Number of years
Buildings	15-50
Plant and machinery	2-20
Vehicles	5-7
Office equipment	2-10
Computer equipment	3-5

THE COMPANY	
	Estimated useful life
	Number of years
Leasehold improvements	2
Furniture, fixtures and equipment	2
Office equipment	2
Computer equipment	3

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

Impairment of tangible and intangible assets excluding goodwill

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Details of the assumptions used when assessing the impairment of the Group's tangible and intangible assets, and the effect of those assumptions, can be found in note 11.

Provision for close down and restoration costs

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

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

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

Financial instruments

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or if appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

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

Impairment of financial assets

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

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

Other financial liabilities

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

Transaction costs on bank borrowings

Transaction costs that are directly attributable to the raising of bank borrowings are recognised on the statement of financial position on an accrual basis. Such costs will be deducted from the fair value of the bank borrowings on initial recognition (that is, when the relevant borrowings are drawn). They form part of the bank borrowings and will be accounted for using an effective interest method over the loan period as discussed above.

Equity instruments

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

Derecognition

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

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

Inventories

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

Leasing

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

The Group as lessor

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

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

The Group as lessee

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

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

Revenue recognition

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

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

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

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

Engineering contracts

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

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

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

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, interest in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

Share-based payments

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

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

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

Employee benefit trust

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

Retirement benefit costs

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

5. Key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of assets and assessment of cash generating units

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

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

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

Ore reserve estimates

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

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

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

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

Exploration and evaluation costs

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

Provision for restoration, rehabilitation and environmental costs

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

Assumptions related to the valuation of share-based payments

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

Estimation of percentage completion of engineering contracts of OJSC Institute for Engineering of Ore Mining Enterprises Giproruda ("Giproruda")

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

Tax provisions and tax legislation

The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of ongoing discussions with the relevant tax authorities and advice from independent tax advisers. Russian tax and currency control legislation is subject to varying interpretations. Fines and penalties for any errors and omissions could be significant. The Directors believe that there have been no material breaches of Russian tax regulations and that these financial statements contain all neccessary provisions in respect of the Group's tax liabilities in Russia.

Deferred tax

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

6. 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. The Group has four reportable segments under HKFRS 8:

- Mines in Production segment ("Mines in Production"), comprising iron ore projects in production phase. The segment includes the Kuranakh project*.
- Mines in Development segment ("Mines in Development"), comprising iron ore projects in the exploration and development phase. The segment includes the Kuranakh project* and the K&S project, and mines in the exploration and evaluation stage including the Garinskoye project and the Bolshoi Seym project (held by an associate) as well as the Kostenginskoye and Garinskoye Flanks projects.
- Engineering segment ("Engineering"), comprising in-house engineering and scientific expertise related to Giproruda.
- Other segment ("Other") primarily includes the Group's interest in joint venture arrangements for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interest in joint venture arrangements for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

* *The Kuranakh project was grouped under Mines in Development when it was under exploration and development phase. Upon the commencement of production, it is reported as a separate segment, Mines in Production, since September 2010.*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment results represent the results earned by each segment without the allocation of central administration costs, central depreciation and amortisation, other gains and losses and other expenses, financial income, financial expenses and taxation.

Segment 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 loans and other receivables from related parties and central cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than deferred tax, derivative financial instruments and loans payable to a related party.

For the year ended 31 December 2010

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	12,634	-	13,158	-	25,792
Total revenue	12,634	-	13,158	-	25,792
Net operating expenses	(14,947)	(7,796)	(10,863)	(40,597)	(74,203)
Net operating expenses include:					
Impairment charges	-	(1,028)	-	(34,944)	(35,972)
Depreciation and amortisation	(2,368)	(1,402)	(621)	(28)	(4,419)
Share of results of joint ventures	-	-	-	(135)	(135)
Segment results	(2,313)	(7,796)	2,295	(40,732)	(48,546)
Central administration					(22,847)
Central depreciation and amortisation					(506)
Other gains and losses and other expenses					(5,570)
Financial income					10,929
Financial expenses					(11,813)
Taxation expense					(3,676)
Loss for the year					(82,029)
Other segment information					
Additions to non-current assets:					
- Capital expenditure	-	113,545	353	7,946	121,844
Interests in joint ventures	-	-	-	4,731	4,731
Exploration and evaluation expenditure capitalised within intangible assets	-	3,323	-	-	3,323
Segment assets	132,191	495,596	19,492	17,412	664,691
Central cash and cash equivalents					202,828
Total assets					867,519
Segment liabilities	(8,763)	(31,640)	(2,597)	(17,877)	(60,877)
Deferred tax liabilities					(2,024)
Total liabilities					(62,901)

For the year ended 31 December 2009

	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue				
External sales	-	8,260	-	8,260
Total revenue	-	8,260	-	8,260
Net operating expenses	(106,000)	(7,431)	(1,975)	(115,406)
Net operating expenses include:				
Impairment charges	(97,371)	-	-	(97,371)
Depreciation and amortisation	(376)	(169)	-	(545)
Share of results of joint ventures	-	-	(90)	(90)
Segment results	(106,000)	829	(2,065)	(107,236)
Central administration				(22,077)
Central depreciation and amortisation				(443)
Other gains and losses and other expenses				(13,552)
Financial income				15,145
Financial expenses				(10,337)
Taxation expense				(637)
Loss for the year				(139,137)

Other segment information

	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Additions to non-current assets:				
- Other additions to intangible assets	-	-	104	104
- Capital expenditure	81,236	436	788	82,460
Interests in joint ventures	-	-	2,021	2,021
Exploration and evaluation expenditure capitalised within intangible assets	422	-	-	422
Segment assets	439,657	18,468	42,370	500,495
Central cash and cash equivalents				10,988
Loans and other receivables from related parties				375,384
Total assets				886,867
Segment liabilities	(14,909)	(2,302)	(2,486)	(19,697)
Deferred tax liabilities				(1,961)
Derivative financial instruments				(1,711)
Loans payable to a related party				(264,158)
Total liabilities				(287,527)

Revenue by geographical location[a]

	2010 US$'000	2009 US$'000
Russia and the Commonwealth of Independent States ("CIS")	13,184	8,260
PRC	12,608	-
	25,792	8,260

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

Non-current assets by location of asset[b]

	2010 US$'000	2009 US$'000
Russia and CIS	575,237	428,252
PRC	10,411	31,973
Hong Kong	51	-
United Kingdom ("UK")	-	71
	585,699	460,296

[b] Excluding financial assets.

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and rendering engineering services to a number of individual third party customers during the year ended 31 December 2010 and rendering engineering services to a number of individual third party customers during the year ended 31 December 2009, that individually amounted to more than 10% of the Group's total revenue.

For the year ended 31 December 2010 sales were made to Heilongjiang Jianlong Steel Company Limited (US$12,593,000) attributable to the Mines in Production segment, OJSC Arkhangelskgeoldobycha (US$4,688,000) and OJSC Apatit (US$4,040,000) attributable to the Engineering segment, respectively comprising 49%, 18% and 16% of the total revenue.

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

7. Revenue

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

	2010 US$'000	2009 US$'000
Revenue		
Sales of goods	12,634	-
Rendering of services	13,158	8,260
	25,792	8,260

8. Net operating expenses

	2010 US$'000	2009 US$'000
Net operating expenses		
Costs of sales and service costs[(a)]	22,258	5,305
Administration expenses[(b)]	39,710	35,345
Other net operating income	(384)	(95)
	61,584	40,555

[(a)] Cost of sales and service costs

Staff costs	12,001	2,631
Fuel	2,280	-
Materials	7,953	1
Depreciation and amortisation	2,848	141
Movements in finished goods and work in progress	(16,289)	-
Outside service fee	6,503	-
Electricity	1,143	1
Royalties	544	-
Inventory written off*	-	239
Railway tariff	4,853	-
Others	422	2,292
	22,258	5,305

[(b)] Administration expenses

Staff costs	17,601	15,223
Depreciation	721	847
Professional fees**	7,048	4,351
Bank charges	213	155
Insurance	372	749
Office rent	2,155	2,833
Travel and entertainment	3,015	2,105
Share-based payments	1,589	2,449
Office costs	1,288	998
(Reversal of allowance) allowance for doubtful debts***	(42)	3,589
Loss on disposal of property, plant and equipment	920	230
Others	4,830	1,816
	39,710	35,345

* Inventories are valued at the lower of cost and net realisable value. At 31 December 2010, no inventory was written off; while at 31 December 2009, work in progress was written down to its net realisable value resulting in a charge to the consolidated income statement of US$239,000 due to high costs of production associated with the start-up of operations.

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

*** (Reversal of allowance) allowance for doubtful debts of approximately (US$42,000) and US$3,589,000 were recognised in profit and loss for the year ended 31 December 2010 and 2009, respectively. The amount for the year ended 31 December 2009 represented full impairment for (i) a deposit paid in advance for construction of apartments, which was considered not recoverable as the contractor has been declared bankrupt; and (ii) a trade debtor at Giproruda and a deposit paid for the acquisition of a railway locomotive which did not proceed as the counter parties were in financial difficulties. The amount for the year ended 31 December 2010 represents certain recovery of a trader debtor at Giproruda.

9. Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2010 US$'000	2009 US$'000
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group and consoldiated financial statements	459	-
Fees payable to Aricom's auditors and their associates for the audit of subsidiary statutory accounts pursuant to legislation[a]	-	105
Component of parent entity group audit fee allocated to Aricom[b]	-	228
	459	333
Non-audit fees		
Fees for reporting accountants services[c]	2,729	-
Tax services	4	29
Other services pursuant to legislation - interim review fee	-	24
Accounting advisory services	-	33
Transaction based corporate services[d]	-	178
Other services	105	20
	2,838	284
Total	3,297	617

[a] The amounts for 2009 represented fees payable for the audit of the Group's subsidiaries' statutory accounts pursuant to legislation only.

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

[c] Fees for reporting accountants services represent remuneration for Group's auditors and their associates in connection with the listing of the shares of the Company on the Stock Exchange.

[d] In 2009 transaction based corporate services related to professional services in relation to the acquisition of Aricom by Petropavlovsk PLC.

Wagons used for transporting IRC's iron ore concentrate en route to Kuranakh.

10. Directors' and employees' emoluments

The aggregate remuneration of employees (including directors) comprised:

	2010 US$'000	2009 US$'000
Wages and salaries	25,082	15,760
Social security and other benefits	4,365	2,025
Retirement benefit contribution	154	69
Share-based payments	1,589	2,449
	31,190	20,303

	2010 US$'000	2009 US$'000
Directors' Emoluments		
Emoluments for executive directors:		
- salaries and other benefits	984	777
- performance bonus[a]	617	334
- retirement benefit contribution	118	91
- share-based payments	779	940
Emoluments for non-executive directors:		
- directors' fees	180	194
	2,678	2,336

[a] The performance bonus is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

For the year ended 31 December 2010

	Directors' fees US$'000	Salaries, performance bonus and other benefits US$'000	Retirement benefit contribution US$'000	Share-based payments US$'000	Total US$'000
Executive directors of Aricom:					
Brian Egan					
(resigned 17 September 2010)	-	163	9	41	213
George Jay Hambro	-	263	21	66	350
Andrey Maruta					
(appointed 22 February 2010 and resigned 17 September 2010)	-	81	6	17	104
	-	507	36	124	667
Executive directors of the Company:					
George Jay Hambro					
(appointed 4 June 2010)	-	416	30	262	708
Yury Makarov					
(appointed 4 June 2010)	-	369	27	229	625
Raymond Woo					
(appointed 30 July 2010)	-	309	25	164	498
Non-executive directors of the Company:					
Non independent non-executive directors					
Simon Murray					
(appointed 16 November 2010)	13	-	-	-	13
Dr Pavel Maslovskiy					
(appointed 3 September 2010)	32	-	-	-	32
Independent non-executive directors					
Daniel Bradshaw					
(appointed 3 September 2010)	45	-	-	-	45
Jonathan Martin Smith					
(appointed 3 September 2010)	45	-	-	-	45
Chuang-fei Li					
(appointed 3 September 2010)	45	-	-	-	45
	180	1,094	82	655	2,011
Total	180	1,601	118	779	2,678

For the year ended 31 December 2009

	Directors' fees US$'000	Salaries, performance bonus and other benefits US$'000	Retirement benefit contribution US$'000	Share-based payments US$'000	Total US$'000
Executive directors of Aricom:					
Brian Egan	-	343	30	227	600
George Jay Hambro	-	574	51	445	1,070
Yury Makarov (resigned 22 April 2009)	-	100	-	142	242
Martin Smith (resigned 22 April 2009)	-	94	10	126	230
Non-executive directors of Aricom:					
Non independent non-executive directors					
Dr Pavel Maslovskiy (resigned 22 April 2009)	49	-	-	-	49
Peter Hambro (resigned 22 April 2009)	27	-	-	-	27
Independent non-executive directors					
Sir Malcolm Field (resigned 22 April 2009)	38	-	-	-	38
Sir Roderic Lyne (resigned 22 April 2009)	29	-	-	-	29
Tony Redman (appointed 1 January 2009 and resigned 22 April 2009)	51	-	-	-	51
Total	194	1,111	91	940	2,336

Subsequent to 22 April 2009, Brian Egan and George Jay Hambro have also been employed by Petropavlovsk PLC and the payment of their emoluments was centralised and made by Petropavlovsk PLC. For the period from 22 April 2009 to 31 December 2010, a component of their Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of their roles that relate to Aricom business.

Andrey Maruta is employed by Petropavlovsk PLC. For the period from his appointment on 22 February 2010 to 31 December 2010 a component of his Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of his role that relates to Aricom business.

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

Five highest paid individuals

For the year ended 31 December 2010, the five highest paid individuals included three directors of the Company and Aricom (2009: two directors of Aricom). The emoluments of the remaining highest paid individuals for the years ended 31 December 2009 and 2010 are as follows:

	2010 US$'000	2009 US$'000
Employees		
- salaries and other benefits	755	311
- share-based payments	43	857
	798	1,168

Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$192,802 to US$257,068)	1	-
HK$2,000,001 to HK$2,500,000 (equivalent to approximately US$257,069 to US$321,337)	-	2
HK$4,000,000 to HK$4,500,001 (equivalent to approximately US$449,872 to US$578,406)	1	-
HK$4,500,001 to HK$5,000,000 (equivalent to approximately US$578,407 to US$642,674)	-	1
	2	3

In both years, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group. None of the directors has waived any emoluments and no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office.

11. Impairment charges

In 2009, in light of the delays in the commencement of commercial production and increases in capital expenditure, management assessed the carrying value of the CGU of a titanomagnetite concentrate and ilmenite concentrate project located in the Amur Region of the Russian Federation ("Kuranakh project") for impairment. The revised recoverable amount also took into account significant increases in Russian railway tariffs for ilmenite. As a result, an impairment charge of US$87.9 million was recognised against the Kuranakh project.

At 31 December 2010, the Company considered whether there were any indicators that further impairment or the need to reverse previously recognised impairment existed at Kuranakh and K&S, a magnetite project, which is at the developing stage and is located in the Evreyskaya Avtonomaya Oblast of the Russian Federation ("EAO Region"). Management concluded that no further impairment charge is required.

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

	2010	2009
Nominal discount rate post-tax	13.8% and 9.0%	13.5% and 15.5%
Nominal discount rate pre-tax	17.3% and 11.3%	16.5% and 19.5%
Average Russian inflation rate from the year end to 2030	2.0%	2.2%
Average Russian Rouble: US dollar exchange rate from the year end to 2030	31.5	30
Average titanomagnetite concentrate prices from the year end to 2024	US$/tonne 104.7	US$/tonne 94.1
Average ilmenite prices from the year end to 2024	US$/tonne 110.0	US$/tonne 105.0
Average Hamersley fines iron ore price from the year end to 2030	US$/tonne 86.3	US$/tonne 90.7

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

In 2009, impairment charges of US$3,704,000 and US$5,740,000 were recognised in relation to the Aricom Group's interest in an associate and the amount owed by that associate. The Aricom Group has a 49% stake in LLC Uralmining, holding a licence to develop the Bolshoi Seym deposit. Due to uncertainties about the commercial viability of the project and the progression of the development of the project, it was decided to write off the carrying value of the equity interest of US$3,704,000 and loans advanced of US$5,740,000. In 2010, further loans of US$1,028,000 to LLC Uralmining have been impaired.

In 2010, the Company was advised that its joint venture partner had decided to withdraw from some of its non-core ventures and consequently no longer wished to proceed with the Jiatai Titanium project (as defined in note 23). To date the Company has invested approximately US$20.8 million in the joint venture, and a further US$15.3 million on the titanium sponge processing technology, which was expected to be recharged to the joint venture. As a consequence the building of the plant was deferred and there is uncertainty as to the eventual outcome of the joint venture activities and the recoverability of the amounts invested. As a result, the directors concluded that the most appropriate course of action was to provide for an impairment of US$34.9 million against the invested amounts. This impairment was allocated to intangible assets (US$0.7 million), property, plant and equipment (US$14.6 million) and interests in joint ventures (US$19.6 million). The impairment took into account the recoverable value of the Group's share of the joint venture of US$3.5 million which reflected the Group's 65% share of the cash within the joint venture, net of its liabilities. Following discussions with its joint venture partner, the Group has entered into an agreement pursuant to which the 35% stake held by its joint venture partner will be independently appraised and, subject to certain conditions including the receipt of the necessary approvals for the implementation of the transfer and for an extension for the period in which the outstanding capital has to be paid up and there being no material adverse change, the Group will bid for the 35% stake at the appraised value if the appraised value is at or below RMB76 million or such higher number as the Group may agree. There is no certainty that the Group would be a successful bidder, but it is considering how it would proceed if it does acquire the 35% stake. One route might be to continue with the project alone and another to proceed with a different joint venture partner.

In the event that the Company is successful in acquiring the 35% stake interest and proceeds with the project alone or with a different joint venture partner, it may be possible to reverse some or all of the impairment charge. In the event that the Company acquires the 35% stake but ultimately does not proceed with the project or failed to acquired the 35% stake, a further impairment charge may be required.

12. Other gains and losses and other expenses

	2010 US$'000	2009 US$'000
Change in fair value of financial instruments at FVTPL	(1,711)	1,711
Net foreign exchange (gain) loss	(2,074)	6,224
Listing costs[(a)]	9,355	-
Costs associated with acquisition of Aricom by Petropavlovsk PLC[(b)]	-	5,617
	5,570	13,552

[(a)] The amounts represented the proportion of the costs in relation to the listing of the Company on the Stock Exchange that relate to existing shares listed.

[(b)] Costs associated with the acquisition of Aricom by Petropavlovsk PLC primarily related to professional fees incurred for the preparation of the financial information of Aricom.

13. Financial income

	2010 US$'000	2009 US$'000
Interest income on loans receivable from related parties (see note 27)	10,585	12,905
Interest income on cash and cash equivalents	275	2,105
Interest income on other loans and receivables	69	135
	10,929	15,145

14. Financial expenses

	2010 US$'000	2009 US$'000
Interest expenses on loan wholly repayable to related parties within five years	11,254	9,848
Unwinding of discount on environmental obligation	549	191
Others	10	298
	11,813	10,337

15. Taxation expense

	2010 US$'000	2009 US$'000
UK current tax	(3,062)	(372)
Cyprus current tax	(49)	(71)
Russia current tax	(481)	(564)
Current tax expense	(3,592)	(1,007)
Deferred tax (expense) credit	(84)	370
	(3,676)	(637)

UK corporation tax is calculated at 28% of the estimated assessable profit for both years.

Cyprus corporation tax is calculated at a rate of 10% of the estimated assessable profit for both years.

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

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

The charge for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2010 US$'000	2009 US$'000
Loss before taxation	(78,353)	(138,500)
Tax at the UK corporation tax rate of 28% for the year ended 31 December 2009 and 2010	(21,938)	(38,780)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	6,092	12,910
Tax effect of share of results of joint ventures	22	25
Tax effect of tax losses not recognised	13,090	9,882
Tax effect of expenses that are not deductible in determining taxable profit[a]	16,337	22,245
Tax effect of income that are not taxable in determining taxable profit	(5,940)	-
Tax effect of utilisation of previously not recognised deductible temporary differences	(3,615)	(4,737)
Adjustments in respect of prior years	-	(993)
Foreign exchange movements in respect of deductible temporary differences	(372)	85
Taxation expense for the year	3,676	637

[a] These amounts mainly related to the impairment charges of mine development projects allocated to property, plant and equipment and the impairment of amounts invested in the Jiatai Titanium project (see note 11).

16. Dividends

No dividend was paid or proposed by Aricom during the year ended 31 December 2009. An interim dividend of US$644,437,000 was proposed and approved by the directors of Aricom on 22 June 2010. Of this amount US$22,460,000 was paid in cash and the remainder was offset against amounts owing to Petropavlovsk PLC prior to the listing of the Company's shares on the Stock Exchange under the group re-organisation (see note 33(b)).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2010.

17. 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

	2010 US$'000	2009 US$'000
Loss for the purposes of basic and diluted loss per ordinary share being net loss attributable to owners of the Company	(82,358)	(139,291)

Number of shares

	2010 Number '000	2009 Number '000
Weighted average number of ordinary shares for the purposes of basic loss per ordinary share	2,265,032	1,817,589

The number of ordinary shares for the purpose of calculating basic loss per share has been retrospectively adjusted for the share sub-division as disclosed in note 33, the deemed bonus element relating to the shares of the Company issued to Cayiron Limited in August 2010 and the capitalisation issue of the shares of the Company.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

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

18. Operating lease arrangements

The Group as a lessee

	2010 US$'000	2009 US$'000
Minimum lease payments under operating leases in respect of the Group's office premises recognised as an expense in the year	1,896	2,210

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

	2010 US$'000	2009 US$'000
Within one year	1,070	1,098
In the second to fifth years inclusive	3,751	4,821
	4,821	5,919

The Group as a lessor

The Group earned property rental income of approximately US$1,016,000 during the year ended 31 December 2010 (2009: US$964,000), relating to the sub-let of part of the floor space of a building owned by a subsidiary of the Group, OJSC Giproruda, which formed part of the other net operating income (included in net operating expenses). The lease contracts are at fixed rates for a period not exceeding eleven months as at 31 December 2010 and 2009. At the end of the reporting period, the Group had contracted with tenants for minimum lease payments due within the first three months. The total minimum lease payment is approximately US$987,000 and US$1,000,000 as at 31 December 2010 and 2009 respectively. This rental income is shown net of the associated cost within other operating income.

19. Intangible assets

The Group

	2010 US$'000	2009 US$'000
At the beginning of year	28,690	613
Additions	3,323	526
Transfers from plant, property and equipment	237	27,551
Impairment (see note 11)	(717)	-
At the end of year	31,533	28,690

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

In part additions represent amounts paid to acquire licences for intellectual property in relation to the processing of titanium sponge which have subsequently been impaired in 2010, as set out in note 11.

20. Property, plant and equipment

The Group

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress US$'000	Total US$'000
COST					
At 1 January 2009	767,164	-	55,410	10,551	833,125
Additions	62,508	-	7,010	5,184	74,702
Acquisition of assets	7,509	-	249	-	7,758
Disposals	-	-	(754)	-	(754)
Transfers	-	-	6,444	(6,444)	-
Transfers to intangible assets	(27,551)	-	-	-	(27,551)
Exchange adjustments	-	-	(243)	(133)	(376)
At 31 December 2009 and 1 January 2010	809,630	-	68,116	9,158	886,904
Additions	110,201	-	3,364	8,279	121,844
Disposals	(6,068)	-	(308)	-	(6,376)
Transfers	(70,981)	83,960	(12,006)	(973)	-
Transfers to intangible assets	(237)	-	-	-	(237)
Transfer to joint venture[a]	-	-	-	(1,828)	(1,828)
Exchange adjustments	-	-	(60)	-	(60)
At 31 December 2010	842,545	83,960	59,106	14,636	1,000,247
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2009	(386,407)	-	(4,108)	-	(390,515)
Depreciation charge for the year	-	-	(3,902)	-	(3,902)
Eliminated on disposals	-	-	201	-	201
Impairment (see note 11)	(65,216)	-	(22,713)	-	(87,929)
Exchange adjustments	-	-	(18)	-	(18)
At 31 December 2009 and 1 January 2010	(451,623)	-	(30,540)	-	(482,163)
Depreciation charge for the year	(1,456)	(2,332)	(1,979)	-	(5,767)
Eliminated on disposals	1,459	-	51	-	1,510
Transfers	(2,130)	(158)	2,288	-	-
Impairment (see note 11)	-	-	-	(14,572)	(14,572)
Exchange adjustments	-	-	15	-	15
At 31 December 2010	(453,750)	(2,490)	(30,165)	(14,572)	(500,977)
CARRYING AMOUNTS					
At 31 December 2010	388,795	81,470	28,941	64	499,270
At 31 December 2009	358,007	-	37,576	9,158	404,741

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

The Company

	Leasehold improvements US$'000	Computer equipment US$'000	Furnitures and fixtures US$'000	Office equipment US$'000	Total US$'000
COST					
At 4 June 2010, date of incorporation	-	-	-	-	-
Additions	9	6	3	46	64
At 31 December 2010	9	6	3	46	64
ACCUMULATED DEPRECIATION					
At 4 June 2010, date of incorporation	-	-	-	-	-
Depreciation charge for the year	(2)	(1)	(1)	(9)	(13)
At 31 December 2010	(2)	(1)	(1)	(9)	(13)
CARRYING AMOUNTS					
At 31 December 2010	7	5	2	37	51

At 31 December 2010, cumulative capitalised interest and borrowing costs of US$1,507,000 (31 December 2009: US$1,507,000) were included within mine development costs in the above table. The effective rate of interest capitalised for the years ended 31 December 2010 and 2009 was nil. Depreciation of US$842,000 relating primarily to assets used in the construction of plant in LLC Olekminsky Rudnik and LLC KS GOK was capitalised during the year ended 31 December 2010 (31 December 2009: US$2,015,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US$8,863,000 and US$7,619,000 during each of the years ended 31 December 2010 and 2009 respectively which relates to the removal of overburden at the Kuranakh mine.

No assets were held under finance leases at 31 December 2009 and 2010.

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

At 31 December 2010 and 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$71,732,000 and US$52,278,000 respectively. At 31 December 2010 and 2009, this included the commitment to contribute US$48,700,000 to the share capital of Jiatai Titanium and at 31 December 2009 this included the commitment to contribute US$2,600,000 to the share capital of the Vanadium joint venture project as disclosed in note 23.

21. Investments in subsidiaries

The Company

	2010 US$'000
Unlisted shares at costs	877,300

The activities of the Company's principal subsidiaries are set out in note 44.

22. Interest in an associate

The Group

	2010 US$'000	2009 US$'000
At the beginning of the year	-	3,704
Impairment (see note 11)	-	(3,704)
At the end of the year	-	-

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

In 2009, impairment charges of US$3,704,000 and US$5,740,000 were recognised in relation to the Aricom Group's interest in and the amount owed by Uralmining. Due to uncertainties about the commercial viability of the project and the progression of the development of the project found at 31 December 2009, it was decided to impair the carrying value of the equity interest of US$3,704,000 and loans advanced of US$5,740,000. In 2010, further loans advanced to the associate of US$1,028,000 were also impaired, as the uncertainties about the commercial viability of the project and the progression of the development of the project still existed as at 31 December 2010.

There was no revenue generated by the associate during the year end 31 December 2010 and 2009. Aggregated amounts relating to Uralmining are set out below.

	2010 US$'000	2009 US$'000
Total assets	15,709	14,964
Total liabilities	(15,709)	(14,964)
Net assets	-	-

23. Interests in joint ventures

The Group

	2010 US$'000	2009 US$'000
At the beginning of year	22,692	20,387
Contribution of share capital	4,731	-
Acquired on incorporation[(a)]	-	2,021
Share of results of joint ventures	(135)	(90)
Transfers from other non-current assets	1,828	353
Exchange adjustments	885	21
Impairment (see note 11)	(19,655)	-
At the end of year	10,346	22,692

[(a)] In accordance with the terms of the joint venture agreement between the Company and a partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 to establish a Chinese titanium sponge processing joint venture project (the "Jiatai Titanium project"), Heilongjiang Jiatai Titanium Co. Limited ("Jiatai Titanium"), was incorporated in the PRC. The Group holds 65% of Jiatai Titanium and 35% is held by a partner with the parties exercising joint control and contributing RMB474.5 million (equivalent to US$69.5 million) and RMB255.5 million (equivalent to US$37.0 million) respectively. The interest held by the Group at 31 December 2009 and 2010 was 65%. Contributions to the registered capital reflect these respective interests were to be made in tranches. The first tranche of US$20.8 million was paid by Aricom in September 2008. The remaining tranches to be contributed by the Group comprised a US Dollar equivalent of US$48.7 million as at 31 December 2010. These amounts were due to be paid by 31 December 2009. In 2010, the investment in the Jiatai Titanium project was impaired. Refer to note 11 for further information. The timing and payment of these contributions are uncertain. However, following discussions with the partner, the Group entered into an agreement with the partner on 25 August 2010 pursuant to which, and subject to certain conditions, one of which is the extension for the period in which the outstanding capital has to be paid up, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for the partner's stake in Jiatai Titanium. Further details of this agreement are set out in note 11. The local authority has approved to further extend the due date for paying the registered capital to 3 September 2011.

On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, which was incorporated in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control. Contributions to the registered capital reflect these respective interests were made in tranches. The first tranche of a US Dollar equivalent of US$2.0 million was paid by the Group in November 2009 and a further payment of US$4.7 million was paid in 2010. The interest held by the Group at 31 December 2009 and 2010 was 46%.

There was no revenue generated by the above joint ventures in both years.

The summary of the financial information of the Group's joint ventures for the year as set out below.

	2010 US$'000	2009 US$'000
Share of joint ventures' assets and liabilities:		
Non-current assets	1,605	14,736
Current assets	11,985	9,996
	13,590	24,732
Current liabilities	-	-
Non-current liabilities	(3,244)	(2,040)
The Group's share of net assets	10,346	22,692
Share of joint ventures' revenue and expenses:		
Revenue	-	-
Net operating expenses	(63)	(138)
Operating loss	(63)	(138)
Financial income	20	48
Financial expenses	(92)	-
The Group's share of loss for the year	(135)	(90)

24. Other non-current assets

The Group

	2010 US$'000	2009 US$'000
Deferred insurance premium for bank facilities	22,518	-
Prepayments for property, plant and equipment	15,837	3,793
Deferred loan arrangement fee	5,780	-
Cash advances to employees	415	380
	44,550	4,173

25. Inventories

The Group

	2010 US$'000	2009 US$'000
Stores and spares	18,545	11,437
Work in progress	4,896	1,596
Finished goods	3,680	-
	27,121	13,033

No inventories had been pledged as security. During the year ended 31 December 2009, work in progress was written down to its net realisable value resulting in a charge to the consolidated statement of comprehensive income of US$239,000; while there was no work in progress written down during year ended 31 December 2010.

The cost of inventory charged to the consolidated income statement was as follows:

	2010 US$'000	2009 US$'000
Cost of sales	10,233	239
Administrative expenses	474	46
Other net operating income	2,685	2,912
	13,392	3,197

26. Trade and other receivables

The Group

	2010 US$'000	2009 US$'000
VAT recoverable	12,399	9,907
Advances to suppliers	8,871	3,979
Amounts due from customers under engineering contracts	1,511	698
Trade receivables	5,054	1,833
Other debtors	1,396	3,322
	29,231	19,739

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 2010 related to both iron ores sold and services performed under engineering contracts and invoiced to those customers; while the amounts included in trade receivables at 31 December 2009 only related to services performed under engineering contracts and invoiced to those customers.

The Group has concentration of credit risk as 72.7% (31 December 2009: Nil) of the total trade receivables was due from the Group's largest customer during the year. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

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

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

	2010 US$'000	2009 US$'000
Less than one month	4,039	1,002
One month to three months	462	180
Over three months to six months	10	9
Over six months	543	642
Total	5,054	1,833

The Group allows credit periods ranging from 5 days to 45 days to individual third party customers.

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

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

	2010 US$'000	2009 US$'000
Less than one month	-	-
One to three months	4	-
Over three months to six months	3	9
Over six months	543	546
Total	550	555

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

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

	2010 US$'000	2009 US$'000
At the beginning of year	3,718	-
Change in allowance for doubtful debts	(42)	3,589
Exchange adjustments	(546)	129
At the end of year	3,130	3,718

Included in the allowance for doubtful debts were individually impaired advances to suppliers and trade receivables with an aggregate balance of US$3,130,000 and US$3,718,000 as at 31 December 2010 and 2009, respectively. The amount represented full impairment for (i) a deposit paid in advance for construction of apartments, which was considered not recoverable as the contractor has been declared bankrupt; and (ii) a trade debtor at Giproruda and a deposit paid for the acquisition of a railway locomotive which did not proceed as the counter parties were in financial difficulties. The Group did not hold any collateral over these balances.

The Company

	2010 US$'000
Other debtors	134

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

27. Loans due from (to) related parties

The Group

The Group held the following balances due from (payable to) related parties at the end of the reporting period:

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

In 2010, loans issued to related parties amounted to US$6,035,000 (2009: US$176,194,000). The loans due from related parties were fully settled before 31 December 2010.

In 2010, loans advanced from related parties amounted to US$94,370,000 (2009: US$38,944,000). As the loans payable were transferred to Thorrouble Limited ("Thorrouble") and Thordollar Limited ("Thordollar") as part of the Restructuring, these intercompany loans were eliminated on consolidation at 31 December 2010 (see note 2).

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

	2010 US$'000	2009 US$'000
Loans due from related parties		
Petropavlovsk PLC	107,166	107,166
Peter Hambro Mining Treasury UK Ltd, a fellow subsidiary	207,904	207,904
Peter Hambro Mining Group Finance Limited, a fellow subsidiary	40,006	40,006
EBT	20,308	20,308
	375,384	375,384

28. Amounts due from (to) subsidiaries/ultimate holding company

The Company

The amounts are unsecured, non-interest bearing and are repayable on demand.

29. Cash and cash equivalents

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

The Group

	2010 US$'000	2009 US$'000
Bank accounts and deposits	225,468	17,352
Money market funds	-	1,063
	225,468	18,415

Investments in money market funds were held for the purposes of diversification of risk. As these funds are available on demand and have insignificant risk of change in value they are classified as cash equivalents. The investments in money market funds and the money market portfolio represent investments in highly liquid funds which may be invested in securities or foreign currencies, with greater rates of return than deposit accounts held with banks. Further disclosures required under HKFRS 7 *Financial Instruments: Disclosures* are set out in note 40.

The Company

	2010 US$'000
Bank accounts and deposits	146,793

30. Trade and other payables

The Group

	2010 US$'000	2009 US$'000
Trade creditors	12,360	5,866
Advances from customers	1,261	5,801
Insurance premium payable	24,218	-
Accruals and other payables	19,246	4,770
	57,085	16,437

For individual third party trade creditors, the average credit period on purchases of goods and services for the year was 22 days (2009: 26 days).

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

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

	2010 US$'000	2009 US$'000
Less than one month	9,202	3,154
One month to three months	1,711	789
Over three months to six months	1,418	135
Over six months	29	1,788
Total	12,360	5,866

The Company

	2010 US$'000
Accruals and other payables	5,951

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

31. Deferred tax liabilities

The Group

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year.

	Property, plant and equipment US$'000	Inventory US$'000	Capitalised exploration and evaluation expenditure US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2009	(1,826)	-	(65)	(531)	(2,422)
Credit (charge) to the consolidated income statement	452	(258)	-	176	370
Exchange adjustments	(148)	226	-	13	91
At 31 December 2009 and 1 January 2010	(1,522)	(32)	(65)	(342)	(1,961)
Credit (charge) to the consolidated income statement	44	140	-	(268)	(84)
Exchange adjustments	13	(2)	-	10	21
At 31 December 2010	(1,465)	106	(65)	(600)	(2,024)

At 31 December 2010 and 2009, the Group had unused tax losses of US$117.4 million and US$43.2 million respectively, which primarily expire from 2011 to 2019. For the tax losses as at 31 December 2010 and 2009, no deferred tax asset was recognised as there was not sufficient certainty that there will be sufficient taxable profit against which to offset these losses.

The Group had not recognised deferred tax assets of US$40.4 million and US$58.5 million during each of the years ended 31 December 2010 and 2009 respectively, in respect of temporary differences that arose on certain capitalised development costs.

The Group did not record a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. Unremitted earnings that would be subject to taxation comprised an aggregate of US$8.2 million at 31 December 2010 and US$6.5 million at 31 December 2009 respectively.

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

32. Provision for close down and restoration costs

The Group

	2010 US$'000	2009 US$'000
At the beginning of year	2,990	2,108
Unwinding of discount	549	191
Exchange adjustments	(24)	66
Change in estimates	92	625
At the end of year	3,607	2,990

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

33. Share capital

(a) Share capital of the Company

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

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

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

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

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

On 26 August 2010, 360 shares were issued to the Pre-IPO Investors pursuant to the Pre-IPO Investment Agreement for cash in return for their combined equity investment of US$60 million in the share capital of the

Company (the "Subscription Shares"). The subscription price ("Subscription Price") for the Subscription Shares represented a negotiated price and based on the agreed assessment of the value of the Group at the time of signing the Pre-IPO Investment Agreement.

On 12 October 2010, an aggregate of 2,321,994,840 shares were issued to the shareholders for no consideration pursuant to the capitalisation issue, with each shareholder receiving 449,999 new shares for every share then held.

On 21 October 2010, the Company issued 1,040,000,000 shares with a nominal value of HK$0.01 each at HK$1.80 per share upon listing of the shares on the Stock Exchange.

	No. of shares	US$'000
Authorised		
Ordinary shares of HK$1.00 each at date of incorporation	1,000	-
Subdivision of shares	99,000	-
Increase in authorised share capital	9,999,900,000	12,820
Ordinary shares of HK$0.01 each at the end of the period	10,000,000,000	12,820
Allotted, called up and fully paid		
At date of incorporation	1	-
Subdivision of shares	99	-
Issued during the period	1,040,005,060	1,340
Capitalisation of shares	2,321,994,840	2,990
At 31 December 2010	3,362,000,000	4,330

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

Date	Description	Price HK$	No. of shares
4 June 2010	Issue of share capital on incorporation	1.00	1
14 June 2010	Subdivision of shares. Authorised share capital: 1,000 ordinary shares divided into 100,000 ordinary shares of HK$0.01 each		99
14 June 2010	Issue of share capital	0.01	700
25 June 2010	Issue of share capital	0.01	800
11 August 2010	Issue of share capital	0.01	1,600
19 August 2010	Issue of share capital	0.01	1,600
26 August 2010	Issue of share capital	0.01	360
12 October 2010	Capitalisation issue of shares	0.01	2,321,994,840
21 October 2010	Issue of share capital by way of public offer (Note)	0.01	1,040,000,000
31 December 2010	Number of ordinary shares on issue at the end of the period	0.01	3,362,000,000

Note: The Company listed its shares on the Stock Exchange of Hong Kong with effect from 21 October 2010 and issued new shares to the public through the initial public offering.

(b) Restructure and combination accounting

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

These transactions, and the impact on the consolidated financial statements are set out below:

1. Thorholdco was incorporated in the Cayman Islands on 18 May 2010 as a wholly owned subsidiary of Petropavlovsk PLC.
2. Thorrouble and Thordollar were incorporated in the Cayman Islands on 18 May 2010, as wholly owned subsidiaries of Petropavlovsk PLC.
3. The Company was incorporated on 4 June 2010, as set out above.
4. On 14 June 2010, Petropavlovsk PLC capitalised Thorholdco by contributing to it a promissory note of US$260,000,000 in exchange for the issue by Thorholdco to Petropavlovsk PLC of 15 further shares. The entire share capital of Thorholdco was then transferred to Cayiron Limited in exchange for the issue and allotment by Cayiron Limited of further shares to Petropavlovsk PLC.
5. On 14 June 2010, the Company acquired Thorholdco from Cayiron Limited in consideration for US$260,015,001, satisfied by the issue of 700 shares at a price of approximately US$371,450 per share, resulting in share premium of US$260,015,000.
6. On 25 June 2010, Petropavlovsk PLC subscribed for 100,000 ordinary shares in Thorrouble in consideration for the issue of promissory notes of RUR6,607,448,778 (equivalent of approximately US$213,041,112).
7. On 25 June 2010, Petropavlovsk PLC subscribed for 3,000 ordinary shares in Thordollar in consideration for the issue of promissory notes of US$224,559,090.
8. Following the completion of these transactions, Thorrouble and Thordollar were acquired by the Company on 25 June 2010 in exchange for the issue of 800 shares to the value of US$437,621,872, which was the book value of the two companies transferred, resulting in share premium of US$437,621,857. On the same day, the Company transferred the entire issued share capital of Thorrouble and Thordollar to Thorholdco in exchange for the issue and allotment by Thorholdco to the Company of additional shares.
9. On 25 June 2010, Thorrouble entered into a deed of assignment with Peter Hambro Mining Rouble Treasury Limited ("PHM Rouble Treasury"), under which Thorrouble assigned the promissory note in point 6 above to PHM Rouble Treasury in consideration for the assignment to Thorrouble of the Rouble denominated receivables between PHM Rouble Treasury and the Aricom Group.
10. On 25 June 2010, Thordollar entered into a deed of assignment with Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, under which Thordollar assigned the promissory notes in point 7 above to Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, respectively, in consideration for the assignment to Thordollar of the US Dollar denominated receivables between Aricom Treasury UK Limited and Aricom Roubles Treasury Limited and the Aricom Group.
11. Following the completion of these transactions, the Company held investments in Thorholdco, which in turn held investments in Thorrouble and Thordollar. The Group had amounts outstanding from Petropavlovsk PLC of US$260,000,000 which were settled by the transfer of Aricom to Thorholdco, on 5 August 2010. Thorrouble and Thordollar held the Rouble and US Dollar denominated receivables from the Aricom Group.

On 10 June 2010, Aricom disposed of its interest in Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to Petropavlovsk PLC and the consideration receivable remained outstanding against Petropavlovsk PLC's undertaking to pay to Aricom ("Consideration"). These companies have been deconsolidated from this point in time, with the excess of the net assets of the companies disposed over the consideration received of US$168,509,000 recognised in equity as deemed distribution. The deconsolidation would have resulted in a significant increase in the loans payable to related parties. Accordingly, Petropavlovsk PLC has transferred these receivables from Aricom Group to Thordollar and Thorrouble as set out above. As described in note 33(c), these receivables were transferred to Thordollar and Thorrouble for consideration less that the contractual amounts payable. The difference of US$205,412,000 has been recognised as a transfer of equity by the owner.

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

Accordingly, at 31 December 2010 the Group does not have any loans receivable from the Petropavlovsk PLC Group.

Acquisition of Aricom by the Company

Following receipt of the necessary Russian regulatory approvals on 23 July 2010, Thorholdco Limited acquired from Petropavlovsk PLC the entire issued share capital of Aricom, which is the indirect holding company of the Group's mineral and ilmenite assets. Accordingly, the US$260,000,000 promissory note due from Petropavlovsk PLC recorded by the Group as detailed in point 11 above, which is set up as a form of the group re-organisation detailed above, was set off by the amount paid by Thorholdco to acquire Aricom of US$260,000,000 on 5 August 2010 and has been recognised in accumulated losses for the year ended 31 December 2010.

(c) Share capital of Aricom

	Aricom	
	Number '000	US$'000
Authorised		
Ordinary shares	20,000,000	-
Allotted, called up and fully paid		
At 1 January 2009	1,182,864	2,265
Issued during the year	-	-
Subdivision of shares	10,645,774	-
At 31 December 2009 and 1 January 2010	11,828,638	2,265
Exercise of warrant	1,330,000	192
At 5 August 2010	13,158,638	2,457

Details of the ordinary shares of Aricom in issue are given in the table below.

Date	Description	Price GBP	No. of shares
1 January 2009	Number of ordinary shares on issue at the end of year		1,182,863,763
22 April 2009	Subdivision of shares, scheme of arrangement for shares and warrants became effective. Authorised share capital: 2,000,000,000 ordinary shares divided into 20,000,000,000 ordinary shares of GBP 0.0001 each and 133,000,000 warrants divided into 1,330,000,000 warrants		10,645,773,867
22 April 2009	Allotment of 2 shares to Petropavlovsk PLC		2
31 December 2009	Number of ordinary shares on issue at 31 December 2009		11,828,637,632
26 May 2010	Exercise of warrants granted to Petropavlovsk PLC	0.08	1,330,000,000
5 August 2010	Number of ordinary shares on issue at the date of acquisition by Thorholdco		13,158,637,632

The authorised share capital of 2,000,000,000 ordinary shares of Aricom was divided into 20,000,000,000 ordinary shares on 22 April 2009 and the value of each share is changed from £0.001 to £0.0001. The authorised share capital of Aricom was increased by 18,000,000,000 ordinary shares.

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

Warrants in issue

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

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

On 26 May 2010 Petropavlovsk PLC exercised all of these warrants in Aricom. As a result Aricom issued 1,330,000,000 ordinary shares of £0.0001 for consideration of £0.08 per share which amounted to US$154.37 million, and was settled via a promissory note issued by Petropavlovsk PLC. This promissory note has since been settled by the dividend declared by Aricom (see note 16 for details).

Issue of Options

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

(a) any time after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 160% of the exercise price; or
(b) two years after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 130% of the exercise price.

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

Transfer to an equity holder

Prior to the acquisition of Aricom by Petropavlovsk PLC in April 2009, two of Aricom's subsidiaries, Aricom Treasury UK Limited and Aricom Roubles Treasury Limited provided inter-company funding to other Aricom companies. Following the acquisition of Aricom by Petropavlovsk PLC in April 2009, the Group's inter-company receivables balances held by Aricom Treasury UK limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK Limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom was provided by Peter Hambro Mining Treasury UK Limited. In exchange for the receivables transferred of US$211.9 million, Aricom received a promissory note with fair value of US$165.3 million from Peter Hambro Mining Treasury UK limited. The difference of US$46.6 million had been treated as an equity transfer from the Aricom Group to Petropavlovsk PLC in April 2009. During the year ended 31 December 2010 all amounts owing to Petropavlovsk PLC by the Aricom Group (including the amounts above) were transferred from Peter Hambro Mining Treasury UK Limited to the Company's subsidiaries, Thorrouble Limited and Thordollar Limited, for consideration of US$437.9 million. The difference between this amount paid, and the carrying amount of the loans of US$643.3 million has been treated as a contribution to the Aricom Group by Petropavlovsk PLC of US$205.4 million.

The amount of share capital of US$2,265,000 shown on consolidated statement of financial position as at 31 December 2009 represented the issued capital of Aricom, which became a subsidiary of the Company during the year.

34. Treasury shares

The Group

	2010 US$'000	2009 US$'000
Balance at the beginning of the year	-	24,801
Acquired in the year	43,000	-
Transfer of Aricom shares	-	(24,801)
Balance at the end of the year	43,000	-

In 2009, treasury shares represented ordinary shares held by the Aricom's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). On acquisition of Aricom by Petropavlovsk PLC, Aricom shares previously held by the EBT were exchanged for shares in Petropavlovsk PLC (see note 38).

In 2010, treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the LTIP. During the year ended 31 December 2010, 116,100,000 shares were acquired and held under the EBT.

35. Accumulated losses

The Company

	2010 US$'000
As at 4 June 2010, date of incorporation	-
Loss for the period	16,294
As at 31 December 2010	16,294

36. Notes to the cash flow statements

(a) Reconciliation of loss before taxation to cash used in operations

	2010 US$'000	2009 US$'000
Loss before taxation	(78,353)	(138,500)
Adjustments for:		
Depreciation of property, plant and equipment	4,925	2,267
Financial income	(10,929)	(15,145)
Financial expense	11,813	10,337
Loss on disposal of property, plant and equipment	920	230
Inventory written off	-	239
Impairment charges	35,972	97,371
Share-based payments and LTIP expense (defined in note 38)	1,334	1,892
Share of results of joint ventures	135	90
Net foreign exchange (gain) loss	(2,074)	6,224
Net change in fair value of financial instruments at FVTPL	(1,711)	1,711
(Reversal of allowance) allowance for doubtful debts	(42)	3,589
Other non-cash adjustments	8,206	6,908
Operating cash flows before movements in working capital	(29,804)	(22,787)
(Increase) decrease in inventories	(15,009)	294
Increase in trade and other receivables	(13,348)	(4,571)
Increase in trade and other payables	9,050	970
Cash used in operations	(49,111)	(26,094)

(b) Major non-cash transactions

Following the acquisition of Aricom by Petropavlovsk PLC, the inter-company receivable balances within Aricom Treasury UK Limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom had been provided by this entity. In exchange for the receivables transferred of US$211.9 million Aricom received a promissory note of US$165.3 million from Peter Hambro Mining Treasury UK Limited. The difference of US$46.6 million was treated as an equity transfer from the Aricom Group to Petropavlovsk PLC (see note 33(c) for further details).

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

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

In 2009, there were certain administrative expenses of the Aricom Group of US$6.9 million borne by the ultimate holding company, which were recorded in capital reserve as a deemed capital contribution. These expenses are included in note 36(a) and treated as other non-cash adjustments.

During the year ended 31 December 2010, US$6.9 million of administrative expenses and US$3.1 million of UK tax expenses were borne by the ultimate holding company and recorded in capital reserve as a deemed capital contribution. These expenses are included in note 36(a) and treated as other non-cash adjustments.

On 22 June 2010, Aricom declared a dividend of US$644,437,000 of which US$22,460,000 was paid in cash, with the remaining amount offset against the total loan receivable amount outstanding from Petropavlovsk PLC (see note 16).

During the year ended 31 December 2010, Aricom disposed of a number of its subsidiaries to the Petropavlovsk PLC Group. Consideration was settled via the issue of a promissory note (see note 33(b)).

During the year ended 31 December 2010, a restructuring was undertaken in order to put the proposed listing structure in place. These transactions did not involve cash consideration as they were settled via promissory notes (see note 33(b)).

In relation to the bank facilities (see note 41), the Group is required to pay insurance premium of US$22.5 million as part of the facility agreement, which is outstanding as at 31 December 2010.

37. Contingent liabilities

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

38. Share-based payments

(a) Aricom PLC Share Option Scheme

Up until 22 April 2009, Aricom operated its own equity-settled share option scheme for the directors of Aricom. These options over ordinary shares were issued in accordance with the Aricom PLC share option scheme ("Aricom share option scheme"). Options granted under the Aricom share option scheme were not subject to performance criteria. Options were normally forfeited if the employee left the Aricom Group.

As part of the acquisition of Aricom on 22 April 2009 by Petropavlovsk PLC, the outstanding options granted under the Aricom share option scheme to the directors of Aricom were exchanged for options over ordinary shares of Petropavlovsk PLC, exercisable between 19 July 2009 until 19 July 2012. Following the acquisition, no further options were granted under the Aricom share option scheme.

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

At 31 December 2009

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

The Group recognised total expenses of nil and US$153,000 for each of the years ended 31 December 2010 and 2009 respectively relating to the equity settled Aricom Share Option Scheme. The information above has not been represented for the subdivision of Aricom shares as described in note 33.

Petropavlovsk PLC share option scheme

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

At 31 December 2010

Date of grant	Date exercisable	Exercise price £	Outstanding at 1 January 2010	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2010
22.4.2009	From 19 July 2009 to 19 July 2012	6.72	75,000	-	-	(25,000)	50,000

At 31 December 2009

Date of grant	Date exercisable	Exercise price £	Outstanding at 1 January 2009	Granted on 22 April 2009	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2009
22.4.2009	Aricom share awards exchanged for the share awards of Petropavlovsk PLC	6.72	-	231,250	-	(156,250)	75,000

The weighted average exercise prices of the outstanding Petropavlovsk PLC share options at 31 December 2010 and 2009 was £6.72 and £6.72 respectively. The weighted average remaining contractual life of the options outstanding at 31 December 2010 and 31 December 2009 was 1.5 years and 2.5 years respectively (exercisable until 19 July 2012).

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

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

The Group recognised total expenses of nil for the year (2009: US$42,000) relating to the equity settled Petropavlovsk PLC share option scheme.

(b) Aricom Group long-term incentive plan

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

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

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

	As at 31 December 2009 Replacement LTIP Awards issued at April 2009
Weighted average share price (£)	5.20
Weighted average exercise price (£)	0.00
Expected volatility (%)	119.86
Expected life in years	0.81
Risk-free rate (%)	0.87
Expected dividends (£)	0.00
Fair value per award (£)	5.20

For the year ended 31 December 2010, the Group recorded an expense of US$221,000 (2009: US$2,021,000) in respect of the Replacement LTIP. The information above has not been represented for the subdivision of Aricom shares as described in note 33.

The treasury shares of Aricom previously held by the EBT are now held by Petropavlovsk PLC (see note 34). The original loans made by Aricom Services Limited to the EBT remain outstanding at the time of the Replacement and accordingly had been included in amounts due from related parties.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group recognised total expenses of US$339,000 relating to the Petropavlovsk PLC LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2010 (2009: US$233,000).

Under the Company's LTIP, which was established on 11 August 2010, selected employees and Directors of the Group (the "Selected Grantees") are to be awarded shares of the Company which have been purchased by Group's trustee. Upon management's recommendation, the number of shares awarded to the Selected Grantees shall be determined, with the vesting dates for various tranches, by the Board. Any Company LTIP awarded to a Selected Grantee who is a Director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee of the Board.

The scheme has a 3-year vesting period and is subject to the following vesting conditions:

- 25% of the award vesting is relating to the achievement of certain production targets;
- 25% of the award vesting is relating to profitability;
- 25% of the award vesting is relating to the growth and development of the Group; and
- 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

On 3 November 2010, 91.1 million shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of US$19.2 million (determined based on the closing share price of the Company as of 3 November 2010 of HK$1.64 per share) which is recognised to the consolidated income statement over the vesting period. The amount expensed during the year was US$1,029,000.

39. Retirement benefit schemes

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

The Group participates in various defined contribution pension plans for all of its employees in the UK. Under the rules schemes, only Aricom participated in the scheme at the rate defined by Aricom for all its employees. The only obligation of Aricom with respect to the employees' personal pension scheme was to make required contributions based on the gross wages of the employees. The retirement benefit scheme contributions charged to the consolidated income statement of US$58,000 for the year (2009: US$69,000).

Each employee of Aricom chose their own pension plan. There were approximately eight different pension plans where the Company made contributions. One of these plans was an offshore saving account; all the others were UK pension plan providers.

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

In addition, the Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The contributions charged to the consolidated income statement amounted to US$34,000 and 2009 was nil.

40. Financial instruments

Capital and liquidity risk management

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

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

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements except for the restriction disclosed in note 41 in relation to the bank credit facilities.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of asset, financial liability and equity instrument are disclosed in note 4 to the consolidated financial statements.

Categories of financial instruments

The Group

	Carrying value as at 31 December 2010 US$'000	Carrying value as at 31 December 2009 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	242,716	407,400
Financial liabilities		
Amortised cost	(38,858)	(274,794)
FVTPL	-	(1,711)
	(38,858)	(276,505)

The Company

	Carrying value as at 31 December 2010 US$'000
Financial assets	
Loans and receivables (including cash and cash equivalents)	146,804
Financial liabilities	
Amortised cost	(1,657)

Financial risk management objectives

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

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

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, principally Pounds sterling, US Dollars and Russian Roubles and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars, Pounds Sterling and Russian Roubles.

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

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

The Group

	Assets		Liabilities	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Russian Roubles	86,658	17,518	39,193	329,946
US Dollars	2,652	3,144	9	-
Pounds sterling	13	4,354	296	2,614
Kazakh Tenge	539	461	-	-
Euros	7	8	-	-
Hong Kong Dollars	325	-	61	-

The Company

	Assets 2010 US$'000	Liabilities 2010 US$'000
Hong Kong Dollars	276	56
Pounds sterling	-	333
Euros	11	-

Foreign currency sensitivity analysis

The Group and the Company is mainly exposed to exchange rate movements between US Dollars, Russian Roubles and Pounds Sterling. The following table details sensitivity of the Group and the Company to a 25% change in exchange rates of functional currencies of the Group's companies and of the Company against the relevant foreign currencies for the year (2009: 25%). The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where the functional currencies of the Group's companies and of the Company strengthen 25% (2009: 25%) against the relevant foreign currencies. For a 25% (2009: 25%) weakening of functional currencies the Group's companies and of the Company against the relevant foreign currencies, there would be an equal and opposite impact on the loss and the balances below would be negative.

The Group

	US Dollars currency impact		Russian Roubles currency impact		Pounds sterling currency impact	
	2010	2009	2010	2009	2010	2009
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Profit or loss	(529)	(629)	(9,493)	50,941	57	(252)

The Company

	Pounds sterling currency impact
	2010
	US$'000
Profit or loss	17

The Group's policy is to hold a portion of its cash equivalents in Russian Roubles to cover its exposure arising on capital and operational expenditure incurred in Russian Roubles.

Commodity price risk

The Group intends to generate most of its revenue from the sale of titanomagnetite concentrate, magnetite concentrate and ilmenite concentrate. The Group's policy is to sell its products at the prevailing market price. The Group does not hedge its exposure to the risk of fluctuations in the price of its products. The forward commodity prices are a key input in assessing the recoverability of mining assets capitalised on the consolidated statement of financial position.

The Company does not expose to commodity price risk since the Company's principal activity is investment holding.

Interest rate risk management

The Group and the Company are exposed to interest rate risk through the holding of cash and cash equivalents, including monies invested into money market funds. The interest rates attached to these instruments are at floating rates. The Group and the Company also hold amounts on deposit with fixed rates of interest attached. The mix between fixed and floating rate financial assets limits the Group's interest rate risk. The exposures to interest rates on these financial assets of the Group and the Company are detailed below.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest bearing financial asset investments held during the year. An increase/decrease of 1% in interest rates has been applied when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's result for the year would decrease/increase by approximately US$1,151,000 (2009: decrease/increase by US$1,843,000).

The Company

If interest rates had been 1% higher/lower and all other receivables were held constant, the Group's result for the period would decrease/increase by US$1,485,000.

Credit risk management

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

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

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

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

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 42. Amounts held on deposit as at 31 December 2010 and 2009 with these banks were US$21,138,000 and US$6,156,000 maturing in 2010, representing 8% and 1.5% of total monetary assets held by the Group respectively.

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

Type of financial asset	Counterparty	Currency	Rating as at 31 December 2010	Carrying value 31 December 2010 US$'000	Carrying value 31 December 2009 US$'000
Cash equivalent	Unicredit Bank	US$	BBB-	-	8,767
Cash equivalent	UBS	US$	AAA-	42,655	238
Cash equivalent	OJSC VTB Bank	US$	Baa1	2,500	2,400
Cash equivalent	OJSC VTB Bank	Roubles	Baa1	1,641	1,846
Cash equivalent	Royal Bank of Scotland ("RBS") Asset Management-Global Treasury Fund US$[(a)]	US$	A-	143,850	1,087
Cash equivalent	Barclays Bank LLC - deposit accounts	Roubles	Ba1	4,378	1,912
Cash equivalent	Asian-Pacific Bank - deposits accounts	Roubles	B-	12,619	-
Total				207,643	16,250

[(a)] The minimum investment criteria for these funds require that investments have a minimum rating of A-1 (S&P) or Prime-1 (Moody's). A minimum of 50% of the portfolio is invested in securities rated A-1+ by S&P. The investment managers are permitted to invest in fixed rate securities with maturities up to 397 days, and floating rate notes with maturities up to two years. However, the weighted average maturity of the fund must be kept below 60 days.

Trade receivables consist mostly of amounts outstanding under engineering contracts held by a subsidiary in Russia. A credit evaluation was performed on these customers prior to the commencement of these contracts. An analysis of balances past due at 31 December 2010 is included in note 26.

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

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2010, the Group's and the Company's principal financial liabilities were trade and other payables. The management of the Company monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

The Group

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Due after more than five years US$'000	Total US$'000
As at 31 December 2010					
Trade and other payables	38,858	-	-	-	38,858
As at 31 December 2009					
Trade and other payables	10,636	-	-	-	10,636
Loans due to a related party	-	264,158	-	-	264,158
Expected future interest payments[a]	-	54,034	-	-	54,034
	10,636	318,192	-	-	328,828

[a] Expected future interest payments are based on contractual interest payments at 31 December 2009. Loans due to related parties and their associated interest payments were settled as part of the Restructuring see note 33(b).

The Company

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Due after more than five years US$'000	Total US$'000
As at 31 December 2010					
Other payables	1,411	-	-	-	1,411
Amount due to ultimate holding company	246	-	-	-	246
	1,657	-	-	-	1,657

Other price risks

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

The Company was not exposed to any other price risks as at 31 December 2010.

Fair value measurements recognised in the consolidated statements of financial position

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

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010 US$'000	2009 US$'000
Financial assets at FVTPL at Level 1	-	-
Financial liabilities at FVTPL at Level 3	-	(1,711)

There were no financial instruments measured at fair value at Level 2 as at 31 December 2010. The below table is a reconciliation of Level 3 fair value measurements:

	2010 US$'000	2009 US$'000
At the beginning of the year	(1,711)	-
Total gains (losses) recognised	1,711	(1,711)
At the end of the year	-	(1,711)

The total losses recognised in profit or loss of US$1,711,000 related to the change in fair value of warrants held at 31 December 2009 (see note 33(c)). These warrants were exercised in May 2010, accordingly the liability was extinguished with a gain recognised in the consolidated statement of comprehensive income.

41. Bank facilities

On 6 December 2010, the Group announced that LLC KS GOK, a subsidiary of the Company, had entered into the HK$3.11 billion (equivalent to US$400 million) Engineering Procurement and Construction Contract with the China National Electric Engineering Corporation 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 the Industrial and Commercial Bank of China Limited ("ICBC") (the "ICBC Facility Agreement") pursuant to which ICBC will lend US$340,000,000 (equivalent to HK$2.64 billion) to KS, a wholly owned subsidiary of the Company, 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 will be charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is repayable over a period of 11 years.

Petropavlovsk PLC has agreed to guarantee the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and KS have entered into an agreement setting out the terms on which Petropavlovsk PLC is prepared to give the guarantee ("Recourse Agreement"). No fee will be payable by the Company in respect of the provision of the guarantee by Petropavlovsk PLC while Petropavlovsk PLC remains the parent company of the Company. In the event that Petropavlovsk PLC ceases to be the parent company of the Company, a fee established on normal commercial terms 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 2010, Petropavlovsk PLC beneficially owns approximately 65.61% of the issued share capital of the Company. Under the ICBC Facility Agreement, each of the following will constitute a covenant and non-compliance 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 a not less than 30% direct or indirect interest in the Company; (ii) Petropavlovsk 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 (iii) there are also certain limited restrictions on Petropavlovsk PLC's ability to grant security over its assets, make disposals of its assets, or enter into merger transactions.

As at 31 December 2010, the Group did not utilise any of the bank facilities described above.

42. Related party disclosures

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

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

Related parties

Petropavlovsk PLC, the ultimate holding company for the period from 22 April 2009 to 31 December 2010 and its subsidiaries and joint ventures are considered to be related parties due to Mr Peter Hambro, Mr George Jay Hambro and Dr Pavel Maslovskiy's shareholdings and directorships in those companies and in Petropavlovsk PLC prior to 22 April 2009 and the Company becoming a wholly-owned subsidiary of Petropavlovsk PLC on 22 April 2009. As at 31 December 2010, Mr Peter Hambro, Mr George Jay Hambro and Dr Pavel Maslovskiy held 5.66%, nil and 8.98% respectively of ownership interest in Petropavlovsk PLC. During the year, Mr Peter Hambro, Mr George Jay Hambro and Dr Pavel Maslovskiy held ownership interest in Petropavlovsk PLC ranging from 5.66% to 5.84%, from nil to 0.0044% and from 8.98% to 9.26% respectively.

Asian-Pacific Bank is considered to be a related party as Mr Peter Hambro and Dr Pavel Maslovskiy have an interest in these companies, throughout the years. As at 31 December 2010, each of Mr Peter Hambro and Dr Pavel Maslovskiy indirectly held 16.56% of ownership interest in Asian-Pacific Bank. During the years, Mr Peter Hambro and Dr Pavel Maslovskiy indirectly held ownership interest in Asian-Pacific Bank ranging from 16.48% to 16.56% each.

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

Mr Peter Hambro is a Director and a beneficial owner of Peter Hambro Limited. As at 31 December 2010, Mr Peter Hambro held 51% of ownership interest in Peter Hambro Limited. During the year, Mr Peter Hambro held a 51% ownership interest in Peter Hambro Limited.

Jiatai Titanium and Vanadium Joint Venture are joint ventures of the Group and hence are related parties. Please refer to note 11 for further information on the future of the Jiatai Titanium project.

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

Transactions with related parties the Group entered into during the year are set out on the following page.

Trading transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below except for the interest income earned and interest expenses incurred, which have been disclosed in note 13 and note 14 respectively.

	Sales		Purchases	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Petropavlovsk PLC and its subsidiaries and joint ventures				
Petropavlovsk PLC	688	148	1,249	405
OJSC Irgiredmet	-	-	711	378
LLC NPGF Regis	33	13	417	296
LLC Obereg CHOP	-	41	401	300
CJSC Peter Hambro Mining Engineering	129	-	5,096	3,214
CJSC Pokrovsky Rudnik	3,971	1,074	21	85
CJSC Malomyrskiy Rudnik	7	158	-	-
Dalgeologia	146	927	5,565	970
Kapstroy	2,734	3,228	17,860	24,858
MC Petropavlovsk	838	800	438	479
PRP Stansii	-	4	37	35
Gidrometallurgia	152	94	-	-
Odolgo	19	33	-	-
NNOUS "PGK"	-	-	-	22
Aricom Rouble Treasury UK Ltd.	17	-	-	-
Aricom Finance UK Ltd.	26	-	-	-
Aricom Treasury UK Ltd.	27	-	-	-
Asian Pacific Bank	70	-	-	-
Trading transactions with other related parties				
Peter Hambro Limited	-	-	-	501
Apatit	3,974	2,974	-	-

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

Except for the loans due to (from) related parties shown in note 27, the remaining outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[(a)]		Amounts owed to related parties[(b)]	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Petropavlovsk PLC and its subsidiaries and joint ventures				
Petropavlovsk PLC	-	-	246	-
OJSC Irgiredmet	610	8	5	-
LLC NPGF Regis	4	2	205	290
LLC Obereg CHOP	-	5	42	40
CJSC Peter Hambro Mining Engineering	1,789	1,310	1,187	618
CJSC Pokrovsky Rudnik	228	331	1	4,146
CJSC Malomyrskiy Rudnik	9	-	800	-
Dalgeologia	95	258	625	600
Kapstroy	-	559	127	5
MC Petropavlovsk	34	-	-	1,992
PRP Stansii	-	12	-	-
Gidrometallurgia	2	1	-	-
Odolgo	2	2	-	-
Aricom Rouble Treasury UK Ltd.	17	-	-	-
Aricom Finance UK Ltd.	26	-	-	-
Asian Pacific Bank	-	-	-	-
Outstanding balances with other related parties				
Apatit	925	398	-	-
	3,741	2,886	3,238	7,691

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

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

Banking arrangements

Other than the related party transaction as disclosed in note 41, the Group has bank accounts with Asian-Pacific Bank. The bank balances at the end of the reporting period are set out below:

	2010 US$'000	2009 US$'000
Asian-Pacific Bank	13,531	817

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

	2010 US$'000	2009 US$'000
Interest income from cash and cash equivalents	3	1,599

Financing transactions

The Group has provided a loan to an associate, Uralmining. The interest income accrued on the loan to Uralmining amounted to US$476,000 (2009: US$792,000) for the years ended 31 December 2010. The loan and Interest income receivable as at 31 December 2010 and 31 December 2009 was fully impaired in the consolidated statement of comprehensive income as the loan to Uralmining is considered to be unrecoverable.

Key Management Compensation

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

	2010 US$'000	2009 US$'000
Short-term benefits	1,795	1,914
Post-employment benefits	110	108
Share-based payments	105	1,446
	2,010	3,468

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

Restructuring

During the year ended 31 December 2010, a number of transactions were undertaken between the Group and the Petropavlovsk Group in order to put the IRC listing structure in place.

In summary these transactions included:

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

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

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

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

Further details of the transaction set out in points 1 - 3 above are set out in note 33(b). Details of the dividend are set out in note 16.

43. Disposal of subsidiaries

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

Total consideration of US$468,732,000 has been received for the sale of these entities. The loss on sale of these entities of US$168,509,000 was recognised in equity as a transfer to the equity holder, as it was generated by the difference between the value of the intercompany receivables in the standalone accounting records of each entity, compared to the balance eliminated from the consolidated financial statements. When these loans were transferred to Thorrouble and Thordollar, as set out in note 33, the difference between the value of the consideration paid by these companies and the contractual amounts of the receivables of US$205,412,000 was recognised as an offsetting transfer of equity by the owner.

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

44. Particulars of principal subsidiaries

Name of company	Issued and fully paid share capital	Equity interest attributable to the Group 2010[(d)]	2009[(d)]	Principal activities
Arfin Limited	US$10,000	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	US$2,912	100%	100%	Investment holding
Dardanius Limited	US$6,080	100%	100%	Investment holding
Esimanor Limited	US$2,502	100%	100%	Investment holding
Expokom Limited (formerly Methkita Limited)	US$158,808	100%	100%	Investment holding
Guiner Enterprises Ltd	US$271,080	100%	100%	Investment holding
Kapucius Services Limited	US$32,500	100%	100%	Investment holding
Lapwing Limited (“Lapwing”)	€28,795	99.58%	99.58%	Investment holding
Lucilius Investments Limited	US$22,740	100%	100%	Investment holding
Metellus Limited	US$3,640	100%	100%	Investment holding
Rumier Holdings Ltd	US$270,945	100%	100%	Investment holding
Russian Titan Company Limited	US$197	100%	100%	Investment holding
Tenaviva Limited	US$4,650	100%	100%	Investment holding
Aricom	£1,315,864	100%	100%	Investment holding
Aricom UK Limited	£241,481,039	100%	100%	Investment holding
Aricom B Finance plc[(a)]	£2	-	100%	Investment holding
Aricom B Limited[(a)]	US$100	-	100%	Investment holding
Aricom B Roubles Treasury Limited[(a)]	RUR1,000	-	100%	Provision of financing services for the Group
Aricom Finance UK Limited[(a)]	£2	-	100%	Provision of financing services for the Group
Aricom Roubles Treasury UK Limited[(a)]	RUR62,684,000	-	100%	Provision of financing services for the Group
Aricom Services Limited[(a)]	US$1	-	100%	Business services for the Group
Aricom Treasury UK Limited[(a)]	£2	-	100%	Provision of financing services for the Group
Ariti HK Limited	HK$1	100%	100%	Dormant
Ariva HK Limited	HK$1	100%	100%	Investment holding
Thorholdco Limited	US$31	-	100%	Investment holding

Name of company	Issued and fully paid share capital	Equity interest attributable to the Group 2010[(d)]	2009[(d)]	Principal activities
Thorrouble Limited	RUR100,000	-	100%	Provision of financing services for the Group
Thordollar Limited	US$3,000	-	100%	Provision of financing services for the Group
LLC Petropavlovsk-Iron Ore (formerly LLC Aricom)	RUR10,000,000	100%	100%	Business services for the Group
LLC KS GOK	RUR141,514,865	100%	100%	Exploration and mining - K&S
LLC Olekminsky Rudnik	RUR1,378,664,935	100%	100%	Exploration and mining - Kuranakh
LLC Rubicon	RUR100,000	100%	100%	Development of bridge and other infrastructure projects for the Group
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")[(b)]	RUR1,000,000	100%	100%	Development of port for the Group
LLC TOK	RUR10,000	100%	100%	Dormant
OJSC Giproruda[(c)]	RUR4,639	70.28%	70.28%	Engineering services
LLC GMMC	RUR780,000,000	99.58%	99.58%	Exploration and mining - Garinskoye
LLC Kostenginskiy GOK	RUR10,000	100%	100%	Exploration and mining - Kostenginskoye
LLC Orlovsko-Sokhatinsky Rudnik	RUR10,000	100%	100%	Exploration and mining - Garinskoye Flanks
LLC Garinskaya Infrastructure	RUR1,000,000	100%	100%	Transportation services for Garinskoye
LLC Amursnab	RUR10,000,000	100%	100%	Procurement services
LLC Karier Ushumunskiy	RUR1,000,000	100%	100%	Coal production

(a) On 10 June 2010, these entities were sold to Petropavlovsk PLC, the ultimate holding company as part of the Restructuring. Refer to note 2 for further information on the Restructuring.

(b) CJSC is a Closed Joint Stock Company in Russia. CJSC issued shares cannot be freely traded.

(c) OJSC is an Open Joint Stock Company in Russia. OJSC issued shares can be freely traded.

(d) As at 31 December 2010, except for Thorholdco Limited and LLC KS GOK, which were directly held by the Company, all of interests in remaining subsidiaries are indirectly attributable to the Group; while as at 31 December 2009, except for Arfin Limited, Aricom UK Limited and Aricom Finance UK Limited, which was directly held by Aricom, all of the interests in remaining subsidiaries were indirectly attributable to the Group.

Financial Summary

Results of the Group for the year ended 31 December

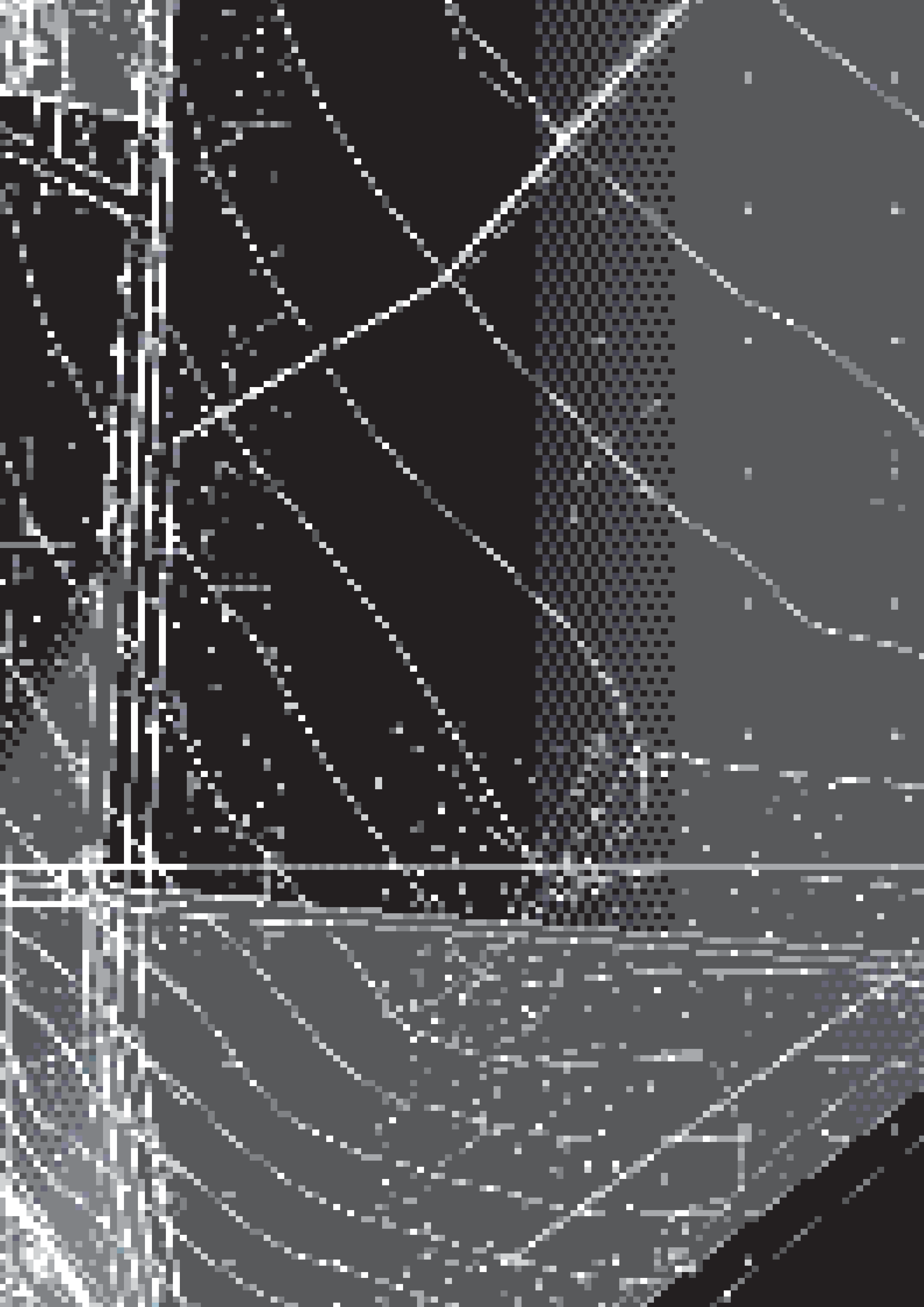
	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000
Revenue	4,938	9,674	8,260	25,792
Profit (loss) attributable to shareholders	1,040	(427,377)	(139,291)	(82,358)
Earnings (loss) per share (US cents)				
- Basic and diluted	0.08	(24.36)	(7.66)	(3.62)

Assets and liabilities of the Group at 31 December

	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000
Total assets	1,164,449	778,682	886,867	867,519
Total liabilities	(22,053)	(20,816)	(287,527)	(62,901)
Net assets	1,142,396	757,866	599,340	804,618

Kuranakh.

Titanomagentite from IRC's Kuranakh mine.



Health, Safety and the Environment

Tailings pond, Kuranakh.

铁货 IRC

From the Chairman of the Health, Safety and Environment Committee

Dear Stakeholder,

During 2010, IRC reviewed the processes that govern its environmental policy. There was already a comprehensive programme in existence. This will be updated as a consequence of these and future reviews.

There is a committee of the board to oversee IRC's commitment in this field, and to health and safety matters. The committee comprises the Independent Non-Executive Directors, with me as Chairman. I hope that my work, as an amateur with experience from the World Wildlife Fund for Nature Hong Kong, and the Kadoorie Farm and Botanic Garden, will help IRC's efforts to impose international environmental best practices in its industrial activities.

A comprehensive overview of IRC's environmental activities follows as part of this annual report. It presents information about the environmental work of IRC undertaken during 2010 and reviews the impact of IRC's activities on the environment through ongoing environmental monitoring and scientific research. Such monitoring and research will continue into future with dialogue between IRC and all concerned parties, including federal and local governments, and local residents.

IRC is a long-term stakeholder in the regions in which it operates. Work being undertaken by IRC includes projects that are likely to still be operating in the next century. It is therefore central to IRC's interests that it behaves in a responsible and environmentally friendly manner. IRC can be proud of its achievements in the environmental sector. I believe that IRC will continue to set high standards for research and practice in this field, both now and into the future.

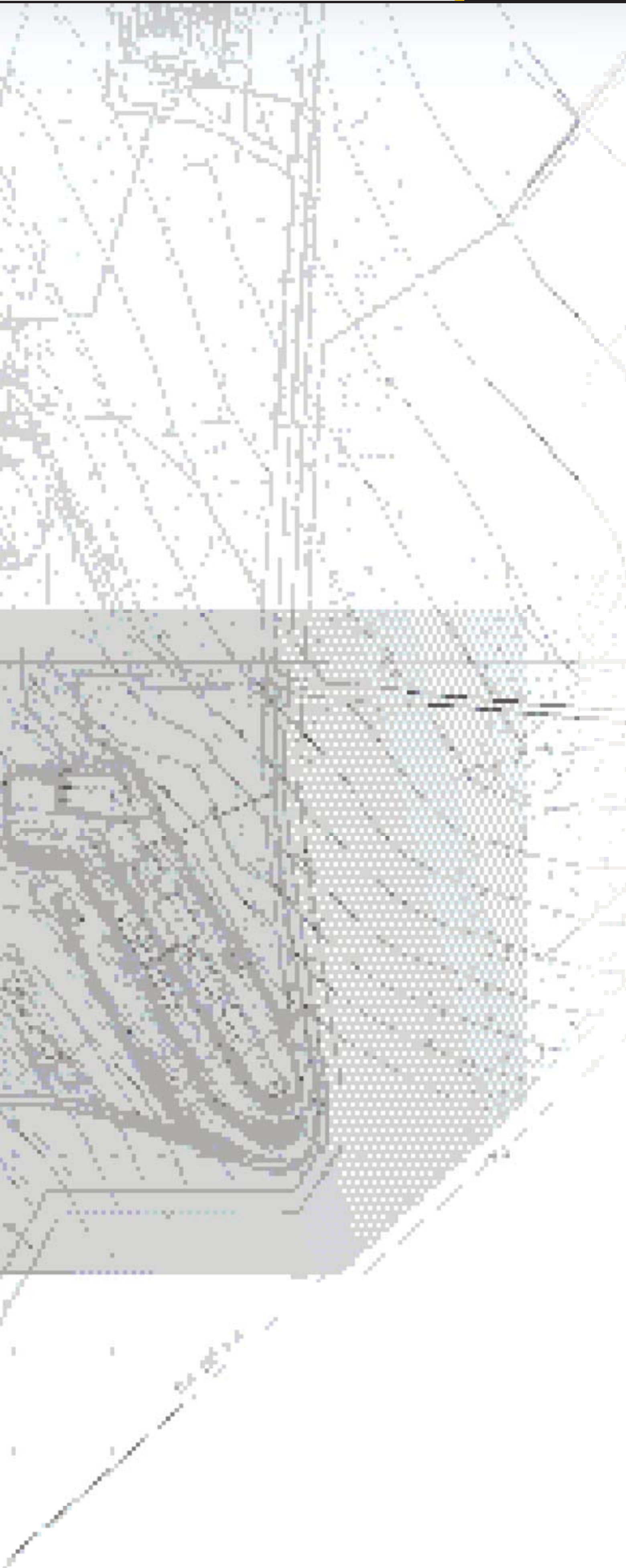
Yours faithfully,

Dan. Bradshaw

Dan Bradshaw

Senior Independent Non-Executive Director

8H, 8 Queen's Road Central, Central District, Hong Kong [illegible] Telephone 電話: +852 2772 0007 Website 網址: www.ircgroup.com.hk



Health and Safety Report

IRC operates a variety of industrial projects, including mines. IRC endeavours to operate to the highest of international best practice standards:

- **All of IRC's mining projects are open pit;**

- **All operational staff are given extensive health, safety and elementary first aid training;**

- **Visitors to site are given health and safety briefings prior to arrival at site;**

- **Internal and external reviews are undertaken on a regular basis to ensure that management learn from any mistakes made; and**

- **IRC maintains internal audits of health and safety-related equipment.**

In 2010, the total number of accidents across IRC's operations decreased from the previous year, an extraordinary achievement given the increase in operational capacity across the group. Tragedy struck, however, in the third quarter of 2010, and IRC suffered its first operational fatality. The worker in question was an experienced electrician working at Kuranakh, who acted without instruction, against training and previous advice. No other serious incidents occurred during 2010.

Below is a chart listing operational accidents for 2009 and 2010:

	2009	2010
Accidents	**Number of injured**	
Group	-	-
Fatal	-	1
Serious	-	-
Minor	7	3
Total	7	4

Statistical Data Of Injury Rate*

Period	Enterprise	2009						2010					
Year	Kuranakh	7	7	631	240	11.09	34.3	4	4	876	77	4.56	25.7
	K&S	-	-	144	-	-	-	-	-	329	-	-	-
	Other projects	-	-	45	-	-	-	-	-	64	-	-	-
	Total:	7	7	820	240	8.54	34.3	4	4	1269	77	3.15	25.7
Total amount of injured (not including fatal cases)			7						3				

* Russian Standard Scale

- total amount of recorded accidents during the reporting period;
- total amount of injured during accidents;
- average number of workers;
- total number of disability days caused by accidents;
- lost time accident frequency rate;
- severity rate.

In 2010, IRC implemented a number of procedures in an effort to reduce accidents:

1. An operating duty system for work, with particular attention to electrical facilities;

2. A list of qualified workers is maintained for all major equipment. All workers must undergo equipment-specific safety briefings before being designated as qualified;

3. All repair work must be undertaken with a written order that notes adherence to guidelines;

4. Unscheduled briefings on labour safety for all workers are now conducted, with particular attention to the observance of labour discipline and the unacceptable nature of unauthorised actions in the execution of work in electrical systems without appropriate orders and instructions; and

5. A new accident reporting system was introduced.

In 2010, extensive investment was made in health and safety related equipment, particularly:

- Voltage detectors;
- Cardio-pulmonary resuscitation devices;
- Safety notices and signs;
- Masks;
- Gloves;
- Helmets; and
- Safety belts.

Sunrise, Kuranakh.

1. Introduction

IRC seeks to apply the most advanced international best practices in its environmental protection activities. Environmental considerations are taken into account in every major decision made by IRC. IRC's environmental policy is managed by the Group Head of Environmental Services, Svetlana Obydenkova, and is overseen by a committee of independent non-executive directors, chaired by Dan Bradshaw. Environmental risk questions are discussed at every meeting of the Operations and Executive Committees.

The Company's environmental mission statement is:

To ensure responsible, clean and sustainable development.

The Company's core health, safety and environmental activities are:

1. Accident prevention and the elimination of hazardous materials;
2. Compliance with local and international best practices;
3. Minimising adverse effects on society and the environment;
4. Comprehensive assessment of the impact of IRC's operations on resources used by local people through field studies, and integrating the findings in project implementation;
5. Using the experience of leading research centres to deliver analysis, forecasting and decision-making to minimise IRC's environmental footprint;
6. Introducing advanced research analysis and technologies in order to reduce environmental impact and consumption of natural resources, materials and energy, while ensuring maximum responsible production output;
7. The elimination of hazardous activity in a manner that is preventative rather than reactive;
8. Instituting the development and implementation of effective environmental protection procedures to reduce the risk of environmental impact to acceptable levels;
9. Informing the public about the Company's environmental strategy and its activities in this field by carrying out public consultations and taking public opinion into account;
10. The involvement of all personnel of the Company in environmental safety, including the offering of staff environmental incentives and training.

2. Environmental management system

In 2010, IRC started an environmental management system, with the aim of attaining international standard ISO 14001:2004, for its principal mining and processing complexes.

This process is being overseen by IRC's internal environmental department. ERM Eurasia Limited has been engaged as an external consultant.

The ISO 14001:2004 certification is recognised as the leading international Environmental Management System qualification, for mitigating and averting environmental risks. Implementing this process is seen by IRC as an important step in creating an integrated system of management across the group, compliant with the best international standards.

The environmental management system is being implemented step-by-step, at all active production and development sites managed by IRC.

In the beginning of 2012, an independent certification audit of environmental management system (in compliance with ISO 14001:2004) will be undertaken at all of IRC's projects. IRC's environmental activity in 2010 lays the foundations for attaining this qualification.

3. Assessment of Environmental and Social Risks

In accordance with local legislation and international environmental standards, Environmental Impact Assessment (EIA) and Environmental and Social Risks Assessment (ESIA) are regularly conducted at all of IRC's production and development sites.

EIA and ESIA procedures are first carried out at pre-design and design stages.

Primary data for the EIA and ESIA procedures are the results of the engineering and environmental studies carried out by professional and external research organisations commissioned by IRC for their expertise and objectivity. Their objectives, in line with IRC's core environmental mission, include the evaluation of environmental conditions in project areas.

ESIA procedures were undertaken for Kuranakh and K&S in 2008-2009. ESIA results were reviewed by independent auditors (SRK Consulting and Wardell-Armstrong International), with both the projects exceeding the expectations of the consultants. The ESIA procedure for Garinskoye was completed in 2009.

In 2010, IRC received state examination endorsement for Kuranakh.

4. Scientific support

IRC's environmental performance is largely determined by the results of scientific environmental research undertaken both internally, and continued by external auditors and consultants. The management of IRC takes these findings into consideration when making and reviewing key decisions.

IRC's environmental division devotes considerable energy to the study of the potential impact of industrial waste on the environment. One of the main environmental considerations for IRC's activities is the formation of large amount of waste (overburden, tailings of dry and wet magnetic separation). While there is limited – and controlled – use of chemicals, the sheer volume of the waste requires planning and management. IRC is committed to recycling, including the effective use of waste in IRC's own operations. An example of this is the use of overburden in the building of roads. Following recommendations from the International Finance Corporation, the investment arm of the World Bank, exploration of the possibilities of acid formation and leaching of metals during prolonged storage of industrial waste is regularly carried out at all of IRC's production and development sites.

Scientific support

Continued

In 2008 - 2009, tests were undertaken of overburden, tailings of dry and wet magnetic separation K&S and Garinskoye. The results showed:

- no danger of acid drainage water formation from overburden is stored in waste dumps;
- no generation of acid in the tailings and in the pit water;
- no hazardous substances were found in IRC's industrial solid waste.

IRC has conducted extensive hazardous industrial waste classification studies.

All industrial waste from K&S and Kuranakh has been assessed to be part of the '5th class of hazard', which is a level considered almost non-hazardous. Establishing the class of hazard is conducted on the basis of waste composition analysis, biological testing of water extract and validating the class by scientific analysis.

5. Environmental monitoring, control and baseline studies

Table 5.1 | **Environmental monitoring and background pollution level evaluation:**

	2008	2009	2010	Total*
Air	2108 tests	2024 tests	1666 tests	5798/ 7050 tests
Surface water	1944 tests	1263 tests	2014 tests	5221/ 8156 tests
Sediments	653 tests	707 tests	346 tests	5066 tests
Soil cover	2022 tests	144 tests	134 tests	11496 tests
Equivalence of Direct Radiation (EDR)	route: 34.1 км (613 probes)	route: 8.3 км (97 probes)	route: 35.9 км (649 probes)	route: 78.3 км (1359 probes) / 67.2 км (728 probes)

*N.B.: the numerator shows the number of tests for the period of 2008-2010. The denominator shows the number of tests for the period 2004-2007.

Environmental control is carried out on a regular basis at all of IRC's production, development and exploration sites.

IRC provides a full range of environmental research within licenced areas as well as in areas of its projects' construction and operation.

Baseline studies of environmental parameters are performed at all licenced premises.

Objectives for environmental monitoring, control and baseline studies include:
- air emissions;
- sources of hazardous substances;
- sources of pollutant discharge;
- surface water and groundwater, watercourse sediments;
- soil cover;
- radiation;
- aquatic biological resources of the watercourse; and
- terrestrial fauna.

In total, more than 30,000 tests of different environmental components have been carried out at IRC's sites as part of background pollution level evaluation and environmental monitoring in the period of 2004–2010. More than 15,000 chemical analyses were carried out in a period of 2008-2010 (see table 5.1).

The research results indicate no environmental degradation.

IRC engages only accredited laboratories and advanced research organisations to carry out environmental monitoring.

Monitoring of natural water sources at Kuranakh and waste water control have been carried out by IRC's own certified laboratory since 2010. The laboratory has equipment and expertise for carrying out waste and natural water testing on the basis of more than twenty specific indicators.

6. Environmental Performance

6.1 Land use and land reclamation of mined land

Efficient land use is important for IRC's long-term potential.

In 2010, the amount of land used by IRC was 2,373.4 hectares, which is 659.9 hectares more than that used in 2009 (see Fig. 6.1). The increase in the used land area was mainly due to the construction and extension of new facilities at Kuranakh and K&S.

Land use at Garinskoye in 2010 was due to exploration work.

Land reclamation work was carried out on the basis of approved projects, developed in accordance with environmental regulations that take into account the natural surroundings of the sites. Reclamation projects for Kuranakh were developed and approved in 2009, for K&S in 2010.

The major component of reclamation works is the removal and preservation of fertile topsoil.

The total volume of fertile soil stored in dumps at the end of 2010 amounted to 669 thousand m^3, which is 553.4 thousand m^3 more than at the end of 2009.

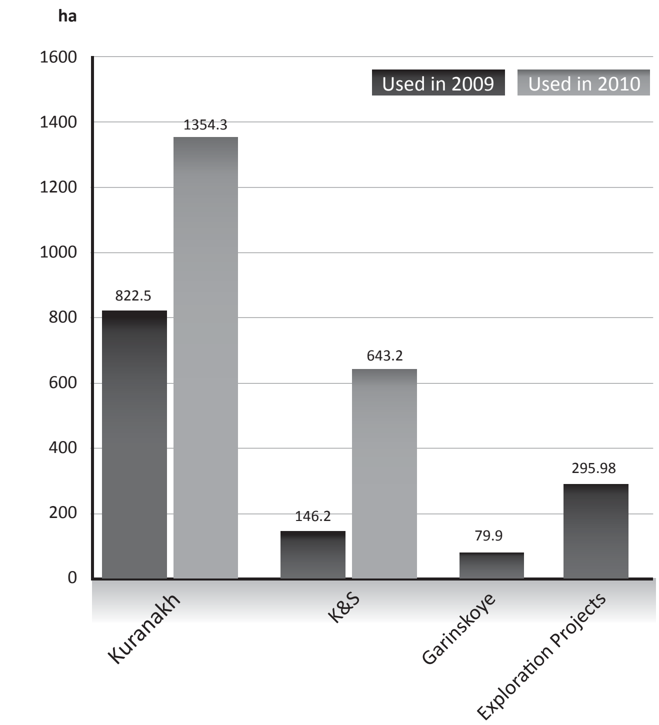


Fig. 6.1 **IRC land use structure in 2009 – 2010**

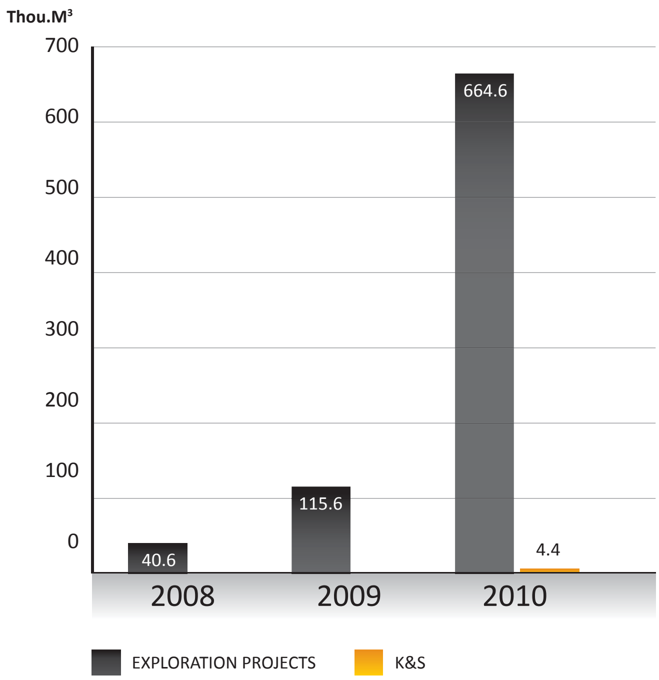


Fig. 6.2 **IRC stored fertile soil volume, 2008 – 2010**

Environmental monitoring near K&S.

Tailings pond, Kuranakh.

6.2. Emissions of pollutants into the air

In general, the emission of pollutants into the air from stationary sources in 2010 increased by 501.1 tonnes/year compared to 2009 (see Fig. 6.3). This is due to the commissioning of Kuranakh, as well as the installation of boilers at K&S.

All IRC sites with stationary sources of emissions have approved maximum permissible emissions levels, for which they have received relevant government permits. IRC has no recorded incident of having exceeded these limits.

The reduction of pollutant emissions from stationary sources may be achieved through resource conservation, as well as the installation and upgrading of dust-collecting systems: these activities are constantly under review, particularly at Kuranakh.

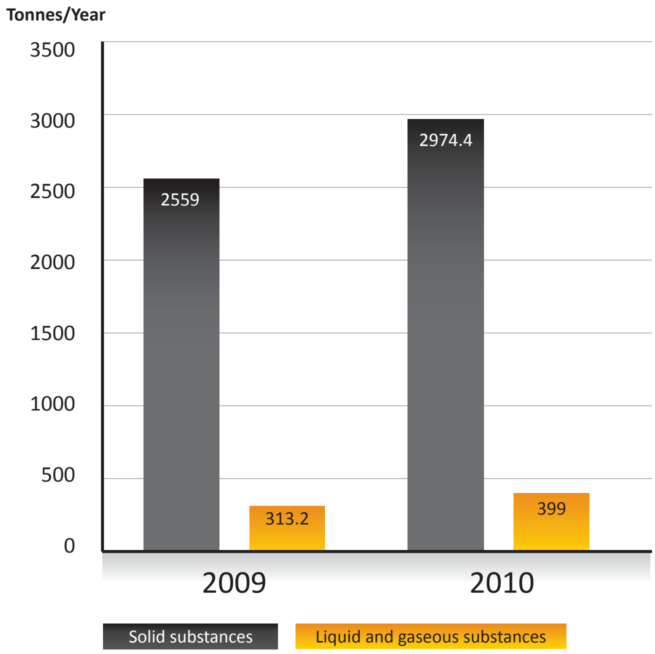


Fig. 6.3 **Emissions of pollutants into the air from stationary sources in 2009 - 2010**

6.3 Water use and water resources conservation

Water consumption

Water supply is critical to major mining and processing projects. IRC is fortunate to have ready access to safe and clean water at each of its sites. IRC makes every effort to reduce waste and water consumption.

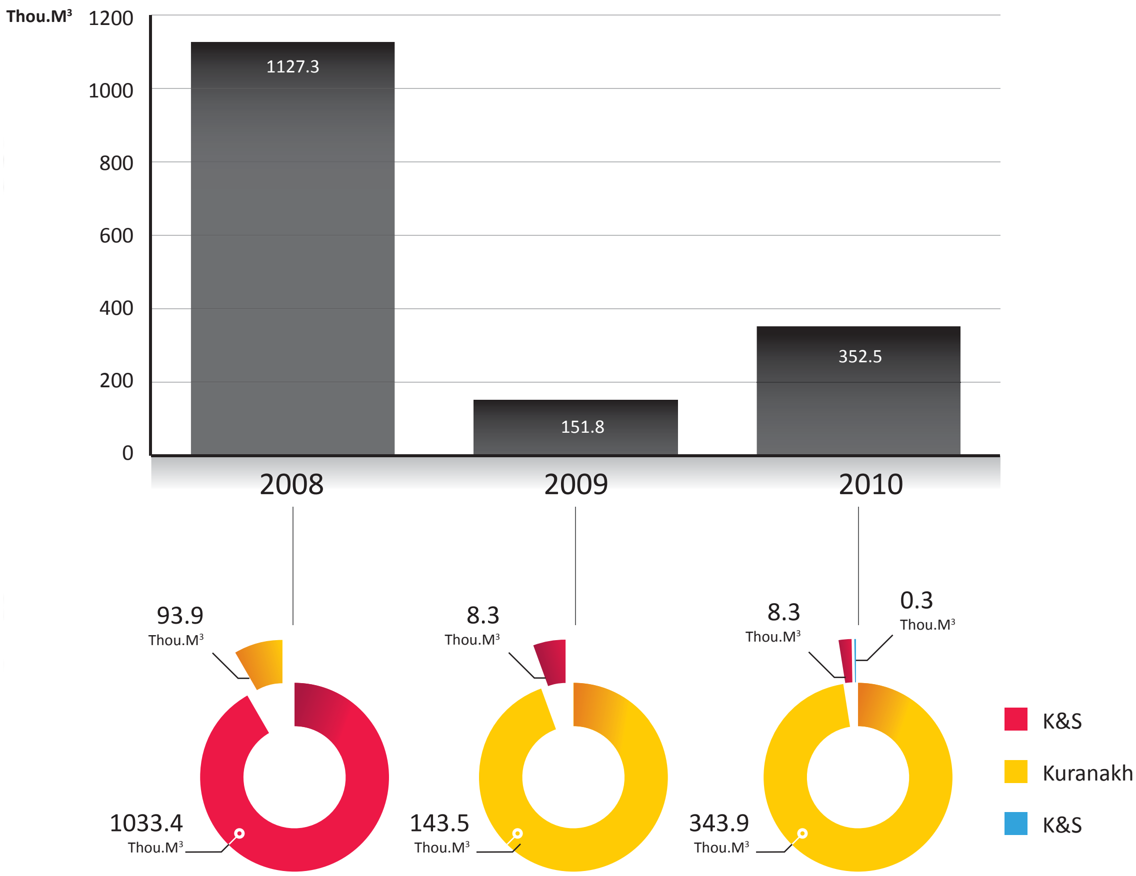
Environmental awareness activity among IRC's staff has been undertaken in water use in 2010: employees have been educated about contamination risks and efforts have been made to reduce consumption and waste.

In 2010, IRC began to use water for beneficiation processes at Kuranakh. This caused a rise in IRC's total volume of water consumption by 206.6 thousand m^3, compared to 2009.

Water withdrawal from surface water sources for the production needs of Kuranakh was the major use for water in 2010 (70.9% of the total use in 2010) - see Fig. 6.5. A minor part of water withdrawal (about 2% of the total intake in 2010) is ground water withdrawal for household and drinking purposes. This is the primary use for water at K&S.

During the course of 2010, water withdrawal for industrial needs at Kuranakh was reduced by re-using water from tailings dams.

Fig. 6.4 | **Water consumption at IRC plants in 2008 - 2010**



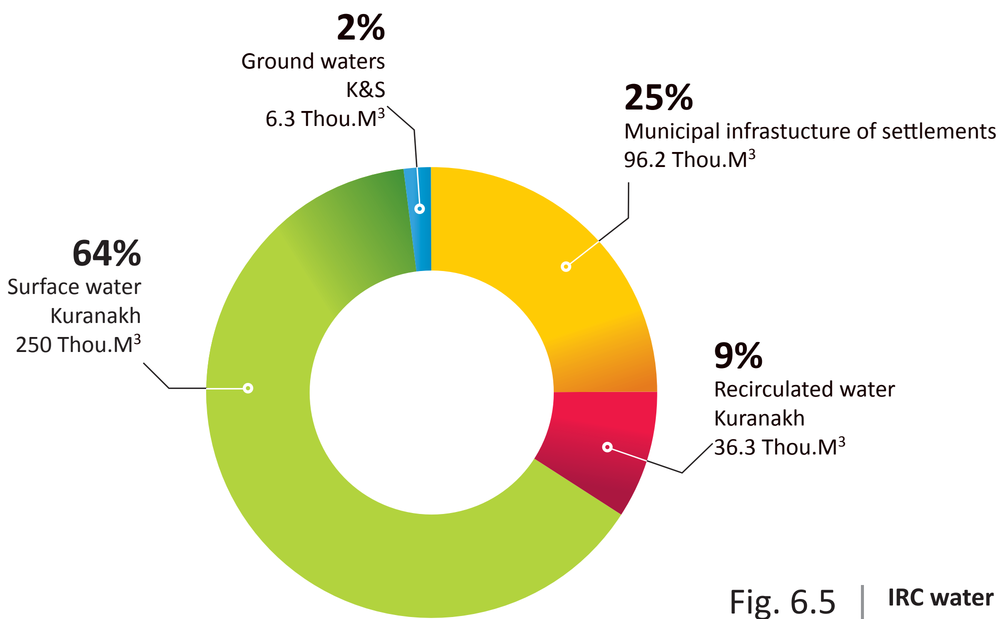


Fig. 6.5 | **IRC water consumption structure, 2010**

Sewage

All IRC sites are equipped with wastewater treatment plants in order to reduce the impact on surface water and groundwater.

Water treatment plants ‘Biodisk-350’ and ‘Biodisk-100’ were put into operation at Kuranakh in 2009-2010. Domestic waste water from the beneficiation plant at Kuranakh is discharged to tailings dams and used for re-supply later.

Septic tanks are installed at all of IRC’s sites in order to prevent environmental pollution from household waste water during construction. Domestic waste water is transferred to specialised sewage treatment contractors.

IRC uses natural water sources pursuant to permits issued by state agencies.

Withdrawal of surface water for industrial purposes at Kuranakh and Garinskoye is carried out under a water use agreement with the Ministry of Natural Resources of the Amur region. Water withdrawal for domestic and industrial use at K&S is carried out on the basis of contracts with local municipal water suppliers, in addition to underground water, which is used on the basis of relevant licences.

6.4 Production, assessment and disposal of waste

Types and classes of hazardous wastes

In conjunction with international standards on industrial waste, IRC uses five categories to classify hazardous waste:

- 5th class of hazard (almost non-hazardous wastes) - more than 99.97% of all waste from IRC facilities. This comprises all regular industrial waste, including:
    - overburden
    - tails of dry and wet magnetic separation
    - construction debris
    - scrap metal
    - gangue
- 4th class of hazard (low-hazard waste) - about 0.02% of all waste from IRC facilities. This class comprises both solid and liquid forms of waste.
- 3rd class of hazard (moderately hazardous waste) - about 5×10^{-4}% of all waste from IRC facilities. This class of waste includes oleaginous waste, such as:
    - oil-containing lubricants
    - oil filters
    - oily rags.
- 2nd class of hazard (high-risk waste) - about 8×10^{-5}% of all waste produced at IRC facilities. This category includes used sulphuric acid from accumulators, as well as used accumulators.
- 1st class of hazard (extremely hazardous waste) - less than 4×10^{-6}% of all waste produced at IRC facilities. This category includes used mercury lamps.

Efforts are made to ensure the universal labelling of hazardous materials according to international standards of labelling and staff are trained in the uses and meanings of such labels.

Kuranakh.

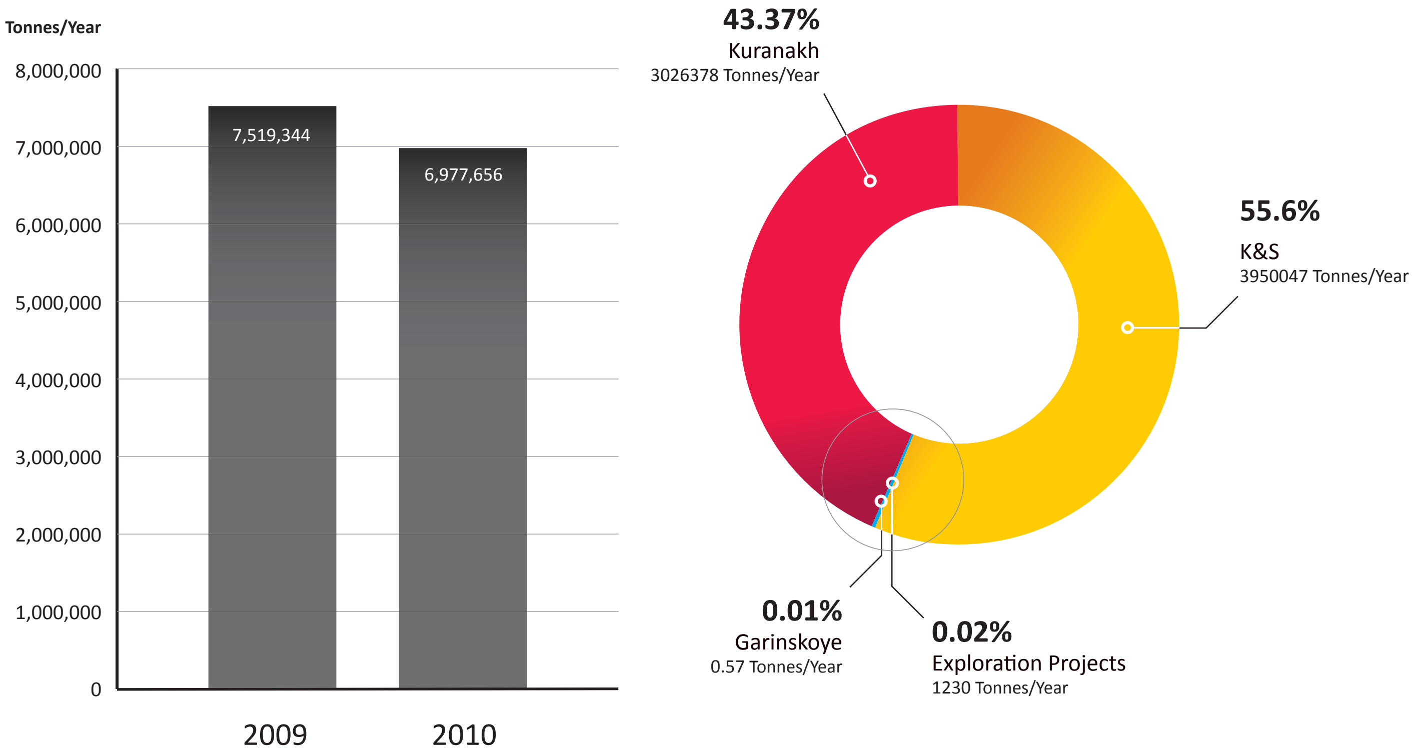


Fig. 6.6 | **The amount of waste generated at IRC sites in 2009 – 2010**

Waste generation

The total volume of waste generated at IRC sites was reduced to 6,978 million tonnes in 2010, which is 0.54 million tonnes less than that produced in 2009 (Fig. 6.6).

In 2010, the main contributors to the generation of waste were Kuranakh (52.88%) and K&S (43.35%), due to mining work and the formation of large quantities of overburden. Tailings from dry and wet magnetic separation at Kuranakh amounted to about 3.73% of the total waste in 2010. (see Fig. 6.7).

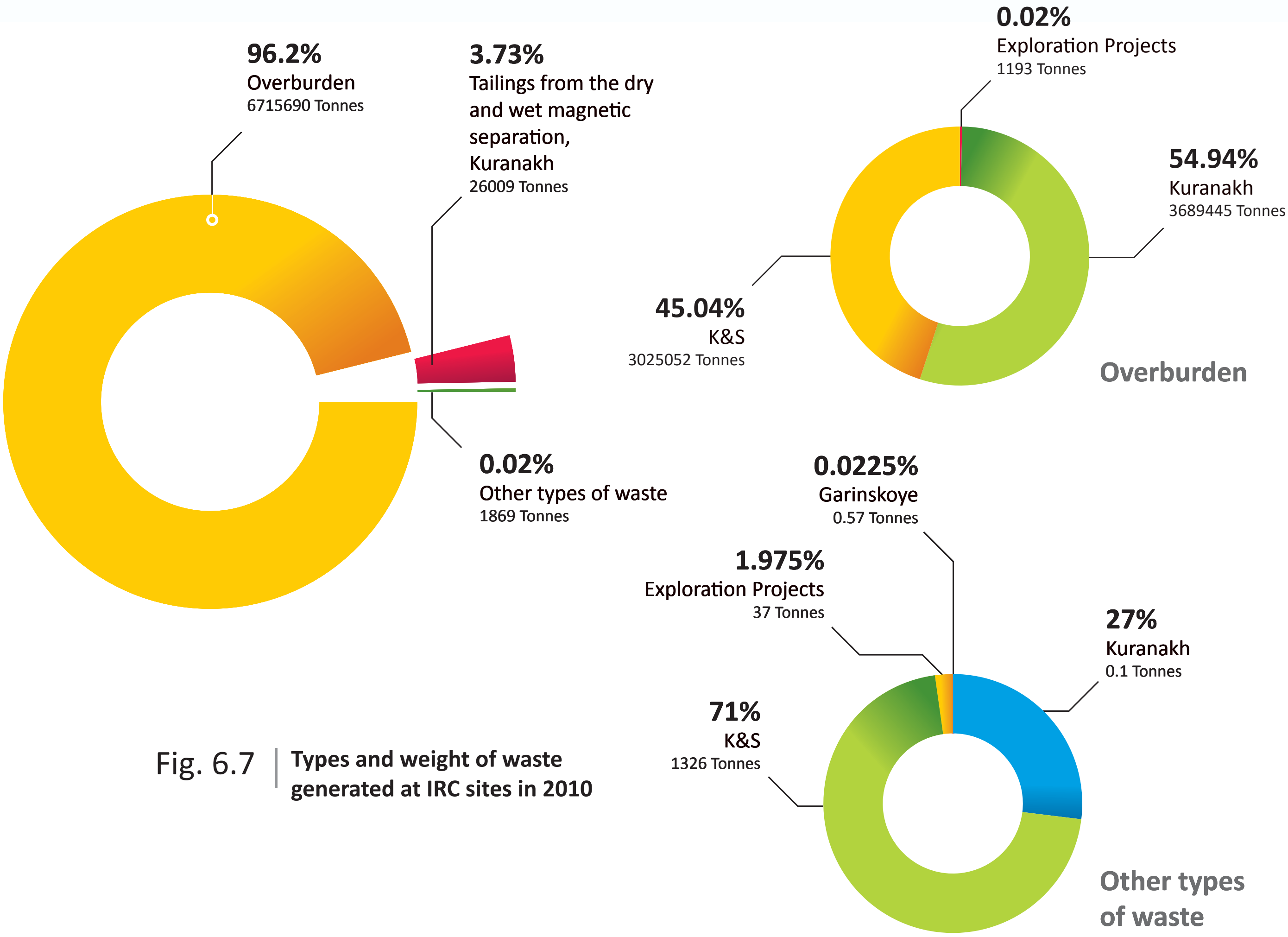


Fig. 6.7 | **Types and weight of waste generated at IRC sites in 2010**

Waste management

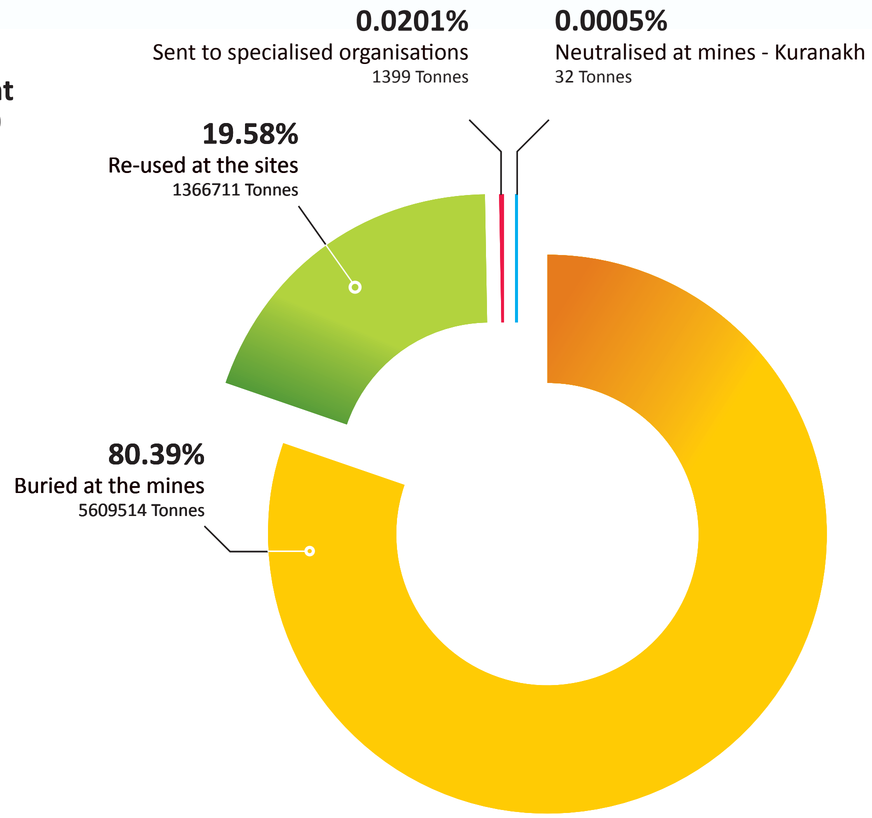
Most of the waste produced at IRC sites - overburden and tailings of dry and wet magnetic separation (80.4%) was stored in purpose-built storage facilities and tailing dams. Much of this may be stored for future use, particularly in landfill and construction. About 19.6% of industrial waste (overburden, tailings of dry magnetic separation and ash) has been directly recycled at IRC sites. Overburden and tailings from dry magnetic separation are mainly used for road construction, whereas ash is used as both an anti-icing agent and as an additive to concrete mixtures (see Fig. 6.8).

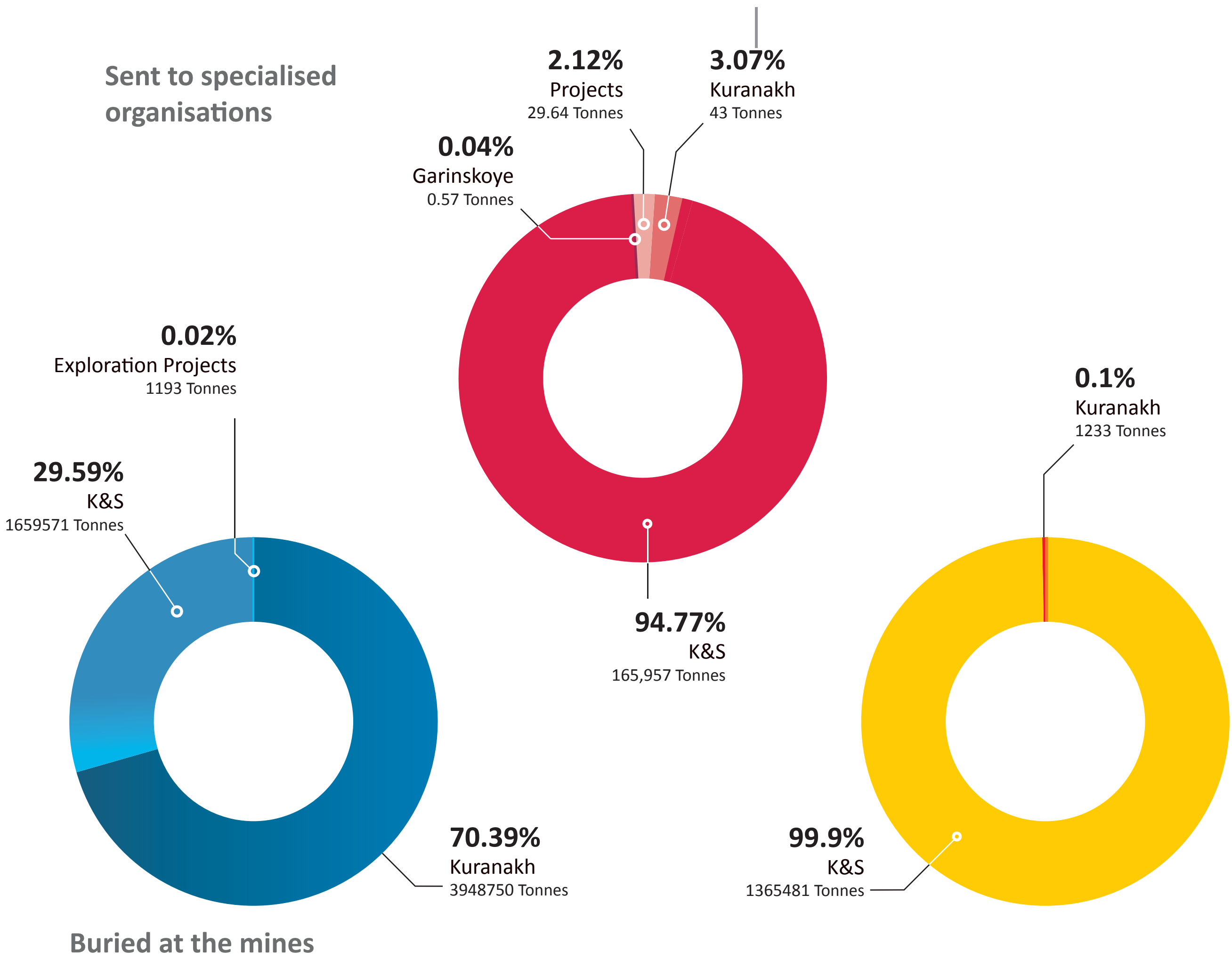
Oleaginous waste from Kuranakh (0.0005% of the total amount of waste) was disposed of at the site. 0.02% of total amount of waste generated in 2010 has been transferred to contractors for disposal and external recycling. This includes all five categories of hazardous waste.

All design documentation used by IRC for the provision of disposal and recycling undergoes state ecological scrutiny. Official approval has thus been received for landfill construction for the disposal of solid and industrial waste from Kuranakh.

All of IRC's operational sites comply with the official Russian standards for waste generation and discharge limits (DWGNDL). DWGNDL approval was received for Kuranakh and K&S respectively in 2010.

Fig. 6.8 **The structure of waste management at IRC sites in 2010**





6.5 Biodiversity conservation

IRC has undertaken a comprehensive series of measures aimed at preserving the biodiversity of the regions in which it operates.

IRC's finances reforestation and conducts work aimed at preserving rare animal species.

6.5.1. Forest plantation

Korean pine (*Pinus koraiensis Siebold et Zucc.*) is included in The Red Data Book of the EAO. This is a rare species that grows in mixed coniferous-deciduous, cedar and spruce forests and is native to this region. In order to maintain the population of Korean pine in the EAO, IRC finances the planting of Korean pine saplings on other plots of land close to the site, where reforestation is needed (see table 6.1). After planting, the areas in which the saplings are laid are carefully monitored.

Table 6.1 **New Plantation**

	Plantation area	Number of saplings
2009	25.02 ha	about 50,000
2010	156.3 ha	about 300,000

6.5.2. Conservation of Oriental Stork nests

IRC is committed to the principle that responsible environmental management includes the conservation of natural habitats.

In 2010, IRC began work on a programme of nest conservation for the Oriental Stork (*Ciconia boyciana*) in the EAO.

The Oriental Stork is a rare bird, listed as Endangered on the International Union for Conservation of Nature Red List of Threatened Species and in Appendix I of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. It is a solitary, white bird with black wing feathers. There are likely fewer than 3,000 Oriental Storks in the world, of which fewer than ninety live in the EAO.

In 2010, IRC's Environmental team, working with local experts, developed a plan for the conservation of the Oriental Stork population in the EAO. The work included a survey of licenced areas and the areas adjacent to the mines in order to find new nests of the Oriental Stork. The survey also included fire-proofing nesting trees and constructing artificial supports for nesting areas.

The first stage of the plan for the Oriental Storks was been completed in 2010: an area of 64 km^2 was surveyed. A number of previously unknown nests of Oriental Storks were discovered during the survey and fireproofing work was carried out for all nest trees. This work was done in cooperation with representatives of the Directorate for Specially-Protected Areas of the EAO.

Oriental Stork's nest in the EAO.

Table 6.2 Index of environmental indicators, 2009-10

A summary table of key environmental indicators for IRC is presented below.

Performance Indices	Units	Parameter point 2009	Parameter point 2010
Land use and biological diversity			
Lands used under licence:			
total	ha	2,373.4	1,713.5
land areas removed from forest classification, for the purposes of industry:	ha	659.9	64.1
Preservation of fertile topsoil			
moved to storage facility	м^3/ m^3	553,400	75,000
total fertile topsoil stored at the end of the reported period	м^3/ m^3	669,000	115,600
Sapling plantations			
total	ha	156.3	25.02
Atmospheric emissions and atmospheric air quality			
Mass of hazardous pollutants emitted:			
total	t	3,373	2,872
solid substances	t	2,974	2,559
Liquid and gaseous substances	t	399	313
Mass of greenhouse gases emission (carbon dioxide):			
from gasoline	t	339.8	209
from diesel fuel	t	9,001.7	6,769.2
from kerosene	t	0.4	0.1
from coal	t	11,436.2	7,269.4
total	t	20,778.1	14,247.7
Rate of authorised release of hazardous pollutants:			
rate of authorised release of solids	%	78.8	n/a
rate of authorised release of liquid and gaseous substances	%	100.8	n/a
Mass of hazards screened/removed from emissions using the gas cleaning method:			
total screenings	t	2,956.4	n/a
screened (entrapped) solid substance	t	2,657.2	n/a
screened (entrapped) liquid and gaseous substances	t	299.2	n/a
Water management and water conservation			
Water intake:			
total	m^3	352,500	145,900
from natural sources of water (surface, subsurface)	m^3	256,300	143,900
from municipal systems	m^3	96,200	95,900
Water disposal:			
total	m^3	220,100	n/a
to natural water bodies and soil	m^3	182,200	n/a
to existing municipal sewage systems	m^3	1,600	n/a
Volume of reused water:			
total	m^3	36,300	0
Mass of release of pollutants contained in waste waters			
total	t	82.37	n/a
nitrogen (total)	t	0.11	n/a
phosphorus (total)	t	0.04	n/a
anionic surface-active agents	t	0	n/a
suspended substances	t	80	n/a
oil products	t	1.34	n/a
total ferrum	t	0.31	n/a

Table 6.2 (continued) | IRC: key environmental indicators, 2009-2010

Performance Indices	Units	Parameter point 2009	Parameter point 2010
manganese	t	0.02	n/a
cadmium	t	0	n/a
chrome	t	0	n/a
nickel	t	0	n/a
hydrargyrum	t	0	n/a
lead	t	0	n/a
zinc	t	0.03	n/a
copper	t	0.002	n/a
Hazard management			
Explosive substances:			
total	t	2,621	1,904
Igdanit	t	1,672	1,493
ammonium nitrate	t	1,496	1,418
diesel fuel	t	51	75
grammonite 79/21	t	0	0
ammonite 6ЖВ	t	30	19
Sorbitan Monooleate (emulsolite)	t	919	393
Lubricating materials			
lubricating materials (oils)	l	141,558.6	73,449.6
lubricating materials (grease)	t	9.8 t +863 l	4,203 l
Waste management			
Formed wastes:			
total	t	6,977,656	7,519,344
industrial waste related to the engineering process:	t	6,975,787	7,519,200
• overburden rocks	t	6,715 690	7,519,200
• wet tailings	t	41,712	0
• dry tailings	t	218,385	n/a
Waste management:			
disposed of at the plant	t	32	32
reused at the plant	t	1,366,711	34
buried at plant landfill	t	5,609,514	7,519,200
transferred to contractors	t	1,399	79
Energy saving			
Use of energy sources:			
coil	t	6,761	n/a
diesel fuel	l	4,557,953	2,612,476
benzene	l	21,049	90,349
kerosene	l	151	29
Financing of environmental protection			
Amount of payment for negative impact to the environment*:			
total	RUR	600,426	1,127,386
for the use of water resources, including water charges	RUR	78,654	23,076
for waste management	RUR	150,297	133,831
for emission of hazardous pollutants	RUR	369,224	970,479
Costs for reclamation of earth:			

*N.B.: the information on the amount of compensation for environmental damage for Q4 2010 are considered equal to the amount of Q3 2010.

7. Interaction with local stakeholders

In undertaking and developing any project, IRC considers the impact of its activities on society. Almost all of IRC's employees live in the areas in which they work, so IRC's community involvement is important to its role as a partner with the societies in which it operates.

IRC has an established, structured programme for the involvement of local stakeholders in its activities. This is aimed at forming a constructive dialogue with local community members. IRC is a stronger company with the support of the people with whom it works.

In addition to well-publicised reporting and complaints mechanisms, IRC conducts regular public meetings in the areas in which it operates. This is both to assess the impact of the company's work, and to establish how best it may contribute to the fabric of local society. These surveys cover the following topics:

- IRC's impact on the environment
- Use of shared natural resources by IRC and local communities
- The use and upgrade of existing local infrastructure facilities
- IRC's position in the community as an employer and taxpayer.

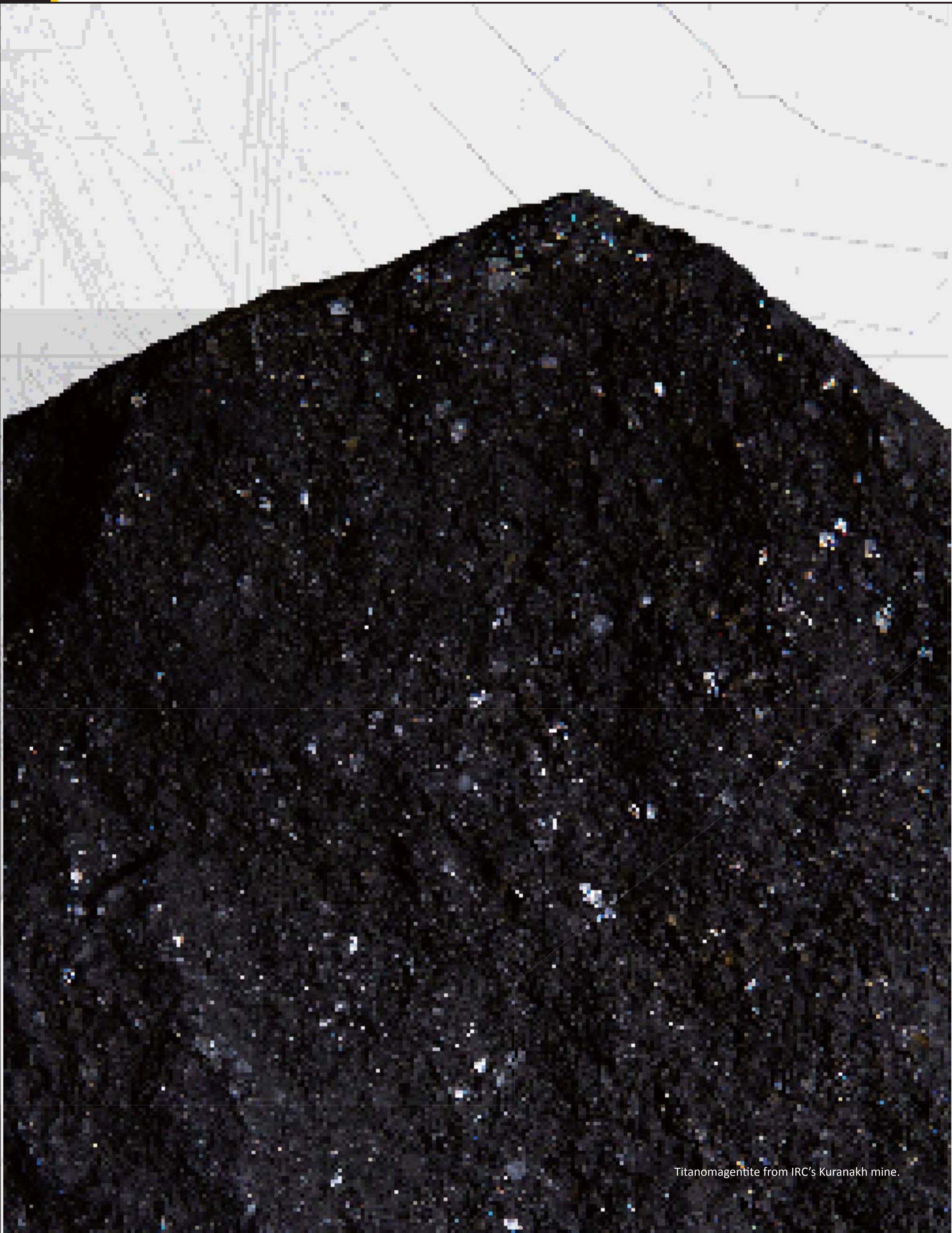
Stakeholders regularly interviewed by IRC include:
- Local residents
- IRC employees
- Shareholders
- Local and regional governments and politicians
- Government agencies
- Nature conservancy organisations
- Community organisations representing the interests of local people
- Local media.


Public survey at K&S.

7.1 Environmental awareness

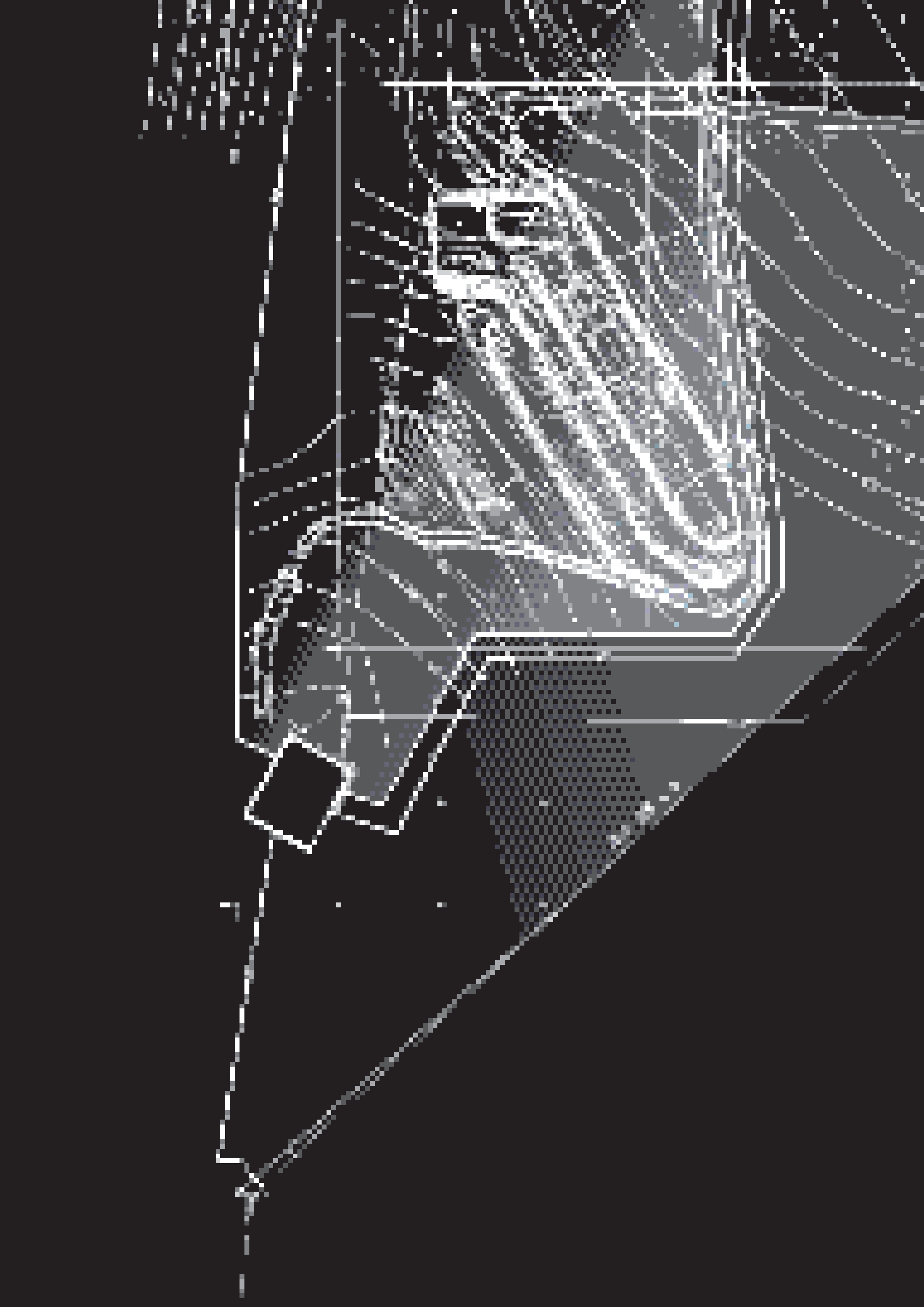
IRC holds regular events aimed at the environmental education of IRC's employees.

Events held in 2010 include a public meeting in the EAO dedicated to the protection of rare and endangered plant species. The meeting was attended by specialists of the Institute of Water and Ecology (Russian Academy of Sciences, Far Eastern Branch), who spent an afternoon teaching IRC employees and local schoolchildren about the environment around them.



Titanomagentite from IRC's Kuranakh mine.

Corporate Information



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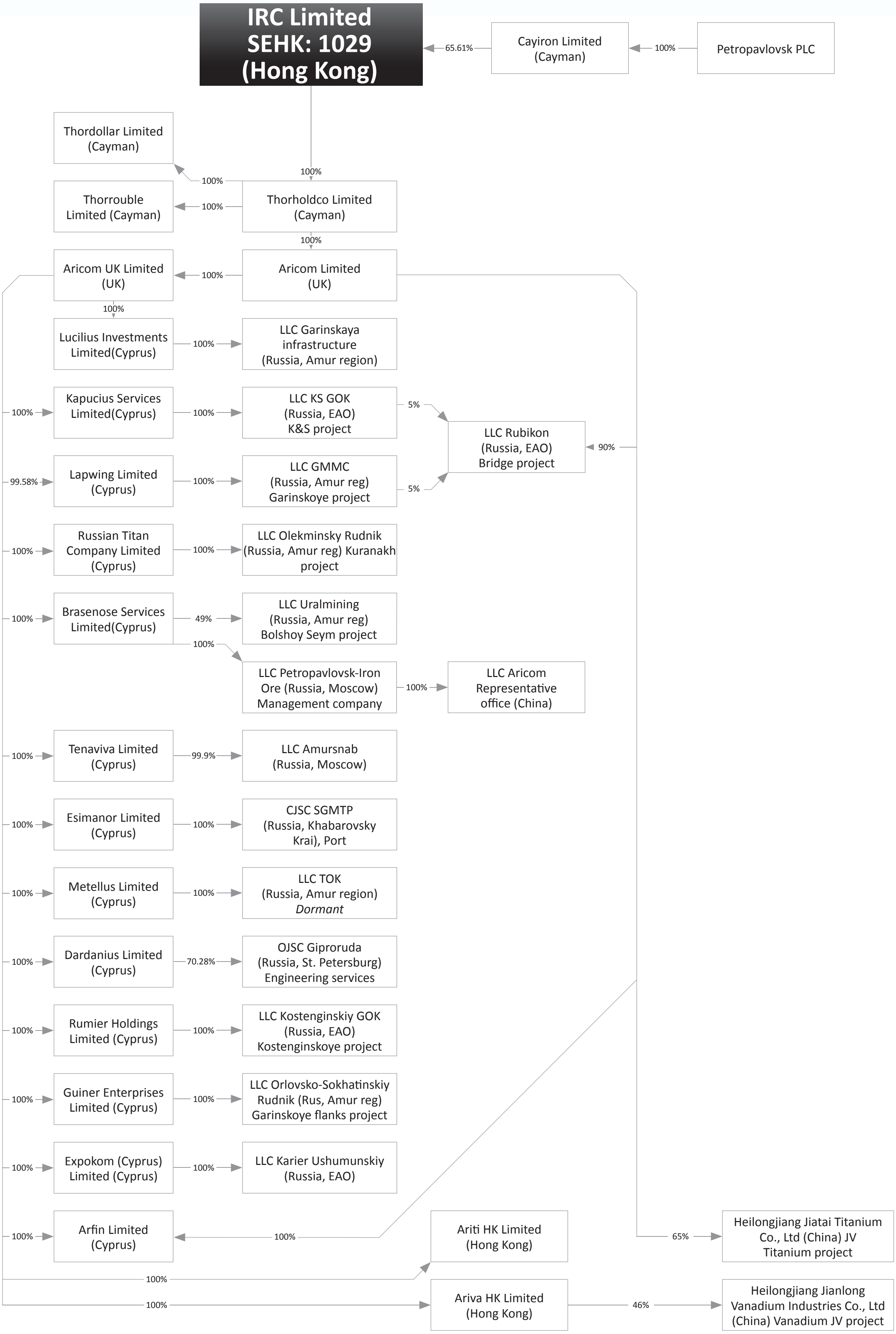
Concentrate stockpile at Kuranakh.

Titanomagnetite concentrate trial stockpile at Kuranakh


IRC Limited
SEHK: 1029
(Hong Kong)
65.61%
Cayiron Limited
(Cayman)
100%
Petropavlovsk PLC
Thordollar Limited
(Cayman)
100%
100%
Thorrouble
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Thorholdco Limited
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Aricom UK Limited
(UK)
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Aricom Limited
(UK)
100%
Lucilius Investments
Limited(Cyprus)
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LLC Garinskaya
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100%
LLC KS GOK
(Russia, EAO)
K&S project
5%
LLC Rubikon
(Russia, EAO)
Bridge project
90%
99.58%
Lapwing Limited
(Cyprus)
100%
LLC GMMC
(Russia, Amur reg)
Garinskoye project
5%
100%
Russian Titan
Company Limited
(Cyprus)
100%
LLC Olekminsky Rudnik
(Russia, Amur reg) Kuranakh
project
100%
Brasenose Services
Limited(Cyprus)
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LLC Uralmining
(Russia, Amur reg)
Bolshoy Seym project
100%
LLC Petropavlovsk-Iron
Ore (Russia, Moscow)
Management company
100%
LLC Aricom
Representative
office (China)
100%
Tenaviva Limited
(Cyprus)
99.9%
LLC Amursnab
(Russia, Moscow)
100%
Esimanor Limited
(Cyprus)
100%
CJSC SGMTP
(Russia, Khabarovsky
Krai), Port
100%
Metellus Limited
(Cyprus)
100%
LLC TOK
(Russia, Amur region)
Dormant
100%
Dardanius Limited
(Cyprus)
70.28%
OJSC Giproruda
(Russia, St. Petersburg)
Engineering services
100%
Rumier Holdings
Limited (Cyprus)
100%
LLC Kostenginskiy GOK
(Russia, EAO)
Kostenginskoye project
100%
Guiner Enterprises
Limited (Cyprus)
100%
LLC Orlovsko-Sokhatinskiy
Rudnik (Rus, Amur reg)
Garinskoye flanks project
100%
Expokom (Cyprus)
Limited (Cyprus)
100%
LLC Karier Ushumunskiy
(Russia, EAO)
100%
Arfin Limited
(Cyprus)
100%
Ariti HK Limited
(Hong Kong)
65%
Heilongjiang Jiatai Titanium
Co., Ltd (China) JV
Titanium project
100%
100%
Ariva HK Limited
(Hong Kong)
46%
Heilongjiang Jianlong
Vanadium Industries Co., Ltd
(China) Vanadium JV project

Conveyor at Kuranakh.

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of the shareholders of IRC Limited ("Company") will be held at the Pacific Place Conference Centre, One Pacific Place, 88 Queensway, Hong Kong at 10 o'clock on Tuesday, 12th April 2011 for the following purposes:–

1. To receive and consider the reports of the Directors and the Auditors together with the Statement of Accounts for the year ended 31st December 2010;
2. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration;
3. To re-elect the Directors;

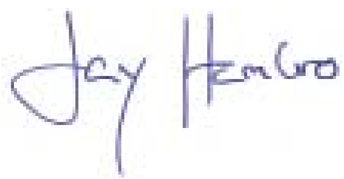
and, by way of special business, to consider and, if thought fit, pass the following Resolutions as Ordinary Resolutions:

4. "**THAT**:
   (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase shares of the Company be and is hereby generally and unconditionally approved;
   (b) the aggregate nominal amount of shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution, and the said approval shall be limited accordingly;
   (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:
      (i) the conclusion of the next Annual General Meeting of the Company; or
      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Hong Kong; or
      (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."; and
5. "**THAT**:
   (a) subject to paragraph (c) of this Resolution, pursuant to Section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
   (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officer and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution, and the said approval shall be limited accordingly; and
   (d) for the purpose of this Resolution:

      "Relevant Period" means:
      (i) the conclusion of the next Annual General Meeting of the Company; or
      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Hong Kong; or
      (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and

      "Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside of Hong Kong)."

By order of the Board



Jay Hambro
Chairman

Hong Kong, People's Republic of China, 28 February 2011

Notes:

(1) Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The Chairman of the forthcoming AGM will therefore put each of the resolutions to be proposed at the AGM to be voted by way of poll pursuant to the Company's Articles of Association.

(2) The register of shareholders will be closed from Friday,8 April 2011 to Tuesday, 12 April 2011, both days inclusive. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 7 April 2011.

(3) A shareholder of the Company entitled to attend and vote at the above AGM is entitled to appoint one or more proxies to attend and on a poll, to vote instead of him. A proxy need not be a member. Form of proxy must be lodged at the registered office of the Company at 6H, 9 Queen's Road Central, Hong Kong, not later than 48 hours before the time appointed for holding the AGM. Completion and lodging of a form of proxy will not preclude a member from attending and voting at the AGM (or any adjournment thereof) should the member so wish.

(4) As at the date of this document, the executive Directors of the Company are Mr Jay Hambro, Mr Yury Makarov, and Mr Raymond Kar Tung Woo. The non-executive Directors are Dr Pavel Maslovskiy and Mr Simon Murray, CBE. The independent non-executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith and Mr Chuang-fei Li.

Loading iron ore in the pit at Kuranakh.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Disclaimer

Certain statements contained in this Annual Report are forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "intends", "may", "will" or "should" or in each case their negative, or other variations or comparable terminology.

Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among other things, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations, the Group's ability to recover its reserves or develop new reserves and to implement its expansion plans and achieve cost reductions and efficiency measures, changes in business strategy or development, political and economic uncertainty and other risks.

There can be no assurance that the results and events contemplated by the forward-looking statements contained in this Annual Report will, in fact, occur. Any forward-looking statements in this Annual Report reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations and growth strategy. Shareholders should specifically consider the factors identified in this Annual Report which could cause results to differ before making an investment decision. These forward-looking statements speak only as at the date of this Annual Report. The Group will not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this Annual Report, except as required by law or by any appropriate regulatory authority.

Nothing in this Annual Report should be considered as a profit or loss forecast. Past performance cannot be relied on as a guide to future performance.

Rule 18.19

In conjunction with Rule 18.19 of the Stock Exchange of Hong Kong, IRC confirms that all minerals specifications have been approved by IRC's internal geologists and by an independent geologist.

Corporate Information

IRC Limited - 鐵江現貨有限公司

(Stock Exchange of Hong Kong: 1029)

Corporate Information

Headquarters, registered address and principal place of business in Hong Kong:

6H, 9 Queen's Road Central, Central District
Hong Kong Special Administrative Region of the People's Republic of China

Telephone: +852 2772 0007
Facsimile: +852 2772 0329
Corporate Website: http://www.ircgroup.com.hk

Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

Principal place of business in Russia

21/3, Building 1
Stanislavskogo
Business Center "Fabrika Stanislavskogo"
109004 Moscow
Russia
(LLC Petropavlovsk-Iron Ore)

Executive Directors:

Chairman: G.J. Hambro
Chief Executive Officer: Y.V. Makarov
Chief Financial Officer and Company Secretary: R.K.T. Woo

Non-Executive Directors:

Dr P.A. Maslovskiy
S. Murray, CBE, *Chevalier de la Légion d'honneur*

Independent Non-Executive Directors:

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith

Committees of the Board:

Audit Committee
C.F. Li (Chairman)
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee
J.E. Martin Smith (Chairman)
D.R. Bradshaw
C.F. Li

Health, Safety and Environmental Committee
D.R. Bradshaw (Chairman)
C.F. Li
J.E. Martin Smith

Authorised Representatives for the purposes of the Stock Exchange of Hong Kong Limited
G.J. Hambro
R.K.T. Woo

Kuranakh

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