
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, the Whitewash Waiver or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in IRC Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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IRC Limited 鐵江現貨有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 1029)

**(1) SUBSCRIPTION OF NEW SHARES BY
GENERAL NICE AND MINMETALS CHEERGLORY
(2) APPLICATION FOR WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTION
(4) SPECIAL DEALS
AND
(5) NOTICE OF EGM**

Financial adviser to IRC Limited

Deutsche Bank 

Independent Financial Adviser to the Independent Board Committee

 **SOMERLEY LIMITED**

A letter from the Board is set out on pages 12 to 49 of this circular.

A letter from the Independent Board Committee is set out on pages 50 and 51 of this circular.

A letter from Somerley Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 106 of this circular.

A notice dated 21 February 2013 convening an EGM of the Company to be held at Regus Business Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 11 March 2013 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or at any adjourned meeting thereof) should you so wish.

21 February, 2013

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LETTER FROM THE EXECUTIVE CHAIRMAN



IRC Limited 鐵江現貨有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 1029)

Suite 6H, 9 Queen's Road Central

Hong Kong

21 February 2013

Dear Fellow Shareholder,

This circular (which has been sent to all shareholders) contains details of the proposed subscription of new Shares in IRC by General Nice and Minmetals Cheerglory to raise up to approximately US\$238 million, as announced on 17 January 2013. Also included is a letter of advice to you as Independent Shareholders from Somerley Limited, stating that the agreements are on normal commercial terms which are fair and reasonable so far as the independent shareholders are concerned.

This circular contains important information that Shareholders should read and any investment decisions should be made based on this information alone. However, I thought it would be useful to reiterate a few key points:

- **Strategic Partnership** — The proposed transaction would create a strategic partnership that aligns IRC's production growth in Russia with the trading experience of General Nice and Minmetals Cheerglory in China, thereby reinforcing IRC's position as a Sino-Russian champion.
- **Capital Injections** — We will use the net proceeds to accelerate and expand IRC's production potential, applying the proceeds towards the flagship K&S Project and our newer Garinskoye Project.
- **Offtake** — The proposed transaction provides for our partners to work with us on marketing IRC's products. They will be 100% offtakers of our product should we decide to sell it in the seaborne market. This relationship ensures an end-market and cash-flow security for IRC as the large K&S Project is scheduled to come into production in the first half of next year.

I believe that the transaction as a package has many benefits and should be considered in its full context with the Offtake Arrangement and the advantages that the proposed partners bring to our business.

LETTER FROM THE EXECUTIVE CHAIRMAN

In their letter to you as Independent Shareholders, I am encouraged that Somerley Limited considered the various aspects of the transaction as a whole to be fair and reasonable so far as the Independent Shareholders are concerned. I understand that the transaction price is of importance to you and I would point you in particular to Somerley Limited's comment that it is not appropriate to compare the Subscription Price to recent share prices prior to the announcement of this transaction, but instead to those of longer periods. In this regard, Somerley Limited noted that the Subscription Price represents a premium of approximately 11.90% over the average IRC Share price over the 180 trading days up to the day before it was announced.

The transaction with our new Chinese partners provides a platform to accelerate and unlock further value for the benefit of all Shareholders. Your entire Board, including the Independent Non-Executive Directors, believe that the transaction is in the best interests of the Company and Somerley Limited has endorsed this view. With this in mind, I encourage you to vote in favour of the shareholder resolutions and to complete and return the Form of Proxy enclosed with this letter in advance of the EGM to be held on Monday 11 March 2013.

Thank you very much for reading this letter and my best wishes for the new year.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Hambro', with a long horizontal flourish extending to the right.

JAY HAMBRO
EXECUTIVE CHAIRMAN, IRC LTD

DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the joint announcement dated 17 January 2013 of the Company, General Nice and Minmetals Cheerglory regarding, among other things, the Share Issue Transaction, the Whitewash Waiver, the Offtake Arrangements and the Special Deals
“Applicable Seaborne Percentage”	100% of the Seaborne Product or such other percentage as adjusted by the terms of the Offtake Framework Agreement from time to time
“Board”	the board of Directors
“Business Days”	any day (other than a Saturday or a Sunday) on which commercial banks are open for ordinary banking business in Hong Kong
“Caedmon Agreement”	the agreement dated 6 April 2012 between the Company, Sangritta Limited and Lania Consulting Limited for the acquisition of a controlling 50% plus one share stake in Caedmon Limited by the Company
“Caedmon Option”	the option under the Caedmon Agreement for the Company to acquire the remaining shares in Caedmon Limited not already owned by the Company
“CFR”	cost and freight, a term of sale under the Incoterms whereby the seller pays the costs and freight to bring the goods to the port of destination. Risk is transferred to the buyer once the goods are loaded on the vessel
“CNEEC EPC Circular”	the circular of the Company dated 24 December 2010 in relation to the Company’s entry into an Engineering, Procurement and Construction Contract with China National Electric Equipment Corporation
“Company” or “IRC”	IRC Limited, a company incorporated in Hong Kong whose Shares are listed on the main board of the Stock Exchange
“Company Lock-Up Period”	the period commencing from the date of the Investors’ Subscription Agreements up to the expiry of six months following (i) the General Nice Initial Subscription Completion Date; (ii) if the General Nice Further Subscription Right is exercised, the General Nice Further Subscription Completion Date or (iii) the Minmetals Cheerglory Subscription Completion Date

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“DAP”	delivered at place, a term of sale under the Incoterms whereby the seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks prior to the point that the goods are ready for unloading by the buyer
“Deed of Indemnity”	the deed of indemnity dated 17 January 2013 between General Nice and Petropavlovsk
“Director(s)”	the director(s) of the Company
“Dry Port Marketing Commission”	the commission payable by the Company (or any of its subsidiary) to the Investors in respect of the Dry Port Product Sales, which shall be calculated as 5% multiplied by the amount of Dry Port Product Sales save that in any year in which the total tonnage of Dry Port Products exceeds the Dry Port Product Cap, no commission whatsoever shall be payable in respect of Dry Port Product Sales in excess of the Dry Port Product Cap
“Dry Port Product”	means Product comprising the Dry Port Quantity
“Dry Port Product Cap”	for a relevant year, 65% of the total tonnage of Product for the relevant year (unless otherwise specified or adjusted)
“Dry Port Product Sales”	for a relevant year, the revenue received by the Company in respect of the sale of Dry Port Product during that year
“Dry Port Quantity”	for a relevant year, the total tonnage of Product for that relevant year less (i) Seaborne Product sold to the Investors under the Seaborne Offtake Agreement for that relevant year; and (ii) any Seaborne Product sold during that relevant year to parties other than the Investors
“EGM”	the extraordinary general meeting of the Company to be held at Regus Business Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 11 March 2013 at 10:00 a.m. for the purpose of considering, and if thought fit, approving the EGM Resolutions
“EGM Resolutions”	the resolutions to approve: (A) (i) the issuance of new Shares to the Investors under the Investors’ Subscription Agreements and other transactions contemplated thereunder; (ii) the Whitewash Waiver; and (iii) the Offtake Arrangement and the transactions contemplated thereunder; and (B) the Special Deals, in accordance with the applicable requirements of the Listing Rules and the Takeovers Code

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong from time to time and any delegate of such Executive Director
“Garinskoye Project”	the project to explore, develop and/or exploit iron ore product at the Garinskoye mine (which includes the areas currently the subject of production licence number BLG 14123 TE and combined licence for exploration and production number BLG 14664 TR) located in the Amur region of the Russian Federation
“Garinskoye Seaborne Product”	Seaborne Product produced at the Garinskoye Project
“General Nice”	General Nice Development Limited, a limited liability company incorporated under the laws of Hong Kong
“General Nice Deferred Subscription Shares”	(i) if the General Nice Further Subscription Right is exercised within three months of the General Nice Initial Subscription Completion Date, 34,064,000 new Shares to be issued to General Nice or its nominee; or (ii) if the General Nice Further Subscription Right is exercised after three months from the General Nice Initial Subscription Completion Date but before the expiry of the General Nice Further Subscription Exercise Period, 25,548,000 new Shares to be issued to General Nice or its nominee, or (iii) if the Company breaches the General Nice Subscription Agreement in any material respects, and the General Nice Further Subscription Right is not exercised within the General Nice Further Subscription Exercise Period, 34,064,000 new Shares to be issued to General Nice or its nominee
“General Nice Further Subscription”	the subscription by General Nice or its nominee of the General Nice Further Subscription Shares and the General Nice Deferred Subscription Shares pursuant to the terms of the General Nice Subscription Agreement
“General Nice Further Subscription Completion”	the completion of the subscription for and issuance of the General Nice Further Subscription Shares and General Nice Deferred Subscription Shares
“General Nice Further Subscription Completion Date”	the date on which General Nice Further Subscription Completion occurs
“General Nice Further Subscription Exercise Period”	the period commencing on the General Nice Initial Subscription Completion Date and ending on the date which is six months after the General Nice Initial Subscription Completion Date
“General Nice Further Subscription Expiry Date”	the date which is six months after the General Nice Initial Subscription Completion Date

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“General Nice Further Subscription Right”	the right to subscribe for the General Nice Further Subscription Shares, granted by the Company to General Nice under the General Nice Subscription Agreement
“General Nice Further Subscription Shares”	the 863,600,000 new Shares to be issued to General Nice or its nominee pursuant to the General Nice Subscription Agreement
“General Nice Group”	General Nice and its subsidiaries
“General Nice Initial Subscription”	the subscription by General Nice or its nominee of the General Nice Initial Subscription Shares pursuant to the General Nice Subscription Agreement
“General Nice Initial Subscription Completion”	the completion of the subscription for and issuance of the General Nice Initial Subscription Shares
“General Nice Initial Subscription Completion Date”	the date on which General Nice Initial Subscription Completion occurs
“General Nice Initial Subscription Conditions”	the conditions to completion of the General Nice Initial Subscription
“General Nice Initial Subscription Long Stop Date”	30 April 2013
“General Nice Initial Subscription Shares”	the 817,536,000 new Shares to be issued to General Nice or its nominee pursuant to the General Nice Subscription Agreement
“General Nice Subscription”	General Nice Initial Subscription and General Nice Further Subscription
“General Nice Subscription Agreement”	the conditional subscription agreement dated 17 January 2013 entered into between General Nice and the Company relating to the General Nice Subscription
“General Nice Subscription Shares”	the General Nice Initial Subscription Shares, the General Nice Deferred Subscription Shares and the General Nice Further Subscription Shares
“Group”	the Company and its subsidiaries
“Guarantee Fee”	a monthly fee payable at each month end by the Company to Petropavlovsk under the Recourse Agreement, which is proposed to be an amount, on a per annum basis, not exceeding 1.75% of the principal amount outstanding under the ICBC Facility Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICBC Bank”	Industrial and Commercial Bank of China Ltd.
“ICBC Facility Agreement”	the US\$340,000,000 credit facility agreement entered into between, <i>inter alia</i> , ICBC Bank (as facility agent), K&S (a wholly-owned subsidiary of the Company, as borrower) and Petropavlovsk (as guarantor)
“ICBC Guarantee”	the guarantee granted by Petropavlovsk in favour of ICBC Bank in relation to obligations and liabilities of K&S under the ICBC Facility Agreement
“Incoterms”	Incoterms 2010 published by ICC Publishing SA
“Independent Board Committee”	the committee of the Board comprising all the non-executive and independent non-executive Directors established for the purposes of advising the Independent Shareholders in relation to the issuance of new Shares to the Investors under the Investors’ Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver and the Special Deals and, in respect of the Offtake Arrangement and the transactions contemplated thereunder, shall comprise only the Independent Non-Executive Directors
“Independent Financial Adviser”	Somerley Limited, an independent financial adviser to the Independent Board Committee and the Independent Shareholders (as the case may be) on (i) the terms of the Investors’ Subscription Agreements and the transactions contemplated thereunder, (ii) the Whitewash Waiver, (iii) the terms of the Offtake Arrangement and the transactions contemplated thereunder, (iv) the Special Deals and (v) voting on the EGM Resolutions
“Independent Shareholders”	Shareholders other than Petropavlovsk, the Executive Directors, the Investors and any parties acting in concert with any of them and any Shareholders who are involved in, or interested in the Investors’ Subscription Agreements and the transactions contemplated thereunder, the Whitewash Waiver, the Offtake Arrangement and the transactions contemplated thereunder and the Special Deals
“Investors”	General Nice and Minmetals Cheerglory

DEFINITIONS

“Investors’ Lock-Up Period”	in respect of General Nice, the period commencing from the General Nice Initial Subscription Completion Date up to the expiry of twelve months following (i) the General Nice Initial Subscription Completion Date or (ii) if the General Nice Further Subscription Shares are issued, the General Nice Further Subscription Completion Date; and in respect of Minmetals Cheerglory, the period commencing from the Minmetals Cheerglory Subscription Completion Date up to the expiry of twelve months following the Minmetals Cheerglory Subscription Completion Date
“Investors’ Subscription Agreements”	the General Nice Subscription Agreement and the Minmetals Cheerglory Subscription Agreement
“K&S”	Kimkano-Sutarsky Mining and Beneficiation Plant LLC (also known as LLC KS GOK), a wholly-owned subsidiary of the Company
“K&S Mine”	the Company’s Kimkan mine and Sutara mine located in the Jewish Autonomous Region of the Russia Federation
“K&S Project”	the projects to explore, develop and/or exploit iron ore product at the Kimkan mine (the areas currently the subject of production licence number BIR 14037 TE) and the Sutara mine (the areas currently the subject of combined licence for exploration and production number BIR 14038 TE) located in the Jewish Autonomous Region of the Russia Federation
“K&S Seaborne Product”	Seaborne Product produced at the K&S Project
“Last Trading Day”	16 January 2013, being the last trading day of the Shares on the Stock Exchange prior to the publication of the Announcement
“Latest Practicable Date”	18 February 2013, being the latest practicable date for the purposes of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minmetals Cheerglory”	Minmetals Cheerglory Limited, a limited liability company incorporated under the laws of Hong Kong
“Minmetals Cheerglory Group”	Minmetals Cheerglory and its subsidiaries
“Minmetals Cheerglory Subscription”	the subscription by the Minmetals Cheerglory or its nominee of the Minmetals Cheerglory Subscription Shares pursuant to the Minmetals Cheerglory Subscription Agreement

DEFINITIONS

“Minmetals Cheerglory Subscription Agreement”	the conditional subscription agreement dated 17 January 2013 entered into between Minmetals Cheerglory and the Company relating to the Minmetals Cheerglory Subscription
“Minmetals Cheerglory Subscription Completion”	the completion of the subscription for and issuance of the Minmetals Cheerglory Subscription Shares
“Minmetals Cheerglory Subscription Completion Date”	the date on which Minmetals Cheerglory Subscription Completion occurs
“Minmetals Cheerglory Subscription Conditions”	the conditions to completion of the Minmetals Cheerglory Subscription
“Minmetals Cheerglory Subscription Long Stop Date”	the date falling six months after the General Nice Initial Subscription Completion Date
“Minmetals Cheerglory Subscription Shares”	the 247,300,000 new Shares to be issued to Minmetals Cheerglory or its nominee pursuant to the Minmetals Cheerglory Subscription Agreement
“Offtake Arrangement”	the arrangements between the Company and the Investors in respect of sales of Product as contemplated under the Offtake Framework Agreement and Seaborne Offtake Agreement
“Offtake Arrangement Annual Caps”	the annual caps applicable to the transactions under the Offtake Arrangement in accordance with Chapter 14A of the Listing Rules
“Offtake Framework Agreement”	the agreement dated 17 January 2013 between the Company and the Investors in respect of, among other things, sales of Dry Port Product Sales and the Dry Port Marketing Commission
“Petropavlovsk”	Petropavlovsk plc, a public company incorporated under the laws of England and Wales with registered number 04343841 and listed on the Main Market of the London Stock Exchange
“Platts”	Platts, a division of The McGraw-Hill Companies
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong
“Product”	any product containing Fe content of 32% or above from the Projects but excluding (i) products from Projects acquired by the Company or any member of the Group after the date of the Seaborne Offtake Agreement and which are covered by an offtake arrangement existing at the time of such acquisition; and (ii) product sold by any member of the Group to another member of the Group

DEFINITIONS

“Projects”	all existing and future projects of the Group, including the K&S Project and Garinskoye Project, but (i) excluding the Kuranakh project; (ii) excluding projects to be acquired by the Group in China; and (iii) excluding projects acquired by the Group which have offtake arrangements in place at the time of acquisition for 100% of their production
“Recourse Agreement”	the recourse agreement dated 13 December 2010 between Petropavlovsk, the Company and K&S
“Seaborne Offtake Agreement”	the agreement dated 17 January 2013 between the Company and the Investors in respect of sales of Seaborne Product
“Seaborne Product”	Product sold by way of seaborne delivery
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Issue Transaction”	the General Nice Subscription and the Minmetals Cheerglory Subscription
“Shareholder(s)”	registered holder(s) of Share(s)
“Shareholders’ Agreement”	the voting undertakings agreement entered into on 17 January 2013 between the Investors and Petropavlovsk with respect to the exercise of their voting rights and certain other aspects in relation to their shareholdings in the Company
“Special Deals”	the agreement of the amount of the Guarantee Fee as a special deal under note 4 to Rule 25 of the Takeovers Code and the entry into the Deed of Indemnity as a special deal under note 5 to Rule 25 of the Takeovers Code, each being a “Special Deal”
“Specified Investor”	the Investor which shall take delivery of, and make payment for, the specific shipments of Seaborne Product and as notified to the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.94 (approximately US\$0.12) per Subscription Share
“Subscription Share(s)”	the General Nice Subscription Shares and the Minmetals Cheerglory Subscription Shares
“Surviving Clauses”	clauses with respect to interpretation, announcements, confidentiality, notices, waiver of immunity, costs, general provisions, governing law and dispute resolution as stated in the Investors’ Subscription Agreements

DEFINITIONS

“Take or Pay Quantities”	the amount of Seaborne Product (in tonnes) specified for each month in a vessel loading schedule agreed by the Company and the Investors
“Takeovers Code”	The Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
“Total Investment Completion”	General Nice Initial Subscription Completion, General Nice Further Subscription Completion and Minmetals Cheerglory Subscription Completion
“UK Listing Rules”	the Listing Rules made by the Financial Services Authority of the United Kingdom pursuant to Financial Services and Markets Act 2000, as amended, governing, <i>inter alia</i> , admission of securities to the Official List of the Financial Services Authority
“US\$”	United States dollar, the legal currency of the United States of America
“Whitewash Waiver”	the waiver by the Executive under Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code of the obligation on the part of General Nice and parties acting in concert with it (including Minmetals Cheerglory) to make a general offer to the Shareholders for all issued shares and other securities of the Company not already owned or agreed to be acquired by General Nice and parties acting in concert with it as a result of the exercise of the General Nice Further Subscription Right and the allotment and issue of the General Nice Deferred Subscription Shares, General Nice Further Subscription Shares and Minmetals Cheerglory Subscription Shares
“%”	per cent.

Note: amounts in US\$ in this circular are converted into HK\$ at the rate of US\$1.00 = HK\$7.75 throughout this circular for indication purposes only.

LETTER FROM THE BOARD



IRC Limited 鐵江現貨有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 1029)

Board of Directors:

Executive Directors

Mr G. Jay Hambro

Mr Yury Makarov

Mr Raymond Kar Tung Woo

Non-executive Director

Mr Simon Murray, *CBE, Chevalier de la Légion d'Honneur*

Independent Non-executive Directors

Mr Daniel Bradshaw

Mr Chuang-Fei Li

Mr Jonathan Martin Smith

Company Secretary:

Mr Raymond Kar Tung Woo

Registered office:

Unit H, 6th Floor

9 Queen's Road Central

Hong Kong

21 February 2013

Dear Shareholder(s),

**(1) SUBSCRIPTION OF NEW SHARES BY
GENERAL NICE AND MINMETALS CHEERGLORY
(2) APPLICATION FOR WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTION
(4) SPECIAL DEALS
AND
(5) NOTICE OF EGM**

1 INTRODUCTION

On 17 January 2013, the Company announced its entry into the General Nice Subscription Agreement and the Minmetals Cheerglory Subscription Agreement with General Nice and Minmetals Cheerglory, respectively, in respect of a strategic investment in the Company by the Investors and the Offtake Arrangement with General Nice and Minmetals Cheerglory.

LETTER FROM THE BOARD

It was announced that upon Total Investment Completion, up to 1,715,200,000 new Shares will be allotted and issued to General Nice and 247,300,000 new Shares will be allotted and issued to Minmetals Cheerglory at the price of HK\$0.94 (approximately US\$0.12) per new Share, which represents approximately 31.43% and 4.53% of the issued share capital of the Company as enlarged by the Share Issue Transaction (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the date of the Investors' Subscription Agreements up to Total Investment Completion and there is no adjustment to the number of General Nice Deferred Subscription Shares). It was further announced that under Rule 26.1 of the Takeovers Code, General Nice would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. In this regard, General Nice and Minmetals Cheerglory (as a party acting in concert with General Nice) have made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the General Nice Subscription Shares and the Minmetals Cheerglory Subscription Shares. The Whitewash Waiver if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of a poll.

It was also announced that the Offtake Arrangement with General Nice and Minmetals Cheerglory (which will take effect upon General Nice Initial Subscription Completion) will constitute continuing connected transactions of the Company under the Listing Rules as General Nice will be a substantial Shareholder upon General Nice Initial Subscription Completion and therefore a connected person of the Company, even though Minmetals Cheerglory will not be a connected person of the Company even upon Total Investment Completion. Since the relevant ratios (as defined under the Listing Rules) in respect of the proposed Offtake Arrangement Annual Caps exceed 5%, the Offtake Arrangement is subject to the announcement, reporting and independent shareholders' approval requirements under the Listing Rules.

The Company also announced that, in connection with the Share Issue Transaction, Petropavlovsk had entered into the Shareholders' Agreement with General Nice and Minmetals Cheerglory, the Deed of Indemnity with General Nice and the side letter dated 17 January 2013 with General Nice described in paragraph "(d) Side Letter with General Nice" of the section headed "6. Effect of the Share Issue Transaction on Petropavlovsk" below. The Company also disclosed that upon General Nice Further Subscription Completion or Total Investment Completion, the Company would cease to be a subsidiary of Petropavlovsk and the Guarantee Fee would therefore become payable to Petropavlovsk under the Recourse Agreement. This Guarantee Fee is proposed to be an amount per annum not exceeding 1.75% of the principal amount outstanding under the ICBC Facility Agreement, and would be payable by the Company at the end of each month.

It was announced that the agreement of the amount and payment of the Guarantee Fee and the entry into the Deed of Indemnity constitute special deals under notes 4 and 5 to Rule 25 of the Takeovers Code and therefore require the consent of the Executive. Such consent, if granted, will be subject to (i) the Independent Financial Adviser opining that, the terms of the Special Deals are fair and reasonable and (ii) the approval of the Special Deals by the Independent Shareholders by way of a poll at the EGM.

The purpose of this circular is to provide you with further information in relation to the proposed transactions outlined above and to seek your approval of the resolutions set out in the notice of the EGM at the end of this circular.

LETTER FROM THE BOARD

2 THE SHARE ISSUE TRANSACTION

(a) General Nice Subscription

(i) *General Nice Subscription Agreement*

Date	17 January 2013
Parties	(a) General Nice (as subscriber); and (b) the Company (as issuer).
Number of General Nice Initial Subscription Shares	817,536,000 new Shares
Maximum number of General Nice Deferred Subscription Shares	34,064,000 new Shares
Number of General Nice Further Subscription Shares	863,600,000 new Shares
Maximum number of Shares to be issued to General Nice	1,715,200,000 new Shares

Pursuant to the General Nice Subscription Agreement, General Nice has conditionally agreed to subscribe for a total of 851,600,000 new Shares at the price of HK\$0.94 (approximately US\$0.12) per new Share, of which 817,536,000 new Shares (the General Nice Initial Subscription Shares) will be allotted and issued upon General Nice Initial Subscription Completion. The allotment and issue of the remaining 34,064,000 new Shares (the General Nice Deferred Subscription Shares) is conditional upon, among other things, the allotment and issue of the General Nice Further Subscription Shares. General Nice will pay to the Company a subscription amount upon General Nice Initial Subscription Completion of approximately HK\$800.5 million (approximately US\$103.3 million), being the total consideration for all the 851,600,000 new Shares at the Subscription Price.

Under the General Nice Subscription Agreement, the Company has also granted General Nice a right to subscribe for 863,600,000 new Shares (the General Nice Further Subscription Shares), which may be exercised at General Nice's discretion within six months after the General Nice Initial Subscription Completion Date. General Nice will pay to the Company a subscription amount upon General Nice Further Subscription Completion of approximately HK\$811.8 million (approximately US\$104.7 million), being the total consideration for these 863,600,000 new Shares at the Subscription Price.

In order to incentivise General Nice to exercise the General Nice Further Subscription Right, if the General Nice Further Subscription Right is exercised within three months from the General Nice Initial Subscription Completion Date, the Company shall allot and issue all of the General Nice Deferred Subscription Shares at the same time as the allotment and issue

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of the General Nice Further Subscription Shares. If the General Nice Further Subscription Right is exercised in the period commencing three months after the General Nice Initial Subscription Completion Date but on or before the General Nice Further Subscription Expiry Date, the Company shall allot and issue only 25,548,000 new Shares as the General Nice Deferred Subscription Shares at the same time as the allotment and issue of the General Nice Further Subscription Shares, and the Subscription Price paid for the remaining 8,516,000 new Shares of the General Nice Deferred Subscription Shares shall be retained by the Company for its benefit. If the General Nice Further Subscription Right is not exercised by the General Nice Further Subscription Expiry Date, the Company shall not issue any General Nice Deferred Subscription Shares and the entirety of the Subscription Price paid for the General Nice Deferred Subscription Shares shall be retained by the Company for its benefit. The maximum number of General Nice Deferred Subscription Shares will also be allotted and issued to General Nice in the event of a material breach by the Company of the terms of the General Nice Subscription Agreement such that General Nice does not exercise the General Nice Further Subscription Right within six months after the General Nice Initial Subscription Completion Date.

Assuming Total Investment Completion occurs, the General Nice Subscription Shares will, in aggregate, represent approximately 31.43% of the issued share capital of the Company as enlarged by the Share Issue Transaction (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the date of the Investors' Subscription Agreements up to Total Investment Completion and there is no adjustment to the number of General Nice Deferred Subscription Shares). Accordingly, General Nice will be a controlling shareholder of the Company, as well as Petropavlovsk.

The percentage of issued share capital of the Company represented by the General Nice Initial Subscription Shares as at General Nice Initial Subscription Completion and the percentage of issued share capital of the Company represented by the General Nice Further Subscription Shares and the General Nice Deferred Subscription Shares at General Nice Further Subscription Completion and Total Investment Completion are set out in detail in the section headed "7. Shareholding structure of the Company" below.

(ii) *Conditions of the General Nice Initial Subscription*

General Nice Initial Subscription Completion is conditional upon, *inter alia*:

- (A) the granting of the Whitewash Waiver;
- (B) the Executive having granted its consent in relation to the Special Deals;
- (C) the Shareholders having approved the EGM Resolutions;
- (D) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the General Nice Initial Subscription Shares (and such listing and permission not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the General Nice Initial Subscription Shares);

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- (E) the shareholders of Petropavlovsk having approved the General Nice Initial Subscription as required pursuant to the UK Listing Rules in a general meeting of Petropavlovsk; and
- (F) none of the specified exploration, extraction and/or production licences of the Group having been revoked nor any governmental authority having notified the Group that the licences will be revoked.

The General Nice Initial Subscription Conditions listed above, other than General Nice Initial Subscription Condition (F), cannot be waived. In the event that any of the General Nice Initial Subscription Conditions have not been fulfilled or waived by the General Nice Initial Subscription Long Stop Date in accordance with the General Nice Subscription Agreement, the General Nice Subscription Agreement shall terminate with immediate effect except for the Surviving Clauses, and the parties shall be released from all liabilities and obligations thereunder, except for any accrued rights or obligations of a party at the date of termination.

Save for the exercise of the General Nice Further Subscription Right, there are no conditions to the completion of the General Nice Further Subscription. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the General Nice Further Subscription Shares and General Nice Deferred Subscription Shares prior to General Nice Further Subscription Completion.

An ordinary resolution will be proposed at the EGM to seek, among other things, a specific mandate for the issue of the General Nice Subscription Shares pursuant to the General Nice Subscription Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the General Nice Initial Subscription Shares prior to General Nice Initial Subscription Completion.

(iii) *Completion of the General Nice Initial Subscription and General Nice Further Subscription*

Subject to fulfillment and/or waiver of the General Nice Initial Subscription Conditions, General Nice Initial Subscription Completion shall take place on the date that is 15 Business Days following the date on which the last of those conditions precedent has been fulfilled or waived.

General Nice Further Subscription Completion shall take place on the date that is 10 Business Days following the date on which the General Nice Further Subscription Right is exercised.

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(b) Minmetals Cheerglory Subscription

(i) *Minmetals Cheerglory Subscription Agreement*

Date	17 January 2013
Parties	(a) Minmetals Cheerglory (as subscriber); and (b) the Company (as issuer).
Number of Minmetals Cheerglory Subscription Shares	247,300,000 new Shares

Pursuant to the Minmetals Cheerglory Subscription Agreement, Minmetals Cheerglory has conditionally agreed to subscribe for a total of 247,300,000 new Shares at the price of HK\$0.94 (approximately US\$0.12) per new Share. Minmetals Cheerglory will pay to the Company a subscription amount upon Minmetals Cheerglory Subscription Completion of approximately HK\$232.5 million (approximately US\$30.0 million), being the total consideration for all the 247,300,000 new Shares at the Subscription Price.

Assuming Total Investment Completion occurs, the Minmetals Cheerglory Subscription Shares will represent approximately 4.53% of the issued share capital of the Company as enlarged by the Share Issue Transaction (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the date of the Investors' Subscription Agreements up to Total Investment Completion and there is no adjustment to the number of General Nice Deferred Subscription Shares). Please also refer to the section headed "7. Shareholding structure of the Company" below for further details.

(ii) *Conditions of the Minmetals Cheerglory Subscription*

Minmetals Cheerglory Subscription Completion is conditional upon, *inter alia*:

- (A) the granting of the Whitewash Waiver;
- (B) the Executive having granted its consent in relation to the Special Deals;
- (C) the Shareholders having approved the EGM Resolutions;
- (D) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Minmetals Cheerglory Subscription Shares (and such listing and permission not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the Minmetals Cheerglory Subscription Shares);
- (E) the shareholders of Petropavlovsk having approved the Minmetals Cheerglory Subscription as required pursuant to the UK Listing Rules in a general meeting of Petropavlovsk;

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- (F) Minmetals Cheerglory having completed all registration and filing processes with the National Development and Reform Commission (國家發展和改革委員會) (“NDRC”) and the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (“SASAC”) in relation to the Minmetals Cheerglory Subscription, and having received the certificate of registration from the NDRC and neither NDRC nor SASAC having raised any objection to the Minmetals Cheerglory Subscription within 25 Business Days after completion of such registration and filing processes;
- (G) General Nice having exercised the General Nice Further Subscription Right; and
- (H) none of the specified exploration, extraction and/or production licences of the Group having been revoked nor any governmental authority having notified the Group that the licences will be revoked.

The Minmetals Cheerglory Subscription Conditions listed above, other than Minmetals Cheerglory Subscription Condition (G) and (H), cannot be waived. In the event that any of the Minmetals Cheerglory Subscription Conditions have not been fulfilled or waived by the Minmetals Cheerglory Subscription Long Stop Date in accordance with the Minmetals Cheerglory Subscription Agreement, the Minmetals Cheerglory Subscription Agreement shall terminate with immediate effect except for the Surviving Clauses, and the parties shall be released from all liabilities and obligations thereunder, except for any accrued rights or obligations of a party at the date of termination.

An ordinary resolution will be proposed at the EGM to seek, among other things, a specific mandate for the issue of the Minmetals Cheerglory Subscription Shares pursuant to the Minmetals Cheerglory Subscription Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Minmetals Cheerglory Subscription Shares.

(iii) Completion of the Minmetals Cheerglory Subscription

Subject to fulfillment and/or waiver of the Minmetals Cheerglory Subscription Conditions and General Nice Further Subscription Completion, Minmetals Cheerglory Subscription Completion shall take place on the date that is 10 Business Days following the date on which the last of those conditions precedent has been fulfilled or waived.

(c) Subscription Price for the Subscription Shares

The Subscription Price for each Subscription Share is HK\$0.94 (approximately US\$0.12). This represents:

- (i) a discount of approximately 33.8% to the closing price of HK\$1.42 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (ii) a discount of approximately 27.2% to the average closing price of HK\$1.29 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 25.3% to the average closing price of HK\$1.26 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 13.9% to the average closing price of HK\$1.09 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 23.6% to the closing price of HK\$1.23 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a discount of approximately 46.5% to the Group's published consolidated net asset per Share (excluding minority interest) as at 30 June 2012 of approximately HK\$1.76 (based on a total of 3,494,034,301 Shares as at the date of the Investors' Subscription Agreements).

The Subscription Price was determined after arm's length negotiation between the Company and the Investors with reference to a number of factors, including, among others, the trading prices of the Shares on the Stock Exchange and the assets, financial and business condition of the Company.

The total amount payable for the General Nice Subscription Shares is approximately HK\$1,612.3 million (approximately US\$208.0 million) and will be financed from a combination of internal cash resources, and external financing made available to General Nice.

The total amount payable for the Minmetals Cheerglory Subscription Shares in the sum of approximately HK\$232.5 million (approximately US\$30.0 million) will be financed from Minmetals Cheerglory's internal cash resources.

(d) Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank the same in all respects among themselves and with all the Shares in issue at the respective dates of allotment of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of their respective allotment.

(e) Restrictions on issue of new Shares by Company and disposals by the Investors

The Company has undertaken to the Investors that for the Company Lock-up Period, it will not, without the prior written consent of the Investors, (i) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (ii)

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agree (conditionally or unconditionally) to enter into or effect any such transaction described in (i) above or any transaction with the same economic effect or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, except for:

- (i) the General Nice Initial Subscription Shares;
- (ii) the General Nice Further Subscription Shares and the General Nice Deferred Subscription Shares (if the General Nice Further Subscription Right is exercised);
- (iii) the Minmetals Cheerglory Subscription Shares; and
- (iv) up to 57,352,941 Shares to be issued as consideration payable by the Company if it decides to exercise the Caedmon Option pursuant to the Caedmon Agreement.

Subject to certain exceptions set out in the paragraph below, each Investor has undertaken to the Company that it shall not, without prior written consent of the Company, during the Investors' Lock-Up Period, (i) dispose of (A) any Shares or any direct or indirect interest therein (including, without limitation, by granting or creating any option, mortgage, pledge, charge or other security interest or encumbrance) or (B) any securities convertible into or exercisable or exchangeable for any Shares, (ii) enter into any swap or other derivative transaction or other arrangement that transfers, in whole or in part, any economic consequence of ownership of any Shares or any securities convertible into or exercisable or exchangeable for any Shares, (iii) dispose of any direct or indirect interest in any company or entity holding any Shares or any securities convertible into or exercisable or exchangeable for any Shares or (iv) announce any intention to enter into or effect any such transaction described in (i), (ii) or (iii) above.

The restrictions on the Investors dealing with Shares outlined above do not prevent the Investors from dealing with their Shares in the following manner: (a) sell, dispose of or otherwise transfer its Shares to any of its affiliates, subject to certain conditions; (b) the granting of security in respect of Shares held by it to a bona fide third party financial institution for the purpose of securing any indebtedness of the Investor; or (c) any acceptance of a general offer made by a third party for the Shares or granting an irrevocable undertaking to accept such an offer.

(f) Proposed change of Board composition

Under the General Nice Subscription Agreement, upon General Nice Initial Subscription Completion, General Nice shall have the right to nominate two non-executive Directors to the Board.

Please also refer to paragraphs “(d) Side Letter with General Nice” and “(e) Shareholders' Agreement” of the section headed “6. Effect of the Share Issue Transaction on Petropavlovsk” below for further details.

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3 REASONS AND BENEFITS FOR THE SHARE ISSUE TRANSACTION AND USE OF PROCEEDS

Raising gross proceeds of up to approximately HK\$1,844.8 million (approximately US\$238.0 million) for the Company, the Share Issue Transaction will strengthen the Company's mission to be a Sino-Russian industrial commodities champion as the proceeds will be applied to fund the Company's growth projects.

The Share Issue Transaction would also expand and diversify the shareholder base of the Company with the inclusion of General Nice, one of the largest privately-owned iron ore importers in China, and Minmetals Cheerglory, a subsidiary of one of the largest State-owned resource focussed conglomerates in China. The investment into the Company by General Nice and Minmetals Cheerglory would raise the profile of the Company in Hong Kong and China and also give the Company scope for further future cooperation with General Nice and Minmetals Cheerglory in the Chinese and international markets.

The estimated expenses of the Share Issue Transaction are approximately HK\$34.8 million (approximately US\$4.5 million). Accordingly, the net proceeds from the Share Issue Transaction are estimated to be approximately HK\$1,810.0 million (approximately US\$233.5 million) (assuming Total Investment Completion occurs) and the net subscription price per Subscription Share (assuming Total Investment Completion occurs within 3 months of General Nice Initial Subscription Completion) would be approximately HK\$0.92.

The Company is currently implementing a substantial development programme for its projects. It is currently envisaged that the net proceeds from the Share Issue Transaction of approximately HK\$1,810.0 million (approximately US\$233.5 million) will be used for the development of the K&S Project and Garinskoye Project, and for general working capital purposes, in the following manner:

- (i) no less than 90% of the proceeds to be used for the development of the K&S Project and Garinskoye Project, by first applying the proceeds to the on-going development of the K&S Project (including but not limited to the development of Stage 2 of the K&S Project), and the remaining balance to the expansion of Garinskoye Project; and
- (ii) no more than 10% of the proceeds as general working capital of the Group.

If only General Nice Initial Subscription Completion occurs, the General Nice Initial Subscription would raise approximately HK\$800.5 million (approximately US\$103.3 million) for the Company, and such proceeds would be used primarily towards the development of the K&S Project as well as for some general working capital purposes.

4 PARTIES ACTING IN CONCERT AND APPLICATION FOR WHITEWASH WAIVER

Upon Total Investment Completion, General Nice will hold approximately 31.43% of the issued share capital of the Company as enlarged by the Share Issue Transaction (assuming that no additional Shares other than the Subscription Shares will be issued between the date of the Investors' Subscription Agreements up to Total Investment Completion and the General Nice Further Subscription Right is exercised within three months of General Nice Initial Subscription Completion) or approximately 31.33% of the issued share capital of the Company as enlarged by the Share Issue Transaction (assuming that no additional Shares other than the Subscription Shares will be issued between the date

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of the Investors' Subscription Agreements up to Total Investment Completion and the General Nice Further Subscription Right is not exercised within three months of General Nice Initial Subscription Completion). Minmetals Cheerglory is a party acting in concert with General Nice and will, on the same assumptions, hold a further 4.53% or 4.54%, respectively, of the issued share capital of the Company upon Total Investment Completion.

Upon Total Investment Completion, General Nice and Petropavlovsk will both hold greater than 20% of the issued share capital of the Company at that time and will be associated companies of the Company and of each other. As a result of this and certain provisions contained in the Shareholders' Agreement, General Nice and Petropavlovsk are deemed to be acting in concert under the Takeovers Code.

As General Nice will hold more than 30% of the issued share capital of the Company as enlarged by the Share Issue Transaction, General Nice would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by General Nice and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. In this regard, General Nice and Minmetals Cheerglory (as a party acting in concert with General Nice) have made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the General Nice Subscription Shares and the Minmetals Cheerglory Subscription Shares. The Whitewash Waiver if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of a poll.

Shareholders and public investors should note that immediately upon General Nice Initial Subscription Completion, the combined shareholding of General Nice, Petropavlovsk and parties acting in concert with them will exceed 50% of the voting rights of the Company. Accordingly, the concert group as a whole (including Minmetals Cheerglory, in the case of Total Investment Completion) may increase its holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company. However, General Nice and Petropavlovsk and parties acting in concert with them would remain subject to the restrictions under Rule 26 of the Takeovers Code on an individual basis including the 2% creeper rule under Rule 26.1 of the Takeovers Code.

Only the Independent Shareholders will be entitled to vote on the EGM Resolutions at the EGM. Due to their involvement in negotiations regarding the Share Issue Transaction, the Executive Directors, Petropavlovsk and parties acting in concert with any of them are considered to be "involved in" the Share Issue Transaction under Note 1 on dispensations from Rule 26 of the Takeovers Code. Accordingly, the Investors, the Executive Directors and Petropavlovsk and their respective associates and any parties acting in concert with them will abstain from voting at the EGM in respect of the EGM Resolutions.

5 INTENTIONS OF THE INVESTORS REGARDING THE COMPANY

Upon Total Investment Completion, the Investors intend to work with the Company in growing its production, with the net proceeds from the Share Issue Transaction to be applied primarily towards the flagship K&S Project Phase 1 and advancing Phase 2 expansion as well as the Garinskoye Project. In addition, the Investors will also assist the Group in developing its sales and marketing capacity in the dry port market and in the identification of customers for Dry Port Product.

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The Investors intend to continue the principal businesses of the Company. There is no intention to dispose of, terminate, scale down or make any other major changes to the existing business of the Group (including any redeployment of the fixed assets of the Group) and no agreement, arrangement, understanding or negotiation has been put in place to this effect. The Investors have no intention or any plans to make any change to the continued employment of the employees of the Group.

6 EFFECT OF THE SHARE ISSUE TRANSACTION ON PETROPAVLOVSK

As a result of the Share Issue Transaction, upon Total Investment Completion, the shareholding of Petropavlovsk, the controlling shareholder of the Company, will be diluted from 63.13% to 40.43% of the issued share capital of the Company (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the date of the Investors' Subscription Agreements up to Total Investment Completion and there is no adjustment to the number of General Nice Deferred Subscription Shares). If only General Nice Initial Subscription Completion occurs and General Nice Further Subscription Completion does not occur, Petropavlovsk's shareholding will be diluted to 51.16% (assuming that there is no change in the issued share capital of the Company other than the issue of the General Nice Initial Subscription Shares between the date of the Investors' Subscription Agreements up to General Nice Initial Subscription Completion).

(a) Petropavlovsk shareholder approval

As from General Nice Further Subscription Completion or Total Investment Completion, it is expected that the Company will cease to be a subsidiary of Petropavlovsk and will no longer be consolidated in Petropavlovsk's consolidated financial statements. The dilution of Petropavlovsk's shareholding in the Company requires the approval of Petropavlovsk's shareholders under the UK Listing Rules. If approval of Petropavlovsk's shareholders is not obtained, the Share Issue Transaction and the Offtake Arrangement will not proceed.

(b) Recourse Agreement

As disclosed in the CNEEC EPC Circular of the Company dated 24 December 2010, the terms on which Petropavlovsk was prepared to provide the ICBC Guarantee are set out in the Recourse Agreement entered into between Petropavlovsk, the Company and K&S. Pursuant to the Recourse Agreement, Petropavlovsk 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. Under the Recourse Agreement, a monthly fee (the Guarantee Fee) based on normal commercial rates is payable by the Company to Petropavlovsk if Petropavlovsk ceases to be the parent company of the Company. Upon General Nice Further Subscription Completion or Total Investment Completion, the Company would no longer be a subsidiary of Petropavlovsk and the Guarantee Fee would become payable by the Company to Petropavlovsk. It is proposed that the Guarantee Fee per annum would be an amount not exceeding 1.75% of the principal amount outstanding under the ICBC Facility Agreement. The ICBC Guarantee coupled with the Recourse Agreement (including payment of the Guarantee Fee thereunder) constitutes an exempt continuing connected transaction pursuant to Listing Rule 14A.65(4). The agreement of the amount and payment of the Guarantee Fee constitutes a special deal under Note 4 to Rule 25 of the Takeovers Code — please refer to paragraph "(f) Specials Deals" below for further details.

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(c) Deed of Indemnity

The ICBC Guarantee described in paragraph “(b) Recourse Agreement” above currently covers the entire amount outstanding under the facility notwithstanding that Petropavlovsk holds, as at the Latest Practicable Date, only 63.13% of the issued share capital of the Company. General Nice and Minmetals Cheerglory have agreed to use their best efforts and reasonable efforts, respectively, to assist Petropavlovsk in procuring the release of the ICBC Guarantee or the amendment of the ICBC Guarantee so that it becomes a several obligation of each of Petropavlovsk and General Nice in proportion to their respective shareholdings in the Company.

Until such time, Petropavlovsk and General Nice have agreed to enter into the Deed of Indemnity under which General Nice has granted an indemnity in favour of Petropavlovsk, to take effect upon General Nice Further Subscription Completion, to share part of any liability of Petropavlovsk under the ICBC Guarantee and any loans made to the Company or K&S under the Recourse Agreement. The Deed of Indemnity would cover such percentage of Petropavlovsk’s obligations under the ICBC Guarantee or loans made by Petropavlovsk under the Recourse Agreement as represented by General Nice’s shareholdings in the Company as a proportion of the combined shareholdings of Petropavlovsk and General Nice in the Company. It is also contemplated under the Deed of Indemnity that payments or repayments to Petropavlovsk under the ICBC Facility Agreement or the Recourse Agreement and the Guarantee Fee payable by the Company to Petropavlovsk as described in “(b) Recourse Agreement” above will be shared by Petropavlovsk with General Nice in the same proportion.

The entry into the Deed of Indemnity constitutes a special deal under note 5 to Rule 25 of the Takeovers Code — please refer to paragraph “(f) Specials Deals” below for further details.

(d) Side Letter with General Nice

On 17 January 2013, Petropavlovsk and General Nice entered into a side letter which shall be effective from General Nice Initial Subscription Completion and until the expiry of the General Nice Further Subscription Exercise Period or, if the General Nice Further Subscription Right is exercised, General Nice Further Subscription Completion, under which (i) Petropavlovsk will support the appointment of two representatives nominated by General Nice to serve as non-executive Directors to the Board; (ii) Petropavlovsk undertakes to General Nice not to dispose of Shares held by it; and (iii) General Nice undertakes to Petropavlovsk to use its best endeavours, at the request of Petropavlovsk, to assist Petropavlovsk to procure the release of the ICBC Guarantee.

(e) Shareholders’ Agreement

Under the terms of the Shareholders’ Agreement, entered into on 17 January 2013, in accordance with the shareholdings of Petropavlovsk and the Investors in the Company calculated using a prescribed formula, Petropavlovsk, on the one hand, and the Investors, on the other, may nominate up to three representatives to serve as Director of the Company. Petropavlovsk and the Investors each agree to, among other things: (i) exercise their respective voting rights so as to support the appointment of representatives nominated by the other party to serve as a Director of the Company; and (ii) procure that their nominated Directors, subject to fiduciary duties and other relevant restrictions under law, also support the appointment. The Investors shall also be entitled to nominate one person to the Company’s Executive Committee.

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Petropavlovsk has undertaken to the Investors to exercise its voting rights so as to support the Offtake Arrangement and any renewal of the Offtake Arrangement, if any, subject to fiduciary duties and other relevant restrictions under law. However, Petropavlovsk will abstain from voting on the Offtake Arrangement at the EGM as the resolution for approving the Offtake Arrangement is interconditional with the resolution approving the Deed of Indemnity, in which Petropavlovsk has an interest. In respect of any future resolution of Shareholders falling within this undertaking, Petropavlovsk will abstain from voting if required under the Listing Rules.

If General Nice or an affiliate of General Nice proposes to sell any interest in mineral assets to the Company, Petropavlovsk has undertaken to procure that the Board will consider such a proposal in good faith, and the Investors have undertaken that their nominated Directors will abstain from voting in any resolutions of the Board relating to such a proposal if required by law or regulations or the Company's articles of association.

Petropavlovsk has undertaken, so far as it is not required by the Listing Rules to abstain from voting, to support any such asset sale proposal provided that any independent financial adviser appointed by the Company for such purpose opines that the terms of the proposal are fair and reasonable in so far as the independent shareholders of the Company are concerned.

Petropavlovsk and the Investors have given mutual undertakings not to, and will procure that parties acting in concert with it will not, acquire voting rights in the Company which would result in an obligation to make a mandatory general offer by any or all of Petropavlovsk and the Investors in accordance with the Takeovers Code.

The Shareholders' Agreement contains no restrictions on the disposal of Shares save for (i) an undertaking from Petropavlovsk to the Investors not to dispose of any Shares held by it for a period of 12 months following Total Investment Completion; and (ii) mutual undertakings from each of Petropavlovsk, General Nice and Minmetals Cheerglory to give each other notice of any dealings in Shares.

(f) Special Deals

The agreement of the amount and payment of the Guarantee Fee referred to in paragraph "(b) Recourse Agreement" above and the entry into the Deed of Indemnity referred to in paragraph "(c) Deed of Indemnity" above constitute special deals under note 4 and note 5 to Rule 25 of the Takeovers Code, respectively. Accordingly, the agreement of the amount of the Guarantee Fee and entry into the Deed of Indemnity (the Special Deals) require the consent of the Executive. Such consent, if granted, will be subject to (i) the Independent Financial Adviser opining that, the terms of the Special Deals are fair and reasonable and (ii) the approval of the Special Deals by the Independent Shareholders by way of poll at the EGM.

If the Special Deals are not approved by the Independent Shareholders, the Share Issue Transaction and the Offtake Arrangement will not proceed.

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(g) Non-Competition Deed with Petropavlovsk

As from General Nice Further Subscription Completion, given that Petropavlovsk will hold less than 50% of the issued share capital of the Company, the mutual non-competition obligations on the Company and Petropavlovsk contained in the deed of non-competition dated 22 September 2010 between the Company and Petropavlovsk will terminate in accordance with the terms of such deed of non-competition. However, given the different minerals on which Petropavlovsk and the Company focus, the Directors do not consider that this will prejudice the Group.

7 SHAREHOLDING STRUCTURE OF THE COMPANY

(a) Shareholding structure immediately after General Nice Initial Subscription Completion

	As at the Latest Practicable Date		Immediately after General Nice Initial Subscription Completion	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
GENERAL NICE AND PARTIES ACTING IN CONCERT WITH IT				
General Nice and its concert parties ¹	0	0.00	817,536,000	18.96
Minmetals Cheerglory ²	0	0.00	0.00	0.00
Petropavlovsk ⁴	<u>2,205,900,000</u>	<u>63.13</u>	<u>2,205,900,000</u>	<u>51.16</u>
Total shareholdings of General Nice and parties acting in concert with it	<u>2,205,900,000</u>	<u>63.13</u>	<u>3,023,436,000</u>	<u>70.12</u>
OTHER SHAREHOLDINGS				
Directors				
George Jay Hambro	23,220,000	0.66	23,220,000	0.54
	352,000	0.01	352,000	0.01
Yury Makarov	20,317,500	0.58	20,317,500	0.47
	238,000	0.01	238,000	0.01
Raymond Kar Tung Woo	14,512,500	0.42	14,512,500	0.34
	<u>120,000</u>	<u>0.00</u>	<u>120,000</u>	<u>0.00</u>
	<u>58,760,000</u>	<u>1.68</u>	<u>58,760,000</u>	<u>1.36</u>
Independent Shareholders	<u>1,229,374,301</u>	<u>35.18</u>	<u>1,229,374,301</u>	<u>28.51</u>
Total other shareholdings	<u>1,288,134,301</u>	<u>36.87</u>	<u>1,288,134,301</u>	<u>29.88</u>
TOTAL	<u><u>3,494,034,301</u></u>	<u><u>100.00</u></u>	<u><u>4,311,570,301</u></u>	<u><u>100.00</u></u>

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(b) Shareholding structure immediately after Total Investment Completion (assuming General Nice Further Subscription Right is exercised within 3 months of General Nice Initial Subscription Completion)

		Immediately after General Nice Initial Subscription Completion		Immediately after Total Investment Completion (assuming General Nice Further Subscription Right is exercised within 3 months of General Nice Initial Subscription Completion)	
		<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
GENERAL NICE AND PARTIES ACTING IN CONCERT WITH IT					
General Nice and its concert parties ¹		817,536,000	18.96	1,715,200,000	31.43
Minmetals Cheerglory ²		0	0.00	247,300,000	4.53
Petropavlovsk ⁴		<u>2,205,900,000</u>	<u>51.16</u>	<u>2,205,900,000</u>	<u>40.43</u>
Total shareholdings of General Nice and parties acting in concert with it		<u>3,023,436,000</u>	<u>70.12</u>	<u>4,168,400,000</u>	<u>76.39</u>
OTHER SHAREHOLDINGS					
Directors					
George Jay Hambro	Contingent beneficial interest ³	23,220,000	0.54	23,220,000	0.43
	Beneficial interest	352,000	0.01	352,000	0.01
Yury Makarov	Contingent beneficial interest ³	20,317,500	0.47	20,317,500	0.37
	Beneficial interest	238,000	0.01	238,000	0.00
Raymond Kar Tung Woo	Contingent beneficial interest ³	14,512,500	0.34	14,512,500	0.27
	Beneficial interest	<u>120,000</u>	<u>0.00</u>	<u>120,000</u>	<u>0.00</u>
		<u>58,760,000</u>	<u>1.36</u>	<u>58,760,000</u>	<u>1.08</u>
Independent Shareholders		<u>1,229,374,301</u>	<u>28.51</u>	<u>1,229,374,301</u>	<u>22.53</u>
Total other shareholdings		<u>1,288,134,301</u>	<u>29.88</u>	<u>1,288,134,301</u>	<u>23.61</u>
TOTAL		<u>4,311,570,301</u>	<u>100.00</u>	<u>5,456,534,301</u>	<u>100.00</u>

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(c) Shareholding structure immediately after Total Investment Completion (assuming General Nice Further Subscription Right is exercised later than 3 months after General Nice Initial Subscription Completion)

	Immediately after General Nice Initial Subscription Completion		Immediately after Total Investment Completion (assuming General Nice Further Subscription Right is exercised later than 3 months after General Nice Initial Subscription Completion)		
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>	
GENERAL NICE AND PARTIES ACTING IN CONCERT WITH IT					
General Nice and its concert parties ¹	817,536,000	18.96	1,706,684,000	31.33	
Minmetals Cheerglory ²	0	0.00	247,300,000	4.54	
Petropavlovsk ⁴	<u>2,205,900,000</u>	<u>51.16</u>	<u>2,205,900,000</u>	<u>40.49</u>	
Total shareholdings of General Nice and parties acting in concert with it	<u>3,023,436,000</u>	<u>70.12</u>	<u>4,159,884,000</u>	<u>76.36</u>	
OTHER SHAREHOLDINGS					
Directors					
George Jay Hambro	Contingent beneficial interest ³	23,220,000	0.54	23,220,000	0.43
	Beneficial interest	352,000	0.01	352,000	0.01
Yury Makarov	Contingent beneficial interest ³	20,317,500	0.47	20,317,500	0.37
	Beneficial interest	238,000	0.01	238,000	0.00
Raymond Kar Tung Woo	Contingent beneficial interest ³	14,512,500	0.34	14,512,500	0.27
	Beneficial interest	<u>120,000</u>	<u>0.00</u>	<u>120,000</u>	<u>0.00</u>
		<u>58,760,000</u>	<u>1.36</u>	<u>58,760,000</u>	<u>1.08</u>
Independent Shareholders		<u>1,229,374,301</u>	<u>28.51</u>	<u>1,229,374,301</u>	<u>22.57</u>
Total other shareholdings		<u>1,288,134,301</u>	<u>29.88</u>	<u>1,288,134,301</u>	<u>23.64</u>
TOTAL		<u>4,311,570,301</u>	<u>100.00</u>	<u>5,448,018,301</u>	<u>100.00</u>

Notes to tables at (a), (b) and (c):

Note 1: Does not include the holdings of Minmetals Cheerglory or Petropavlovsk.

Note 2: Although Minmetals Cheerglory is a party acting in concert with General Nice for the purposes of the Takeovers Code, Minmetals Cheerglory will not be a substantial shareholder or a connected person of the Company under the Listing Rules after Total Investment Completion. As such, for the purposes of Rule 8.24(2) of the Listing Rules, Minmetals Cheerglory is a member of the public.

Note 3: Subject to the fulfillment of certain performance conditions, and subject to a three-year bullet vesting period.

Note 4: Petropavlovsk owns 100% of the issued share capital of Cayiron Limited, which in turn directly holds shares in the Company.

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8 THE OFFTAKE ARRANGEMENT

(a) Offtake Arrangement

Date	17 January 2013
Parties	(a) the Investors (as offtakers), and (b) the Company (as seller).
Term	From General Nice Initial Subscription Completion Date until the date falling 15 years from the commencement of commercial production of iron ore concentrate from the Group's K&S Project (i.e. greater than or equal to 1 million tonnes over a 12 month period).

Under the Offtake Framework Agreement and the Seaborne Offtake Agreement, which shall each take effect from General Nice Initial Subscription Completion and subject as provided under "Pro Rata Adjustments" below, in respect of the Group's Projects and Products (i) the Company shall sell and the Investors shall purchase Product which is nominated by the Company to be Seaborne Product; and (ii) the Investors shall assist the Group in developing its sales and marketing capacity in the dry port market (i.e. Product to be exported by rail crossing rather than by sea) and in the identification of customers for Dry Port Product, for which the Company shall pay the Investors the Dry Port Marketing Commission.

(i) *Seaborne Product*

Under the Offtake Arrangement, no later than 90 days before the beginning of each calendar year the Company may nominate, in its absolute discretion, an amount in tonnes of its Product to be sold to the Investors as Seaborne Product in that year. The tonnage for each quarter within the year will be assumed to be equal (unless production schedules are known to change during that year for projects ramping up or depleting). No later than 60 days prior to each quarter, the Company may revise its quarterly figure up or down by up to 15%. Each month within the quarter (as adjusted) will be assumed to be equal, and no later than 40 days prior to each month, the Company may revise its monthly figure up or down by up to 10%. The Investors shall have the right and obligation to purchase that adjusted monthly tonnage of Seaborne Product (Take or Pay Quantity). For each year, the Company may nominate up to the entirety of its Product as Seaborne Product, but is not required to nominate a minimum amount of Product as Seaborne Product. Assuming that Total Investment Completion has occurred, the Investors shall have the exclusive right to purchase 100% of the Group's Product which is sold as Seaborne Product (and the Company shall not be entitled to sell any Seaborne Product to third parties).

The obligations of the Investors to purchase the Take or Pay Quantity shall be joint and several, save that in respect of each specific shipment, the Investors may notify the Company which of them shall be the Specified Investor in respect of that shipment, in which case that

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Specified Investor shall be solely responsible for taking delivery of, and making payment for, that shipment (or, if it nominates another entity to do so, guaranteeing the obligations of that other entity).

The pricing mechanism for K&S Seaborne Product has been agreed between the parties, but the pricing mechanism for Seaborne Products other than K&S Seaborne Product (such as those from other Projects) has not yet been determined because the nature of those other Products are not yet known to the parties. The price for each shipment of K&S Seaborne Product will be the average relevant Platts IODEX iron ore fines price for the 20 days prior to the bill of lading date for which such index has been published less 7% of such price, based upon the dry weight and the iron content of such Product, with further agreed adjustments for certain impurities as provided under “Adjustments for impurities” below. It is intended that the Platts IODEX will also be used as the relevant third party index to price Garinskoye Seaborne Product. However, the exact indices of Platts IODEX to be used in respect of Garinskoye Seaborne Product has not yet been determined by the parties as the Fe content of the Garinskoye Seaborne Product is not yet known. In the event that the parties are unable to agree a specific Platts IODEX index to be used as the basis for pricing the Garinskoye Seaborne Product, the Stock Exchange has advised that it would need to reconsider the waiver granted by it (please see page 36 of this circular for further details) in respect of the Garinskoye Seaborne Product. In that circumstance, the Offtake Arrangement Annual Caps could be reduced to the expected annual production capacity of the K&S Project over the term of the Offtake Arrangement (with a 10% buffer) and the Company will comply with Chapter 14A of the Listing Rules in respect of any proposed sale of Garinskoye Seaborne Product to the Investors in excess of such reduced Offtake Arrangement Annual Caps.

The terms for pricing and adjustments for product quality and impurities for Seaborne Product other than K&S Seaborne Product shall be determined by agreement between the parties (acting in good faith) prior to commencement of commercial production of the relevant Project taking into consideration the particular physical and commercial characteristics of the Product. It is expected that the terms for pricing and adjustments for product quality and impurities for K&S Product will be used as the starting point for discussions between the parties in relation to agreeing such terms for Garinskoye Seaborne Product (although certain amendments may need to be made to reflect the particular physical and commercial characteristics of the Garinskoye Seaborne Product once they are known). The Directors believe that the use of the Platts IODEX as the relevant third party index to price Garinskoye Seaborne Product and the use of the pricing and adjustment terms for K&S Seaborne Product as the starting point for discussions will help to ensure that such terms in relation to Garinskoye Seaborne Product are fair and reasonable and in the interests of the Company and the Shareholders particularly given that the Independent Board Committee consider that those terms in relation to K&S Seaborne Product to be consistent with market practice. If the parties reach an agreement in relation to the terms for pricing and adjustments for product quality and impurities for Garinskoye Seaborne Product, the Company will disclose details of such terms by way of an announcement to Shareholders.

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In the unlikely event that the parties (acting in good faith) are unable to agree terms for pricing and adjustments for product quality and impurities in relation to Product other than K&S Seaborne Product, it is expected that such Product shall not be subject to the terms of the Seaborne Offtake Agreement but will remain subject to the terms of the Offtake Framework Agreement. Accordingly, the Company would be free to sell such Product as Seaborne Product to parties other than the Investors but any sale of such Product as Dry Port Product would be subject to the Dry Port Marketing Commission as described in the paragraph headed “Dry Port Marketing Commission” below.

Platts, a division of The McGraw-Hill Companies, is a global provider of energy, petrochemicals and metals information, and a source of benchmark price assessments for those commodity markets. According to Platts, it assesses the daily transaction value of seaborne iron ore sold in the spot market imported into China. The benchmark assessment is based on a standard specification of iron ore fines with an iron (Fe) content of 62%. From this benchmark, a series of indices (known as Platts IODEX) are derived and published in respect of iron ore fines with differing Fe content (for instance, there are Platts IODEX indices for Fe content of 65%, 63.5% and 62%). The Seaborne Offtake Agreement sets out the specific Platts IODEX to be used depending on the Fe content of the shipment of K&S Seaborne Product with a stated range and provision for adjustments up or down based upon the exact Fe content compared to the index used.

The K&S Seaborne Product price has been determined after arms’ length negotiations between the Company and the Investors with reference to recent trading prices of iron ore concentrate and the commitment by the Investors to purchase up to the entire production from the Projects for a long-term period. The 7% discount to the relevant Platts IODEX is also intended to compensate the Investors for the obligation to buy all the Seaborne Product as nominated by the Company over the term of the Offtake Arrangement.

Payment for a shipment of K&S Seaborne Product shall be satisfied by: (a) the payment of 90% of the provisional price for the product under an irrevocable documentary letter of credit opened no later than seven Business Days before loading with such provisional price determined based on the relevant Platts IODEX on two Business Days before the date of the shipment contract; and (b) the balance (based on the final price) settled by telegraphic transfer remittance no later than the fifth Business Day from and including the date of receipt of a final invoice from the Company, taking into account any adjustment for impurities.

If the Company fails to deliver a shipment of K&S Seaborne Product to the Specified Investor within the agreed period, or delivers K&S Seaborne Product with an iron content which permits the Specified Investor to reject the Product, the Company may be required (without prejudice to any other rights which that Specified Investor may have) to pay that Specified Investor an amount that is 7% of the total price of that shipment of K&S Seaborne Product.

(ii) *Dry Port Marketing Commission*

Under the Offtake Arrangement, the Company will pay a Dry Port Marketing Commission to the Investors in consideration for the Investors agreeing to use reasonable efforts to assist the Company in developing its sales and marketing capacity and in the

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identification of customers for the export of Products via a dry port railway border crossing. The Company has undertaken to indemnify the Investors against any losses, liabilities, costs and/or expenses in connection with any claim or alleged claim by any third parties against the Investors as a result of or arising out of the proper performance of these services.

The Dry Port Marketing Commission payable in aggregate to the Investors each year shall be the amount of sales revenue from all Dry Port Products multiplied by a commission of 5% save that, if the total tonnage of Dry Port Products exceeds the Dry Port Product Cap, no commission whatsoever shall be payable in respect of dry port product sales in excess of the Dry Port Product Cap. The Dry Port Marketing Commission shall be payable one month in arrears to each of the Investors on the last Business Day of each month. The Dry Port Marketing Commission has been determined after arms' length negotiation between the Company and the Investors.

Under the terms of the Offtake Arrangement, the Dry Port Marketing Commission is payable on all sales of Dry Port Product (subject to the Dry Port Product Cap) regardless of whether a particular sale is directly attributable to any services provided by the Investors. The Directors consider the Dry Port Marketing Commission (which is only payable on products sold dry port up to 65% of total production) is fair and reasonable and in the interests of the Company and its shareholders taking into account: (a) the fact that the Investors have committed to acquire, at the option of the Group, up to 100% of the Group's production for 15 years without having the right to acquire any Product if the Company chooses to sell all Products in the dry port market; (b) the 5% figure (with 65% cap on all Product) is less than the 7% discount to the benchmark index the Company has negotiated as the K&S Seaborne Product price; (c) the amount was reached after extensive arms' length negotiations between the parties and is an essential requirement of the Investors for agreeing to give the Company the flexibility for determining whether any or all product is to be sold to them seaborne or to third parties via dry port; and (d) the Investors have agreed to assist the Company in developing its Dry Port Product sales and marketing capacity and assist in the identification of customers for the Dry Port Product.

(iii) *Pro rata adjustments*

As stated above, assuming that Total Investment Completion has occurred, the Investors shall have the exclusive right to purchase 100% of the Group's Product which is sold as Seaborne Product and the Dry Port Product Cap will be 65% of the total tonnage of Product for the relevant year. If at any time thereafter the aggregate combined shareholding of the Investors and their respective subsidiaries in the issued share capital of the Company (calculated by reference to the number of shares in issue as at the date of Minmetals Cheerglory Subscription Completion) (a) falls below 20%, the Applicable Seaborne Percentage and the Dry Port Product Cap for the calendar year following such an event shall be adjusted to 61.54% and 40% of the total tonnage of Product for the relevant year, respectively; and (b) falls below 10%, the Applicable Seaborne Percentage and the Dry Port Product Cap for the calendar year following such an event shall be adjusted to 30.77% and 20% of the total tonnage of Product for the relevant year, respectively.

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If, however, General Nice Initial Subscription Completion has occurred but General Nice Further Subscription Completion has not occurred, the Applicable Seaborne Percentage will be adjusted to 41.66%; and the Dry Port Product Cap will be adjusted to 27.08% of the total tonnage of Product for the relevant year. If at any time thereafter the shareholding of General Nice and its subsidiaries in the issued share capital of the Company (calculated by reference to the number of shares in issue as at the date of General Nice Initial Subscription Completion) falls below 10%, the Applicable Seaborne Percentage and the Dry Port Product Cap for the calendar year following such an event shall be adjusted to 21.97% and 14.28% of the total tonnage of Product for the relevant year, respectively.

If, however, General Nice Initial Subscription Completion and General Nice Further Subscription Completion have occurred but for whatever reason Minmetals Cheerglory Subscription Completion has not occurred, the Applicable Seaborne Percentage will be adjusted to 87.40% and the Dry Port Product Cap will be adjusted to 56.81% of the total tonnage of Product for the relevant year. If at any time thereafter the shareholding of General Nice and its subsidiaries in the issued share capital of the Company (calculated by reference to the number of shares in issue as at the date of General Nice Further Subscription Completion) (a) falls below 20%, the Applicable Seaborne Percentage and the Dry Port Product Cap for the calendar year following such an event shall be adjusted to 53.78% and 34.96% of the total tonnage of Product for the relevant year, respectively; and (b) falls below 10%, the Applicable Seaborne Percentage and the Dry Port Product Cap for the calendar year following such an event shall be adjusted to 26.89% and 17.48% of the total tonnage of Product for the relevant year, respectively.

If the combined shareholdings of the Investors and their respective subsidiaries falls below 5% (calculated by reference to the number of shares in issue as at the date of Minmetals Cheerglory Subscription Completion), the rights and obligations of the Company and each Investor under the Offtake Framework Agreement and the Seaborne Offtake Agreement will be suspended but the parties will review and attempt to renegotiate the terms of the Offtake Framework Agreement and the Seaborne Offtake Agreement. If the parties are unable to reach agreement on renegotiated terms for the Offtake Framework Agreement and the Seaborne Offtake Agreement within 30 days from the day the combined shareholdings of Investors and their respective subsidiaries falls below 5% (calculated by reference to the number of shares in issue as at the date of completion under the Minmetals Cheerglory Subscription Completion), the Offtake Framework Agreement and the Seaborne Offtake Agreement will be terminated.

(iv) *Adjustments for impurities*

Adjustments to the K&S Seaborne Product price for impurities, which is consistent with market practice, are determined based upon an agreed schedule of objective price adjustments.

For each impurity, the Seaborne Offtake Agreement sets out a maximum percentage level of impurity and a price adjustment to the extent that actual impurity content exceeds the stated maximum. Impurities will not enable the Investors to reject K&S Seaborne Product even if impurity levels exceed the maximum.

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The level of impurities will be determined pursuant to certificates issued by independent third parties at the loading and discharge ports and will be conclusively determined based upon these certificates (with provision for a third party umpire in the case of significant divergence).

There are numerous different impurities which could potentially lead to price adjustments, and the formulae for each is different depending on the iron content of the K&S Seaborne Product.

Such adjustments for impurities are not expected to lead to significant variations in the per tonne price, and are entirely consistent with market practice in offtake agreements of this type.

(b) Term

The term of the Offtake Arrangement is proposed to commence from the General Nice Initial Subscription Completion Date until the date falling 15 years from the first day of the first 12-month period after first commercial delivery of iron ore concentrate from the K&S Project where the aggregate production volume of Product for that 12-month period is equal to or greater than 1 million tonnes. This date is expected to occur in 2014. The Company believes that the nature of the Group's business and the market in which it operates requires that the terms of the Offtake Arrangement exceed three years and the Independent Financial Adviser has confirmed in its letter to the Independent Board Committee and the Independent Shareholders that it is normal business practice for contracts of this type to be of such duration.

(c) Annual Caps

The Company proposes the Offtake Arrangement Annual Caps to be as follows:

Year	2014	2015	2016 to 2029
Annual cap (in mt*)	3.5	7.6	12.1

* mt means million tonnes

The above proposed annual caps, which are subject to approval by the Independent Shareholders at the EGM, have been determined with reference to the expected annual production capacity of the Group's Projects over the term of the Offtake Arrangement (based on the K&S Project and Garinskoye Project), with a 10% buffer in the event of over-production. The Offtake Arrangement Annual Cap for each of the years from 2016 to 2029 has been determined based on the highest expected annual production capacity of the Group's Projects (with 10% buffer) over the period 2016 to 2029, which is 12.1 million tonnes. However, as can be seen from the expected annual production capacity of the Group's Projects (with 10% buffer) set out on page 36 of this circular, the fluctuations in expected annual production capacity from 2016 to 2029 are minimal. The proposed Offtake Arrangement Annual Caps apply to the term of the Offtake Arrangement and to the Offtake Arrangement as a whole, and reflect the expected transaction volumes of all Seaborne Product and Dry Port Product under the Offtake Arrangement. In the event that the Offtake Arrangement Annual Caps are no longer adequate as a result of other Projects which are

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subject to the Offtake Arrangements commencing production, the Company will consider increasing the Offtake Arrangement Annual Caps and will comply with the Listing Rules in respect of any such increase to the Offtake Arrangement Annual Caps.

The K&S Project is at an advanced stage of construction and is scheduled to commence first commercial production of iron ore concentrate in 2014. Set out below is a summary of the expected production capacity of Product at the K&S Project over the term of the Offtake Arrangement.

	Units	2013	2014	2015	2016	2017	2018	2019	2020	
Production capacity	mt	—	3.2	4.8	6.3	6.1	6.2	6.1	6.1	
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Production capacity	mt	6.2	6.1	6.1	6.3	6.4	6.4	6.1	6.4	6.4

* mt means million tonnes

As announced on 12 April 2012 by the Company, the Company has concluded a scoping study for the development of Garinskoye based upon a direct shipment ore model which would involve the combined production of 2.4 million tonnes per annum of high-grade ore and 8.5 million tonnes per annum of lower-grade ore for stockpiling and later processing. Assuming financing is obtained by the end of 2013 and this project is developed on a “best case” timetable, production from Garinskoye is estimated to be 2.1 million tonnes of Product (comprising 60% Fe grade iron ore fines) per annum commencing in 2015. As mentioned in the 12 April 2012 announcement, the Company continues analysis on a larger scale operation at Garinskoye which is estimated to increase total annual production of Product to 4.6 million tonnes for the life of the mine (as stated in the Competent Person’s Report dated 30 September 2010 and contained in the Company’s initial public offering prospectus). Subject to obtaining further financing on a timely basis and completion of a satisfactory feasibility study, the Company expects that the “best case” timetable for such further ramp-up would be to commence increased production in 2016. Accordingly, on the above-mentioned assumptions, the estimated production of Product from Garinskoye over the term of the Offtake Arrangement would be as follows:

	Units	2013	2014	2015	2016	2017	2018	2019	2020	
Production capacity	mt	—	—	2.1	4.6	4.6	4.6	4.6	4.6	
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Production capacity	mt	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6

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The expected annual production capacity of the Group's Projects over the term of the Offtake Arrangement (based on the K&S Project and Garinskoye Project), with a 10% buffer in the event of over-production is therefore as follows:

	Units	2013	2014	2015	2016	2017	2018	2019	2020	
Production capacity	mt	—	3.5	7.6	12.0	11.8	11.9	11.8	11.8	
		2021	2022	2023	2024	2025	2026	2027	2028	2029
Production capacity	mt	11.9	11.8	11.8	12.0	12.1	12.1	11.8	12.1	12.1

The Company has sought and obtained a waiver from strict compliance with Listing Rule 14A.35(2) so as to allow the proposed Offtake Arrangement Annual Caps to be expressed as fixed quanta, being maximum expected transaction volumes of Products under the Offtake Arrangement, rather than in terms of monetary value, on the condition that sufficient disclosure illustrating how the change in assumptions outside the control of the Company will affect the monetary value of the transactions contemplated under the Offtake Arrangement will be included in this circular.

As stated above, the price for each shipment of K&S Seaborne Product will be the average relevant Platts IODEX iron ore fines price for the 20 days prior to the bill of lading date which such index has been published less 7% of such price, based upon the dry weight and the iron content of such Product; and the Dry Port Marketing Commission payable in aggregate to the Investors each year shall be the amount of sales revenue from all Dry Port Products multiplied by a commission of 5% save that, if the total tonnage of Dry Port Products exceeds the Dry Port Product Cap, no commission whatsoever shall be payable in respect of dry port product sales in excess of the Dry Port Product Cap. As these prices are determined with reference to a global price index of iron ore, changes to these prices which affect the monetary value of the transactions under the Offtake Arrangement are outside the control of the Company.

In order for the Company to have determined annual monetary caps, the Company would need to pick a historical iron ore price to form the relevant assumptions for those annual monetary caps. The following paragraphs and graphs illustrate why annual caps for the Offtake Arrangement based on the monetary value of the transactions thereunder would not be appropriate. For illustrative purposes, the iron ore prices used in the following examples have been extracted from the TSIPIO62 index (China import Ore Fines 62% Fe spot (CFR Tianjin port) USD/dry metric tonne).¹

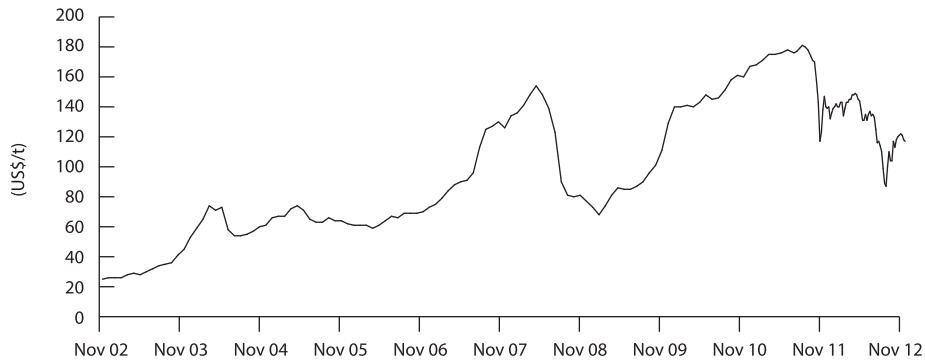
¹ Platts IODEX iron ore fines prices have not been used in the illustrative examples as the information is proprietary to Platts and cannot be reproduced without consent from Platts; it has not been practicable for the Company to obtain such consent from Platts within the timeframe permitted.

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As shown in “Graph 1: 10-year historical iron ore prices” below, the monthly average prices from iron ore have been as low as US\$25 per tonne to as high as US\$181 per tonne between November 2002 and November 2012, with sharp price movements both upwards and downwards being a regular occurrence especially in recent years. Given the volatility of historical iron ore prices, it would not be meaningful for the Company to pick one historical iron ore price as the baseline price to form the assumptions for annual monetary caps since the actual benchmark price used for the transactions under the Offtake Arrangement throughout its term may differ significantly from such baseline price. It would also not meaningful for the Company to use the highest historical price as the baseline price as there have been repeated instances of highest historical prices in recent years.

Graph 1: 10-year historical iron ore prices

Monthly Average CFR Prices of Chinese Imported Iron Ore



Source: (1) Monthly data from Q4 2002 to Q2 2011 based on data from China customs
(2) Monthly data from Q3 2011 up to date based on data from Bloomberg

To illustrate how different iron ore prices affect the monetary values under the Offtake Arrangement, “Table 1: Offtake Arrangement sensitivity analysis” below shows (i) the expected production volumes from the Group’s Projects over the term of Offtake Arrangement (excluding any buffer amounts), (ii) the estimated maximum annual amounts receivable or payable under the Offtake Arrangement over that period using an assumed historical iron ore price and (iii) a sensitivity analysis showing the changes to maximum annual amounts receivable or payable under the Offtake Arrangement for 2014, 2015 and 2016 using various historical iron ore prices and production percentages. For simplicity, the sensitivity analysis has been presented only for 2014, 2015 and 2016, because the Offtake Arrangement Annual Cap for 2016 is the same for each of the years 2017 until 2029. As can be seen from the sensitivity analysis, the amounts receivable from sales of Seaborne Product and the Dry Port Marketing Commission payable will vary significantly depending on global iron ore price, which is outside of the Company’s or the Investors’ control.

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Table 1: Offtake Arrangement sensitivity analysis

	2013	2014	2015	2016	2017	2018	2019	2020	
Expected production volume (mt)	—	3.2	6.9	10.9	10.7	10.8	10.7	10.7	
K&S Project	—	3.2	4.8	6.3	6.1	6.2	6.1	6.1	
Garinskoye Project	—	—	2.1	4.6	4.6	4.6	4.6	4.6	
Total volume assuming 10% over-production (mt)	—	3.5	7.6	12.0	11.8	11.9	11.8	11.8	
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Expected production schedule (mt)	10.8	10.7	10.7	10.9	11.0	11.0	10.7	11.0	11.0
K&S Project	6.2	6.1	6.1	6.3	6.4	6.4	6.1	6.4	6.4
Garinskoye Project	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Total volume assuming 10% over-production (mt)	11.9	11.8	11.8	12.0	12.1	12.1	11.8	12.1	12.1
Seaborne Product Sales									
CFR price (US\$/t)							120.0 (Assumption)		
Price discount (%) (note 1)								7.0%	
Assumed Offtake price (US\$/t)								111.6	
Assumed Seaborne Product quantity as % of production								100.0%	
	2013	2014	2015	2016	2017	2018	2019	2020	
Expected production volume (mt)	—	3.2	6.9	10.9	10.7	10.8	10.7	10.7	
Offtake value (US\$m) (note 2)	—	357	770	1,216	1,194	1,205	1,194	1,194	
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Expected production volume (mt)	10.8	10.7	10.7	10.9	11.0	11.0	10.7	11.0	11.0
Offtake value (US\$m) (note 2)	1,205	1,194	1,194	1,216	1,228	1,228	1,194	1,228	1,228
Dry Port Product Sales/DAP									
DAP price (US\$/t) (note 3)							120.0 (Assumption)		
Royalty as % of DAP price								5.0%	
Dry Port Product quantity as % of production								100.0%	
Marketing commission cap (note 4)								65.0%	

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	2013	2014	2015	2016	2017	2018	2019	2020
Marketing commission volume (mt)	—	2.1	4.5	7.1	7.0	7.0	7.0	7.0
Marketing commission value (US\$m) (note 5)	—	12	27	43	42	42	42	42

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Marketing commission volume (mt)	7.0	7.0	7.0	7.1	7.2	7.2	7.0	7.1	7.2
Marketing commission value (US\$m) (note 5)	42	42	42	43	43	43	42	43	43

Seaborne Product Sales sensitivities

The following sensitivity tables demonstrate sensitivities to different CFR prices depending on different scenarios as to the percentage of Product which is sold as Seaborne Product, for each of the years 2014, 2015 and 2016 (assuming the expected production volume for each of those years)

		2014 Seaborne Product Sales value (US\$ m)							
		CFR price (US\$/t)							
		100	125	150	175	200	225	250	
Seaborne Product quantity as % of production	0%	—	—	—	—	—	—	—	—
	20%	60	74	89	104	119	134	149	
	40%	119	149	179	208	238	268	298	
	60%	179	223	268	312	357	402	446	
	80%	238	298	357	417	476	536	595	
	100%	298	372	446	521	595	670	744	
	110%	327	409	491	573	655	737	818	

		2015 Seaborne Product Sales value (US\$ m)							
		CFR price (US\$/t)							
		100	125	150	175	200	225	250	
Seaborne Product quantity as % of production	0%	—	—	—	—	—	—	—	—
	20%	128	160	193	225	257	289	321	
	40%	257	321	385	449	513	578	642	
	60%	385	481	578	674	770	866	963	
	80%	513	642	770	898	1,027	1,155	1,283	
	100%	642	802	963	1,123	1,283	1,444	1,604	
	110%	706	882	1,059	1,235	1,412	1,588	1,765	

		2016 Seaborne Product Sales value (US\$ m)							
		CFR price (US\$/t)							
		100	125	150	175	200	225	250	
Seaborne Product quantity as % of production	0%	—	—	—	—	—	—	—	—
	20%	203	253	304	355	405	456	507	
	40%	405	507	608	710	811	912	1,014	
	60%	608	760	912	1,064	1,216	1,368	1,521	
	80%	811	1,014	1,216	1,419	1,622	1,825	2,027	
	100%	1,014	1,267	1,521	1,774	2,027	2,281	2,534	
	110%	1,115	1,394	1,673	1,951	2,230	2,509	2,788	

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Dry Port Marketing Commission sensitivities

The following sensitivity tables demonstrate sensitivities to different CFR prices depending on different scenarios as to the quantity of Dry Port Product as a percentage of total production for each of the years 2014, 2015 and 2016 (assuming the expected production volume for each of those years).

2014 Dry Port Marketing Commission value (US\$ million)

		CFR price (US\$/t)						
		100	125	150	175	200	225	250
0%		—	—	—	—	—	—	—
20%		3	4	5	6	6	7	8
40%		6	8	10	11	13	14	16
60%		10	12	14	17	19	22	24
80%		10	13	16	18	21	23	26
100%		10	13	16	18	21	23	26
110%		10	13	16	18	21	23	26

2015 Dry Port Marketing Commission value (US\$ million)

		CFR price (US\$/t)						
		100	125	150	175	200	225	250
0%		—	—	—	—	—	—	—
20%		7	9	10	12	14	16	17
40%		14	17	21	24	28	31	35
60%		21	26	31	36	41	47	52
80%		22	28	34	39	45	50	56
100%		22	28	34	39	45	50	56
110%		22	28	34	39	45	50	56

2016 Dry Port Marketing Commission value (US\$ million)

		CFR price (US\$/t)						
		100	125	150	175	200	225	250
0%		—	—	—	—	—	—	—
20%		11	14	16	19	22	25	27
40%		22	27	33	38	44	49	55
60%		33	41	49	57	65	74	82
80%		35	44	53	62	71	80	89
100%		35	44	53	62	71	80	89
110%		35	44	53	62	71	80	89

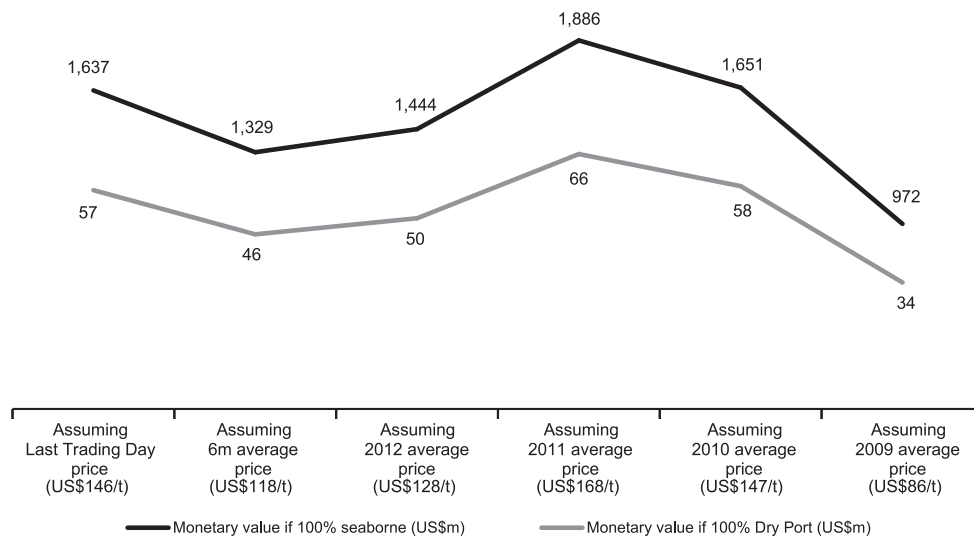
Notes:

1. The 7.0% price discount is based upon the agreed discount in respect of K&S Seaborne Product.
2. The offtake value is calculated by multiplying the expected production volume for a relevant year with the assumed discounted offtake price of US\$111.6 per tonne.
3. It has been assumed for the purposes of this sensitivity analysis that the DAP price is the same as the CFR price for Seaborne Product.
4. A 65% cap has been applied to the marketing commission volume to reflect the Dry Port Product Cap.
5. The marketing commission value is calculated by multiplying the marketing commission volume for a relevant year with the assumed DAP price of US\$120 per tonne and multiplying that by the 5% royalty to reflect the Dry Port Marketing Commission.
6. mt denotes million tonnes and US\$/t means US\$ per tonne.

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Assuming that the price for each shipment of Seaborne Product and the price for Dry Port Products are the same, set out below in “Graph 2: Monetary values of 2016 transactions based on historical average price points” is an illustrative example of the monetary values of Seaborne Product Sales (based on 100% of Product being nominated as Seaborne Product and an Applicable Seaborne Percentage of 100%) and the Dry Port Marketing Commission (based on 100% of Product being Dry Port Product and a Dry Port Product Cap of 65% of the total tonnage of Product for the relevant year) based on the expected production for 2016, using the price of iron ore as at the Last Trading Day, the 6-month average sales price of iron ore as at the Last Trading Day, the 2012 average sales price of iron ore, 2011 average sales price of iron ore, 2010 average sales price of iron ore and 2009 average sales price of iron ore on the Platts 65% Fe Index.

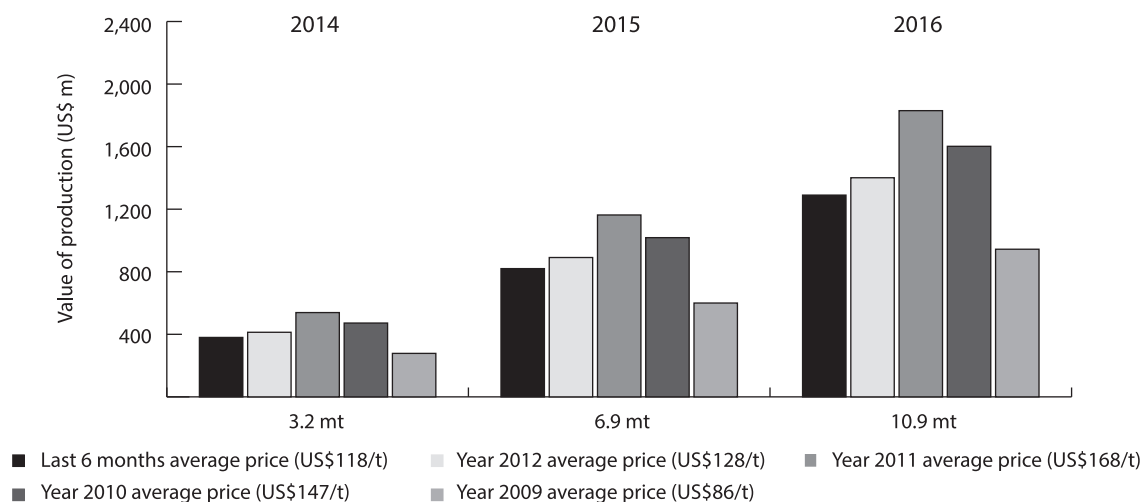
Graph 2: Monetary values of 2016 transactions based on historical average price points



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Further, as shown in “Graph 3: Value of Group production based on the historical average price points” below, there is a large variance in the total monetary value of the Group’s total production depending on the iron ore price being applied despite production volumes being unchanged.

Graph 3: Value of Group production based on the historical average price points



As can be seen from the above illustrative examples, the monetary value of the transactions under the Offtake Arrangement will reflect the fluctuations in the global iron ore prices even though the quantity of Product being sold as Seaborne Product or as Dry Port Product remains the same. It is therefore also foreseeable that if the Company used one historical iron ore price as the basis of the annual caps for the Offtake Arrangement and assuming that it was higher than the current trading price of iron ore, should the global iron ore prices approach or meet this baseline price, the annual monetary value of the transactions under the Offtake Arrangement would easily exceed the annual monetary cap even if quantities of Product being sold as Seaborne Product or as Dry Port Product remain constant.

The Board is therefore of the view that annual caps for the Offtake Arrangement based on the monetary value of the transactions thereunder would not be appropriate, and that a more relevant and appropriate basis for the determination of the annual caps should be the expected annual production of the Group’s Projects (namely, K&S Project and Garinskoye Project). The Independent Financial Adviser has set out its advice and recommendation in respect of the Offtake Arrangement, including the Offtake Annual Caps, in its letter to the Independent Board Committee and the Independent Shareholders, which is set out on pages 52 to 106 of this circular.

(d) Conditions of the Offtake Arrangement

The Offtake Arrangement is conditional upon General Nice Initial Subscription Completion and approval of the EGM Resolutions by the Independent Shareholders at the EGM.

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(e) Reasons and benefits of the Offtake Arrangement

General Nice is one of the largest privately-owned iron ore importers in China and Minmetals Cheerglory is one of the largest PRC state-owned iron ore traders in China. The Company's partnership with General Nice and Minmetals Cheerglory in sales of its Products will bolster the trading of industrial commodities between Russian and China and reinforces the Company's position as a Sino-Russian champion.

By entering into the Offtake Arrangement with the Investors, the Group is able to leverage the considerable experience of the Investors in the seaborne market, which the Group has less experience in. The Group will also be assisted by the Investors in further developing its understanding of the dry port market.

The Group's K&S Project is expected to commence first commercial production in 2014 and, as is common practice amongst mining companies and resources and minerals producers, the Group is seeking long-term customers for the iron ore concentrate and other products to be produced from the K&S Project and its other projects when they enter into production. The Offtake Arrangement provides for the Investors to commit to the purchase on agreed terms of up to the entirety of the Group's Products if such Product is nominated by the Company to be sold as Seaborne Product, whilst preserving flexibility for the Company to sell Product in the dry port market. Accordingly, it will ensure that the Group has a stable customer base for its Products and thus reduce future risks of being unable to sell its Products in an adverse iron ore market and will provide the Company assistance from the Investors in marketing its Products.

The Board believes that the terms of the Offtake Arrangement, including the Offtake Arrangement Annual Caps, are fair and reasonable and in the interests of the Company and Shareholders as a whole.

(f) Listing Rules implications

Prior to the entry into the Investors' Subscription Agreements and the Offtake Arrangement, each of General Nice and Minmetals Cheerglory and its respective ultimate beneficial owners are third-parties independent of the Company and are not connected persons of the Company. However, upon General Nice Initial Subscription Completion, General Nice will become a connected person of the Company as it will be a substantial shareholder of the Company. Accordingly, the transactions under the Offtake Arrangement will constitute continuing connected transactions of the Company under the Listing Rules.

Since the relevant ratios (as defined under the Listing Rules) in respect of the proposed Offtake Arrangement Annual Caps exceed 5%, the Offtake Arrangement is subject to the announcement, reporting and independent shareholders' approval requirements under the Listing Rules.

None of the Directors has a material interest in the Offtake Arrangement.

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9 RISK FACTORS

Shareholders should carefully consider the risks and uncertainties set out below when dealing in the securities of the Company and deciding whether or not to vote in favour of the EGM Resolutions.

The following risks and uncertainties are not exhaustive and do not purport to be a complete explanation of all the risks involved and should be used as guidance only. The risks and uncertainties set out below are those which the Board believes are the material risks specific to the Group in the context of the Share Issue Transaction and the Offtake Arrangements. Additional risks and uncertainties relating to the Group which are not known to the Board as at the date of this circular, or that the Board currently deem immaterial, may also have a material adverse effect on the Group if they materialise.

If any or a combination of the following risks and uncertainties actually materialise, the business, operations, financial condition or prospects of the Group could be materially and adversely affected. In such circumstances, the market price of Shares could decline and you may lose all or part of your investment.

These risks and uncertainties should be read in conjunction with all other information contained in this circular.

(a) There is no certainty that the Share Issue Transaction and Offtake Arrangement will proceed

The implementation of the Share Issue Transaction and the Offtake Arrangement is subject to a number of conditions including the passing of the EGM Resolutions and Petropavlovsk shareholder approval being obtained. If these conditions are not satisfied or waived (where permitted) by 30 April 2013 or such later date as the parties may agree, or termination rights are exercised, the Share Issue Transaction and the Offtake Arrangements will not proceed. In such event, the Group will not receive the proceeds from the Share Issue Transaction and will require additional funding to advance the development of the K&S Mine. In addition, the Group will have incurred costs for no benefit although these costs will be normal professional fees only and will not be material in the context of the Group.

If General Nice Initial Subscription takes place but General Nice Further Subscription does not, the Offtake Arrangements will come into effect, but the Group will require additional funding in order to advance the expansion programme at the K&S Mine and develop the Garinskoye Project.

Where General Nice Initial Subscription does not take place or only General Nice Initial Subscription takes place but General Nice Further Subscription does not, the Group would expect to consider alternative sources of debt and equity financing. If funding is not available on terms which the Group considers acceptable, the Group may need to consider revising its capital expenditure and development plan to align it with the available funding, which may result in delaying the development of the K&S Mine pending such time that funding becomes available.

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In the event that the Offtake Arrangement does not come into effect, the Group would need to source other buyers for its products (which may or may not lead to alternative off-take arrangements being entered into at lower or higher prices for the products). In the event buyers are not found for the Group's products, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

(b) The Group's mining operations will primarily be concentrated at the K&S Project and the Garinskoye Project and the Group will be reliant on the Investors performing their obligations under the Offtake Arrangement

The Kuranakh Mine is currently the Group's sole producing mine and produced 969,436 tonnes of iron ore concentrate in 2012. It is expected that the production volume of iron ore concentrate at the Kuranakh Mine would be maintained at a comparable level in 2014 and 2016.

The K&S Project is at an advanced stage of construction and is scheduled to commence first commercial production of iron ore concentrate in 2014, producing 3.2 million tonnes in 2014 and ramping up production to 6.3 million tonnes in 2016.

Subject to obtaining adequate financing by the end of 2013 and the project being developed on a "best case" timetable, the Garinskoye Project is scheduled to commence first commercial production of iron ore concentrate in 2015, producing 2.1 million tonnes in 2015 and potentially ramping up production to 4.6 million tonnes in 2016 (subject to obtaining further financing on a timely basis and completion of a satisfactory feasibility study).

Accordingly, it is expected that by 2014 when the Kuranakh Mine and K&S Project are both in production, the expected production volume from the K&S Project will make up approximately 76.7% of the Group's total expected iron ore concentrate production volume. By 2016, when the Garinskoye Project commences production, the expected iron ore concentrate production volume from the K&S Project and the Garinskoye Project are expected to make up approximately 53.08% and 38.76% of the Group's total expected iron ore concentrate production volume, respectively.

Assuming Total Investment Completion has occurred, the Investors shall have the exclusive right to purchase 100% of the Group's Product which is sold as Seaborne Product for the term of the Offtake Arrangement i.e. from General Nice Initial Subscription Completion Date until the date falling 15 years from the commencement of commercial production of iron ore concentrate from the Group's K&S Project (i.e. greater than or equal to 1 million tonnes over a 12 month period).

The ability of the Group to receive payment for Product sold to the Investors depends on the continued creditworthiness of the Investors and the Investors complying with their obligations under the Offtake Arrangement. If the Group is unable to collect payment from the Investors, the Group's business, prospects, results of operations and financial condition may be materially and adversely affected.

In addition, the Investors have agreed to assist the Group in developing its sales and marketing capacity in the dry port market (i.e. Product to be exported by rail crossing rather than by sea) and in the identification of customers for Dry Port Product. In the event that the Investors

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do not adequately provide these services, the Group may not be able to develop its Dry Port Product sales which could materially and adversely affect the Group's business, prospects, results of operations and financial condition.

Furthermore, if the Offtake Arrangement is terminated for whatever reason or is not renewed without being replaced after its initial term, the Group may experience difficulties in selling the products mined at the K&S Project and Garinskoye Project in the period after such termination. In particular, the Group may not have developed a separate seaborne marketing capability to commence sales immediately, since the Group is obliged to sell 100% of the Group's Product which is sold as Seaborne Product to the Investors (assuming Total Investment Completion has occurred).

(d) The Group faces competition for mineral interests from other mining companies

The Group faces competition from other mining companies in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties. Some of these companies may have significantly greater resources than those of the Group. Other companies may have a competitive advantage due to Russia's foreign investment legislation. Existing or future levels of competition in the mining industry could materially and adversely affect the Group's prospects for mineral exploration and success in the future. The Group also faces competition from numerous other resource exploration and development companies, both domestic and foreign, in discovering, acquiring and producing resources, in attracting and retaining experts and labour, in securing appropriate equipment and supplies and in securing financing and joint venture partners for its operations. Some of the Group's competitors have substantially greater financial, technical, marketing, distribution and other resources. If the Group is not able to maintain or improve its competitiveness, it may lose or be unable to grow its market share, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

As from Total Investment Completion, the mutual non-competition obligations on the Company and Petropavlovsk contained in the deed of non-competition dated 22 September 2010 between the Company and Petropavlovsk will terminate, which could result in Petropavlovsk securing opportunities which the Company may otherwise have secured.

(e) Petropavlovsk will remain the biggest shareholder of the Company and General Nice will become a controlling shareholder of the Company. The interests of Petropavlovsk and General Nice may differ from those of other Shareholders

Following implementation of the Share Issue Transaction, Petropavlovsk will, through Cayiron Limited, its wholly owned subsidiary, remain the largest holder of Shares and General Nice will become a controlling shareholder of the Company. As a result, Petropavlovsk and General Nice's interests and the interests of Minmetals Cheerglory (which is acting in concert with General Nice) may differ from or be adverse to those of other Shareholders, and Petropavlovsk and General Nice (together with Minmetals Cheerglory) will be able to exercise significant influence over most matters requiring shareholder approval, including the election of directors, significant corporate transactions, the issue of Shares or other equity securities and the payment of any dividends on the Shares.

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The interests of Petropavlovsk, General Nice and Minmetals Cheerglory may conflict with the interests of other Shareholders and there is no assurance that Petropavlovsk and General Nice, if permitted to vote, will vote their Shares in a manner that benefits any minority Shareholders. Additionally, the concentration of ownership may: (i) delay or deter a change in control of the Company; (ii) deprive Shareholders of an opportunity to receive a premium for their Shares as part of a sale of the Company; and (iii) affect the market price and liquidity of the Shares.

Although Petropavlovsk, General Nice and Minmetals Cheerglory will initially be restricted in their ability to deal in Shares under the Shareholders' Agreement, General Nice Subscription Agreement and Minmetals Cheerglory Subscription Agreement respectively, following the expiry of the relevant period, Petropavlovsk, General Nice and Minmetals Cheerglory may sell all or part of its holdings of Shares in the market, which may negatively affect the price of the Shares.

Both the General Nice Group and the Minmetals Cheerglory Group are primarily engaged in the business of trading industrial commodities. Other than an interest in a mine in Australia with small production scale held by the General Nice Group, neither the General Nice Group nor the Minmetals Cheerglory Group have any interest in mines producing iron ore products.

Given the above, the Company does not believe there is any direct competition between the businesses of the Company and those of the General Nice Group and the Minmetals Cheerglory Group. Furthermore, as both General Nice and Minmetals Cheerglory have entered into the Offtake Arrangement with the Company, whereby, upon Total Investment Completion, they are obliged to purchase 100% of the Group's production, with certain exceptions as stated in this circular, if the Group chooses to sell their products via seaborne, any potential competition issue is further minimised.

In addition, both General Nice and Minmetals Cheerglory and their respective nominated directors will abstain from voting on any resolutions in which they have direct conflict of interest as required by the Listing Rules and the articles of associations of the Company.

Accordingly, the Company believes that competition from General Nice and Minmetals Cheerglory will not be an issue.

10 FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not raised funds on any issue of equity securities during the 12 months immediately preceding the date of the Announcement.

11 INFORMATION ON GENERAL NICE AND MINMETALS CHEERGLORY

General Nice is a company incorporated in Hong Kong. It is the holding company for a group of companies which trades in and produces, among others, iron ore, coking coal and coke, with operations in China, South Africa, Singapore, India and other parts of the world and is a member of a group which collectively is one of the largest importers of coking coal and one of the largest exporters of coke in China. The ultimate controlling shareholder of General Nice is Mr Cai Sui Xin.

LETTER FROM THE BOARD

Minmetals Cheerglory, incorporated in Hong Kong, is a wholly-owned subsidiary of China Minmetals Corporation, which is one of the largest state-owned international metals and mining corporations primarily engaging in exploration, mining, smelting, processing and trading for metals and minerals and also in finance, real estate, and mining and metallurgic technology.

12 INFORMATION ON THE GROUP

IRC is headquartered in Hong Kong and listed on the Stock Exchange. It is an established explorer, developer and producer of iron ore and other industrial commodities products in the Russian Far East, taking advantage of superior road infrastructure to deliver its projects and products quickly and at lower cost to its customer base, predominantly in China. In 2010, IRC commissioned the Kuranakh Mine, Russia's first vertically-integrated titanomagnetite operation. IRC is currently developing the world-class K&S Mine, which is expected to quadruple the Group's production capacity when it is commissioned in mid-2014. IRC is also developing a third iron ore project called Garinskoye; a downstream vanadium processing plant in China's Heilongjiang Province; and complementary logistics infrastructure.

13 RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Share Issue Transaction, the Whitewash Waiver, the Offtake Arrangement and the Offtake Annual Caps and the Special Deals.

Somerley Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders (as the case may be) on (i) the terms of the Investors' Subscription Agreements and the transactions contemplated thereunder, (ii) the Whitewash Waiver, (iii) the terms of the Offtake Arrangement and the transactions contemplated thereunder, (iv) the Special Deals and (v) voting on the EGM Resolutions. The letter to the Independent Shareholders from the Independent Board Committee containing its advice and recommendations is set out on pages 50 and 51 of this circular. The appointment of Somerley Limited has been approved by the Independent Board Committee.

Having regard to the opinion of Somerley Limited, which is set out on pages 52 to 106 of this circular, the Independent Board Committee is of the opinion that (i) the Share Issue Transaction and the Investors' Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; (ii) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (iii) the terms of Offtake Arrangement, the Offtake Arrangement Annual Caps, the Offtake Framework Agreement and the Seaborne Offtake Agreement are fair and reasonable and the entering into of the Offtake Framework Agreement and the Seaborne Offtake Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; (iv) the agreement and amount of Guarantee Fee which constitutes a Special Deal are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (v) the terms of the Deed of Indemnity which constitutes a Special Deal are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE BOARD

The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the (A) (i) Share Issue Transaction (including the allotment and issue of the Subscription Shares), (ii) the Whitewash Waiver and (iii) the Offtake Arrangement and the Offtake Annual Caps; and (B) the Special Deals.

14 EXTRAORDINARY GENERAL MEETING

A notice convening the EGM at which two ordinary resolutions will be proposed to Independent Shareholders to consider and, if thought fit, to approve the (A) (i) Share Issue Transaction (including the allotment and issue of the Subscription Shares), (ii) the Whitewash Waiver and (iii) the Offtake Arrangement and the Offtake Annual Caps; and (B) the Special Deals, and all matters relating thereto is set out on pages EGM-1 to EGM-3 of this circular.

The voting in respect of the approval of the EGM Resolutions will be conducted by way of a poll.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you wish to do so.

An announcement will be made by the Company following the conclusion of the EGM to inform you of the results of the EGM.

The Investors, the Executive Directors and Petropavlovsk, and their respective associates and parties acting in concert with them, will abstain from voting on the EGM Resolutions at the EGM. Any connected person with a material interest, and shareholders with a material interest (and their associates), in the Share Issue Transaction, the Whitewash Waiver, the Offtake Arrangement and the Offtake Annual Caps and the Special Deals and any Shareholders who are involved in or interested in these transactions are required to abstain from voting on the relevant EGM resolutions to approve the EGM Resolutions at the EGM.

15 ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By Order of the Board
IRC Limited
Jay Hambro
Executive Chairman



IRC Limited 鐵江現貨有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 1029)

21 February 2013

To the Independent Shareholders

Dear Sir or Madam,

**(1) SUBSCRIPTION OF NEW SHARES BY
GENERAL NICE AND MINMETALS CHEERGLORY
(2) APPLICATION FOR WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTION
(4) SPECIAL DEALS
AND
(5) NOTICE OF EGM**

This Independent Board Committee has been established to advise you on the terms of the Share Issue Transaction, the Whitewash Waiver, the Offtake Arrangement and the Offtake Annual Caps and the Special Deals, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 21 February 2013 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Share Issue Transaction, the Whitewash Waiver, the Offtake Arrangement and the Offtake Annual Caps and the Special Deals and the advice of the Independent Financial Adviser in relation thereto as set out on pages 52 to 106 of the Circular, we are of the opinion that (i) the Share Issue Transaction and the Investors’ Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; (ii) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; (iii) the terms of the Offtake Arrangement, the Offtake Arrangement Annual Caps, the Offtake Framework Agreement and the Seaborne Offtake Agreement are fair and reasonable and the entering into of the Offtake Framework Agreement and the Seaborne Offtake Agreement is in the interests of the Company and the Shareholders as a whole; (iv) the agreement and amount of Guarantee Fee which constitutes a Special Deal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (v) the terms of the Deed of Indemnity which constitutes a Special Deal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the (A) (i) Share Issue Transaction (including the allotment and issue of the Subscription Shares), (ii) the Whitewash Waiver and (iii) the Offtake Arrangement and the Offtake Annual Caps; and (B) the Special Deals.

Yours faithfully,
Independent Board Committee

Mr Simon Murray*	Mr Daniel Bradshaw	Mr Chuang-Fei Li	Mr Jonathan Martin Smith
<i>Non-executive Director</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

* *Mr Simon Murray is a member of the Independent Board Committee only for the purposes of considering and advising on the Share Issue Transaction, the Whitewash Waiver and the Special Deals. As required under the Listing Rules, the Independent Board Committee for the purposes of advising on the Offtake Arrangement and the Offtake Annual Caps comprises only the independent non-executive directors.*

LETTER FROM SOMERLEY LIMITED

The following is a letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED
20th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

21 February 2013

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**(I) SUBSCRIPTION OF NEW SHARES BY
GENERAL NICE AND MINMETALS CHEERGLORY
(II) WHITEWASH WAIVER APPLICATION
(III) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
(IV) SPECIAL DEALS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the following:

- (i) the General Nice Subscription Agreement entered into between the Company and General Nice in connection with the subscription by General Nice of a maximum of 1,715,200,000 new Shares, including 817,536,000 General Nice Initial Subscription Shares, 863,600,000 General Nice Further Subscription Shares and up to 34,064,000 General Nice Deferred Subscription Shares;
- (ii) the Minmetals Cheerglory Subscription Agreement entered into between the Company and Minmetals Cheerglory in connection with the subscription by Minmetals Cheerglory of 247,300,000 Minmetals Cheerglory Subscription Shares;
- (iii) the Whitewash Waiver application made by General Nice and Minmetals Cheerglory (as a party acting in concert with General Nice) as a result of the Share Issue Transaction;
- (iv) the Seaborne Offtake Agreement and the Offtake Framework Agreement (the “**CCT Agreements**”) entered into between, among others, the Company, General Nice and Minmetals Cheerglory in connection with the sales of the Group's iron ore concentrate;

LETTER FROM SOMERLEY LIMITED

- (v) the agreement of the amount and payment of the Guarantee Fee by the Company to Petropavlovsk under the Recourse Agreement in relation to the provision of the ICBC Guarantee by Petropavlovsk, as a result of the Company ceasing to be a subsidiary of Petropavlovsk upon General Nice Further Subscription Completion or Total Investment Completion; and
- (vi) the Deed of Indemnity entered into between General Nice and Petropavlovsk in connection with (a) the grant of an indemnity by General Nice in favour of Petropavlovsk to share part of any liability of Petropavlovsk under the ICBC Guarantee or any loans made by Petropavlovsk to the Company or K&S (a wholly-owned subsidiary of the Company) under the Recourse Agreement, and (b) the sharing of the Guarantee Fee and any amount recovered from the Company or K&S for any indemnity paid or loan made by Petropavlovsk under the ICBC Facility Agreement or the Recourse Agreement respectively, between Petropavlovsk and General Nice by reference to their respective shareholdings in the Company.

Details of the transactions contemplated under the Investors' Subscription Agreements, the CCT Agreements and the Deed of Indemnity, the Whitewash Waiver, the volume-based Offtake Arrangement Annual Caps for the Offtake Arrangement contemplated under the CCT Agreements for each of the financial years from 2014 to 2029 and the Guarantee Fee, are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 21 February 2013 (the "**Circular**"), of which this letter forms a part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 17 January 2013, the Company entered into the General Nice Subscription Agreement with General Nice, pursuant to which General Nice has conditionally agreed to subscribe for a maximum of 1,715,200,000 new Shares at the price of HK\$0.94 per new Share. On the same day, the Company entered into the Minmetals Cheerglory Subscription Agreement, pursuant to which Minmetals Cheerglory has conditionally agreed to subscribe for 247,300,000 new Shares at the price of HK\$0.94 per new Share. Upon Total Investment Completion, the General Nice Subscription Shares and the Minmetals Cheerglory Subscription Shares will represent up to approximately 31.43% and 4.53% respectively of the issued share capital of the Company as enlarged by the Share Issue Transaction. The Company is expected to raise up to approximately HK\$1,844.8 million (or approximately US\$238.0 million) and is mainly used for the development of the K&S Project and the Garinskoye Project.

Completion of the Investors' Subscription Agreements is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders at the EGM. An application has been made by General Nice and Minmetals Cheerglory to the Executive for the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Investors' Subscription Agreements will not become unconditional and the Share Issue Transaction and the Offtake Arrangement will not proceed.

Upon General Nice Initial Subscription Completion, General Nice will become a substantial shareholder and therefore a connected person of the Company. Accordingly, the transactions contemplated under the CCT Agreements will constitute continuing connected transactions of the Company under the Listing Rules. As the highest percentage ratio (other than the profit ratio) in respect

LETTER FROM SOMERLEY LIMITED

of the Offtake Arrangement Annual Caps exceeds 5%, the transactions contemplated under the CCT Agreements are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Pursuant to the US\$340 million ICBC Facility Agreement dated 13 December 2010 entered into between, *inter alia*, ICBC Bank, K&S and Petropavlovsk, Petropavlovsk has granted a guarantee in favour of the lenders in relation to the obligations and liabilities of K&S under the ICBC Facility Agreement. On the same day, the Recourse Agreement was entered into between Petropavlovsk, the Company and K&S to set out the terms on which Petropavlovsk agreed to provide the ICBC Guarantee. Under the Recourse Agreement, Petropavlovsk shall have the right (but not the obligation) to inject funds into the Company by way of shareholder loans, which shall then be lent to K&S, in order to enable the Group to honour its obligations under the ICBC Facility Agreement, and no fee shall be payable by the Company in respect of the provision of ICBC Guarantee by Petropavlovsk unless the Company ceases to be a subsidiary of Petropavlovsk. As the Company would be no longer a subsidiary of Petropavlovsk upon General Nice Further Subscription Completion or Total Investment Completion, a monthly Guarantee Fee shall become payable by the Company to Petropavlovsk. The Guarantee Fee is proposed to be an amount not exceeding 1.75% per annum of the principal amount outstanding under the ICBC Facility Agreement in each month end.

Given the shareholding of Petropavlovsk would be diluted as a result of the Share Issue Transaction, on 17 January 2013, General Nice and Petropavlovsk entered into the Deed of Indemnity, pursuant to which (i) General Nice agreed to grant an indemnity to Petropavlovsk on a "back-to-back" basis to share part of any liability of Petropavlovsk under the ICBC Guarantee or any loans made by Petropavlovsk to the Company or K&S under the Recourse Agreement, and (ii) the Guarantee Fee and any payment or repayment made by the Company or K&S for any indemnity paid or loan made by Petropavlovsk under the ICBC Facility Agreement or the Recourse Agreement respectively, shall be shared between Petropavlovsk and General Nice by reference to their respective shareholdings in the Company.

The agreement of the amount and payment of the Guarantee Fee and the transaction contemplated under the Deed of Indemnity constitute special deals under Rule 25 of the Takeovers Code, and therefore require approval from the Independent Shareholders by way of poll at the EGM.

Only the Independent Shareholders are entitled to vote on the EGM Resolutions approving the transactions contemplated under the Investors' Subscription Agreements and the CCT Agreements, the Whitewash Waiver and the Special Deals at the EGM. As a result of their involvement in negotiations regarding the Share Issue Transaction, the Offtake Arrangement and the Special Deals, the Investors, the executive Directors, Petropavlovsk and their respective associates and any parties acting in concert with them shall abstain from voting at the EGM in respect of the EGM Resolutions.

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Daniel Bradshaw, Mr. Chuang-Fei Li and Mr. Jonathan Martin Smith, and the non-executive Director, namely Mr. Simon Murray, has been established to make recommendations to the Independent Shareholders as to (i) the terms of the Investors' Subscription Agreements and the transactions contemplated thereunder, (ii) the Whitewash Waiver, and (iii) the Special Deals, and as to voting.

LETTER FROM SOMERLEY LIMITED

The Independent Board Committee, comprising only the three independent non-executive Directors, has been formed to advise the Independent Shareholders on whether (i) the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, (ii) the entering into of the CCT Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, (iii) the setting of the Offtake Arrangement Annual Caps based on maximum expected transaction volumes of iron ore concentrate for the corresponding financial year, and the Offtake Arrangement Annual Caps themselves, are fair and reasonable so far as the Independent Shareholders are concerned, and (iv) it is the normal business practice for contracts in the nature of the CCT Agreements to be of such duration.

The Independent Board Committee has approved the appointment of Somerley Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same regard.

We are not associated with the Company, Petropavlovsk, General Nice, Minmetals Cheerglory, or their respective substantial shareholders or associates, and accordingly, are considered eligible to give independent advice on the terms of the Investors' Subscription Agreements, the CCT Agreements and the Special Deals, the Whitewash Waiver and the Offtake Arrangement Annual Caps. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any other fees or benefits from the Company, Petropavlovsk, General Nice, Minmetals Cheerglory, or their respective substantial shareholders or associates.

In the past two years, we have acted as independent financial adviser to the independent board committee and the independent shareholders of MMG Limited (formerly known as "Minmetals Resources Limited") (stock code: 1208), the controlling shareholder of which is China Minmetals Corporation, in relation to certain continuing connected transactions (in April 2012) and a major and connected transaction (in October 2011). Minmetals Cheerglory is a wholly-owned subsidiary of China Minmetals Corporation.

In formulating our opinion and recommendation, we have reviewed, among other things, the Investors' Subscription Agreements, the CCT Agreements, the ICBC Facility Agreement, the Recourse Agreement, the Deed of Indemnity, the annual reports of the Company for the two years ended 31 December 2010 and 2011 (the "**2010 Annual Report**" and the "**2011 Annual Report**", respectively) and the interim report of the Company for the six months ended 30 June 2012 (the "**2012 Interim Report**"). We have also discussed with the management of the Group the businesses and future prospects of the Group, and other alternative methods of financing which may provide capital resources for the Group to develop the Projects.

In addition, we have relied on the information and facts supplied, and the opinions and intentions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, Petropavlovsk, General Nice and Minmetals Cheerglory.

LETTER FROM SOMERLEY LIMITED

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have reviewed, among others, the Investors' Subscription Agreements, the CCT Agreements and the Deed of Indemnity, all of which are related to the strategic alliance between the Company and the Investors, as a package. As it is not possible to accept some features and reject others as they are inter-conditional on each other, Independent Shareholders should consider the Share Issue Transaction, the Offtake Arrangement and the Special Deals as a whole, based on the factors and reasons set out in details below. Our opinion and recommendation on the Share Issue Transaction, the Offtake Arrangement and the Special Deals are also arrived at after assessing the Share Issue Transaction, the Offtake Arrangement and the Special Deals as a whole.

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

(A) INVESTORS' SUBSCRIPTION AGREEMENTS

1. Introduction

Listed in October 2010 on the Stock Exchange, the Company, through its subsidiaries, is principally engaged in the exploration, development and production of industrial commodities products in Russia and the north-eastern region of the PRC, including iron ore that are used in industries across the world. The Group's present priority is the development of mines and the production and processing of iron ore and ilmenite at the sites within its diversified portfolio of projects which includes:

- (i) the Kuranakh project (consisting of the Kuranakh and Saikta deposits), a titanomagnetite and ilmenite project located in the Amur Region of the Russian Far East, which is the Company's first producing mine with vertically-integrated mining, processing and production facilities. Since October 2011, the mine has been running at near-full capacity for production of iron ore concentrate. The Kuranakh project is 100% owned by the Company;
- (ii) the K&S Project (consisting of the twin deposits of Kimkan and Sutara), a magnetite development project situated in the Jewish Autonomous Region of the Russian Far East, which is the Company's second mine. The project is under construction and is much larger in scale than the producing Kuranakh mine, with an initial annual production capacity potential of approximately 3.2 million tonnes of high-grade iron ore concentrate. The K&S Project is 100% owned by the Company;
- (iii) the Garinskoye Project (including Garinskoye Flanks), an advanced large-scale exploration project located in the Amur Region of the Russian Far East, halfway between the BAM and Trans-Siberian Railways, an internal scoping study of which suggested possible production of low-cost direct shipment ore from its large Garinskoye deposit (beneficiated to an annual production capacity of approximately 2.1 million tonnes of iron ore concentrate) before proceeding with a full-scale open-pit mining operation. The Garinskoye Project is approximately 99.6% owned by the Company;

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- (iv) the Bolshoi Seym project, a high-grade ilmenite exploration project located adjacent to the Kuranakh operation, with reserves and resources demonstrating the potential for an annual production capacity of approximately 200,000 tonnes of ilmenite concentrate. The Bolshoi Seym project is 100% owned by the Company;
- (v) the molybdenum exploration project located in the Amur Region of the Russian Far East, providing the Company with some complementary commodity diversification. The project is approximately 50.1% owned by the Company; and
- (vi) the steel slag reprocessing plant located in Shuangyashan, Heilongjiang, the PRC, a Sino-Russian joint venture between the Company (46% ownership) and its largest iron ore customer in Heilongjiang, producing vanadium pentoxide for use in production of high-strength alloys. The plant is running at near-full capacity.

Set out below is a map showing the principal border crossing points between China and Russia, together with the locations of the Group's mining operations:



Sources: The Company's website at <http://www.ircgroup.com.hk>

LETTER FROM SOMERLEY LIMITED

2. Review of the financial information of the Group

Set out below are the consolidated income statements of the Group for the three years ended 31 December 2011 as extracted from the 2010 Annual Report and the 2011 Annual Report, and for the six months ended 30 June 2012 as extracted from the 2012 Interim Report:

	For the six months ended 30 June		For the year ended 31 December		
	2012 US\$'000 (unaudited)	2011 US\$'000 (unaudited)	2011 US\$'000 (audited)	2010 US\$'000 (audited)	2009 US\$'000 (audited)
Revenue	56,948	60,432	122,208	25,792	8,260
Net operating expenses	(68,051)	(66,140)	(131,389)	(61,584)	(40,555)
Impairment charges	(6,061)	—	—	(35,972)	(97,371)
	(17,164)	(5,708)	(9,181)	(71,764)	(129,666)
Share of results of an associate	(1,878)	(80)	87	—	—
Share of results of joint ventures	(5)	(617)	(515)	(135)	(90)
Net operating loss	(19,047)	(6,405)	(9,609)	(71,899)	(129,756)
Other gains and losses and other expenses	(7)	10,135	12,708	(5,570)	(13,552)
Financial income	194	525	716	10,929	15,145
Financial expenses	(843)	(325)	(555)	(11,813)	(10,337)
Profit/(loss) before taxation	(19,703)	3,930	3,260	(78,353)	(138,500)
Taxation expense	(110)	(190)	(1,684)	(3,676)	(637)
Profit/(loss) for period/year	(19,813)	3,740	1,576	(82,029)	(139,137)
Profit/(loss) attributable to Shareholders	(19,880)	3,637	1,001	(82,358)	(139,291)
Basic earnings/(loss) per Share (US cents)	(0.61)	0.11	0.03	(3.62)	(7.66)

(i) 2010 compared to 2009

The Group generates its revenue from sales of iron ore concentrate and rendering of engineering services including design, coordination, construction and commissioning of quarries and mines for mining clients. The Group's revenue increased by approximately US\$17.5 million or 212.3% from approximately US\$8.3 million in 2009 to approximately US\$25.8 million in 2010, primarily attributable to the commencement of operations and sales generated from the Kuranakh project. The Company began its first sales to a customer in the PRC in September 2010 and recorded revenue of approximately US\$12.6 million. Revenue from the Group's engineering business also increased significantly by US\$4.9 million or 59.3% from approximately US\$8.3 million in 2009 to approximately US\$13.2 million in 2010, indicating the recovery of the mining section since the second half of 2009.

Net operating expenses, comprising costs of sales and service costs, administrative expenses and other net operating income, increased by approximately US\$21.0 million or 51.9% from approximately US\$40.6 million in 2009 to approximately US\$61.6 million in 2010. This increase was mainly due to (a) the cost of iron ore concentrate sold and the

LETTER FROM SOMERLEY LIMITED

railway tariff incurred as a result of the commencement of operations of the Kuranakh processing plant in the second half of 2010, (b) an increase in staff costs due to the growth in the engineering segment, the increase in personnel for the Kuranakh project and the K&S Project, and the establishment of the Company's Hong Kong office, and (c) an increase in professional fees incurred in 2010 in relation to financing transactions as well as engineering consultancy fees paid.

Impairment charges in 2010 occurred mainly as a result of writing down the assets in relation to the Company's joint venture, Heilongjiang Jiatai Titanium Co. Limited, ("**Jiatai Titanium**") due to the uncertainty as regards its future prospect after being informed by the joint venture partner of its intention to retire from the joint venture. Impairment charges in 2009 were mainly related to the Kuranakh project in light of the delay in the commencement of commercial production and increase in capital expenditure, resulting in the recoverable amount of the project being lower than the respective book value.

The net decrease in other gains and losses and other expenses of approximately US\$8.0 million or 58.9% from approximately US\$13.6 million in 2009 to approximately US\$5.6 million in 2010 was primarily attributable to an increase in professional fees as a result of the listing of the Company on the Stock Exchange, being offset by the gain arising from the extinguishment of a financial liability at fair value through profit or loss upon exercise of certain warrants held as well as the net foreign exchange gain due to a weakening of the Russian rouble against the US dollar (in contrary to a net foreign exchange loss in 2009) as operating costs of the Group are principally denominated in Russian rouble while sales are in US dollar.

Financial income, representing interest income on loans receivable from related parties, cash and cash equivalent and other loans and receivables, decreased by approximately US\$4.2 million or 27.8% from approximately US\$15.1 million in 2009 to approximately US\$10.9 million in 2010, principally because of the reduction of interest income received on amounts due from Petropavlovsk and its subsidiaries (the "**Parent Group**") which had been fully repaid in 2010. The increase in financial expenses by approximately US\$1.5 million or 14.3% from approximately US\$10.3 million in 2009 to approximately US\$11.8 million in 2010 was primarily due to the increase in interest paid on the amounts due to the Parent Group.

Due to an increase in United Kingdom corporate tax expense of approximately US\$2.7 million resulting from an increase in financial income and intra-group financing activities in 2010, the Group's taxation expense increased by approximately US\$3.0 million from approximately US\$0.6 million in 2009 to approximately US\$3.7 million in 2010.

As a result of the above, the Company recorded a loss attributable to the Shareholders of approximately US\$82.4 million in 2010, representing a decrease of approximately 40.9%, as compared to a loss attributable to the Shareholders of approximately US\$139.3 million in 2009.

LETTER FROM SOMERLEY LIMITED

(ii) 2011 compared to 2010

For the year ended 31 December 2011, the Group recorded revenue of approximately US\$122.2 million, representing an increase of approximately 373.8% as compared to the previous year. This was mainly due to the full ramp-up of the iron ore concentrate production at Kuranakh in the second half of 2011. Revenue generated from the engineering business accounted for approximately 9.7% of total revenue of the Group in 2011 as compared to approximately 51.0% in 2010.

Net operating expenses increased by approximately US\$69.8 million or 113.3% in 2011 as compared to 2010 as more mining and processing expenses were incurred to support the full ramp-up of the production at Kuranakh, including staff costs, cost of fuel and consumables, associated costs of marketing and selling iron ore, and railway tariffs.

There was no impairment charge in 2011 while that in 2010 was mainly related to Jiatai Titanium as mentioned above. The Company obtained full control of Jiatai Titanium by acquiring the remaining 35% stake from the joint venture partner in 2011 with a view to proceeding with the project alone or with a different joint venture partner.

As a result of the discharge of a third party payable relating to the surrender of its exclusive right in a technology know-how and a reversal of provision of listing expenses, the Group recorded other gains of approximately US\$12.7 million in 2011. The significant decrease in financial income and financial expenses in 2011 as compared to 2010 was due to the settlement of amounts due to or from the Parent Group in the second half of 2010 and therefore no interest income or expenses were recognised on such amounts. Due to a decrease in United Kingdom corporate tax expense, the Group's taxation expense decreased accordingly.

As a result of the above, the Company recorded a profit attributable to the Shareholders of approximately US\$1.0 million in 2011, as compared to a loss attributable to the Shareholders of approximately US\$82.4 million in 2010.

(iii) Six months ended 30 June 2012 compared to six months ended 30 June 2011

For the six months ended 30 June 2012, revenue decreased by approximately 5.8% to approximately US\$56.9 million as compared to the corresponding period in 2011, primarily due to the softening of the iron ore market price in 2012, with the Group's average selling price dropping by approximately 17.0% from approximately US\$146.8 per tonne in the first half of 2011 to approximately US\$121.8 per tonne over the same period in 2012, although the volume of iron ore concentrate sold increased by approximately 15.5% from approximately 367,000 tonnes in the first half of 2011 to approximately 424,000 over the same period in 2012. Revenue generated from the engineering business accounted for approximately 9.3% of total revenue of the Group for the six months ended 30 June 2012 as compared to approximately 10.9% over the same period in 2011.

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As a result of the full ramp-up of the processing plant at Kuranakh in the second half of 2011, the production volume of the Group increased and so did the site operating expenses and service costs comprised in net operating expenses. Impairment charges in the first half of 2012 represented the full impairment of the land use right (the “**Land**”) owned by Jiatai Titanium. As the Land is restricted and transfer of legal title of which is subject to approval by the municipal authorities, the Group’s ability to recover the Land was called into doubt.

In the first half of 2011, the Group recorded other gains of approximately US\$10.1 million, mainly comprising an exchange gain of approximately US\$6.8 million and a reversal of provision of listing expenses of approximately US\$2.0 million, while no such gain was recorded over the same period in 2012. Due to the drawdown of short term working capital facilities in 2012, the Group recorded a net financial expense of approximately US\$0.6 million in the first half of 2012, as compared to a net financial income of approximately US\$0.2 million over the same period in 2011.

As a result of the above, the Company recorded a loss attributable to the Shareholders of approximately US\$19.9 million for the six months ended 30 June 2012, as compared to a profit attributable to the Shareholders of approximately US\$3.6 million over the same period in 2011.

Set out below summarise the consolidated statements of financial position of the Group as at 31 December 2009, 2010 and 2011, and 30 June 2012 as extracted from the 2010 Annual Report, the 2011 Annual Report and the 2012 Interim Report:

	As at 30 June 2012	As at 31 December		
	2012	2011	2010	2009
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
	(unaudited)	(audited) (restated)	(audited)	(audited)
Non-current assets	790,858	731,088	585,699	460,296
Current assets	<u>130,611</u>	<u>131,494</u>	<u>281,820</u>	<u>426,571</u>
TOTAL ASSETS	<u><u>921,469</u></u>	<u><u>862,582</u></u>	<u><u>867,519</u></u>	<u><u>886,867</u></u>
Current liabilities	(43,924)	(36,909)	(57,270)	(18,418)
Non-current liabilities	<u>(81,118)</u>	<u>(12,595)</u>	<u>(5,631)</u>	<u>(269,109)</u>
TOTAL LIABILITIES	<u><u>(125,042)</u></u>	<u><u>(49,504)</u></u>	<u><u>(62,901)</u></u>	<u><u>(287,527)</u></u>
NET CURRENT ASSETS	86,687	94,585	224,550	408,153
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	791,832	808,453	800,292	594,976
GEARING RATIO	8.4%	—	—	—

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As at 30 June 2012, total assets amounted to approximately US\$921.5 million, representing an increase of approximately 6.8% when compared with the same as at 31 December 2011. Non-current assets amounted to approximately US\$790.9 million as at 30 June 2012, accounting for approximately 85.8% of total assets, which primarily comprised exploration and evaluation assets of approximately US\$45.2 million, property, plant and equipment of approximately US\$584.3 million and prepayments for property, plant and equipment of approximately US\$125.6 million. Current assets, on the other hand, amounted to approximately US\$130.6 million as at 30 June 2012, representing approximately 14.2% of total assets, which consisted of inventories of approximately US\$47.6 million, trade and other receivables of approximately US\$64.5 million and cash and cash equivalents of approximately US\$18.5 million.

As at 30 June 2012, total liabilities amounted to approximately US\$125.0 million, representing an increase of approximately 152.6% when compared with the same as at 31 December 2011. Non-current liabilities, comprising mainly bank borrowings of approximately US\$75.0 million, amounted to approximately US\$81.1 million as at 30 June 2012, accounting for approximately 64.9% of total liabilities. Current liabilities, on the other hand, amounted to approximately US\$43.9 million as at 30 June 2012, representing approximately 35.1% of total liabilities, which mainly consisted of trade and other payables of approximately US\$26.6 million and bank borrowings of approximately US\$17.0 million.

As at 30 June 2012, the Group's gearing ratio, defined as net borrowings (i.e. bank borrowings less cash and cash equivalents) divided by the sum of net borrowings and net assets, remained at a healthy level of approximately 8.4%. Among the total bank borrowings of approximately US\$92.0 million as at 30 June 2012, US\$17.0 million was unsecured bank borrowing repayable within one year while the remaining US\$75.0 million represented long term borrowing drawn from the US\$340 million ICBC Bank facility used for the construction of the Group's mining operations at the K&S Mine. As at 31 December 2011, the balance of cash and cash equivalents was in excess of that of the bank borrowings. The Group had no bank borrowings as at 31 December 2009 and 2010.

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Set out below summarise the consolidated statements of cash flows of the Group for the three years ended 31 December 2011 as extracted from the 2010 Annual Report and the 2011 Annual Report, and for the six months ended 30 June 2012 as extracted from the 2012 Interim Report:

	For the six months ended	For the year ended 31 December		
	30 June	2011	2010	2009
	<i>US\$ '000</i> (unaudited)	<i>US\$ '000</i> (audited)	<i>US\$ '000</i> (audited)	<i>US\$ '000</i> (audited)
Net cash inflows/(outflows) generated from/ (used in):				
— operating activities	(10,118)	(25,480)	(49,785)	(27,729)
— investing activities	(80,966)	(166,315)	(105,722)	(249,610)
— financing activities	<u>76,675</u>	<u>(3,932)</u>	<u>364,668</u>	<u>38,654</u>
Net increase/(decrease) in cash and cash equivalents	(14,409)	(195,727)	209,161	(238,685)
Cash and cash equivalents at the beginning of period/year	33,188	225,468	18,415	257,822
Effect of foreign exchange rate changes	<u>(283)</u>	<u>3,447</u>	<u>(2,108)</u>	<u>(722)</u>
Cash and cash equivalents at the end of period/year	<u><u>18,496</u></u>	<u><u>33,188</u></u>	<u><u>225,468</u></u>	<u><u>18,415</u></u>

The Group recorded a net cash outflow from operating activities for each of the three years ended 31 December 2011 and the six months ended 30 June 2012.

For the year ended 31 December 2009, the Group recorded a net decrease in cash and cash equivalents of approximately US\$238.7 million, primarily attributable to the purchase of exploration and evaluation assets and property, plant and equipment of approximately US\$73.9 million and the loans made to the Parent Group of approximately US\$176.2 million during the year.

For the year ended 31 December 2010, despite net cash outflows from operating and investing activities, the Group recorded a net increase in cash and cash equivalents of approximately US\$209.2 million, principally due to the proceeds raised from the listing of the Company on the Stock Exchange in October 2010.

For the year ended 31 December 2011, the net decrease in cash and cash equivalents of approximately US\$195.7 million was mainly due to the purchase of and prepayment for exploration and evaluation assets and property, plant and equipment of approximately US\$158.6 million, the majority of which was incurred for the development of the K&S Project.

For the six months ended 30 June 2012, the Group recorded a net decrease in cash and cash equivalents of approximately US\$14.4 million. Such decrease was principally attributable to (i) an increase in trade receivables and inventories, and (ii) the capital expenditure incurred for the development of the K&S Project, being offset by the proceeds from bank borrowings.

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Having considered (i) the net operating loss made by the Company in the first half of 2012 as a result of the softening of the iron ore market price, coupled with an increase in operating expenses as the processing plant at Kuranakh has been fully ramped up since the second half of 2011, (ii) the uncertainty as to the iron ore market price in future given the market concerns over the global and PRC economic slowdown and the United States fiscal cliff, (iii) the Group had net cash outflows from operating activities in the past years and net decrease in cash and cash equivalents for the year ended 31 December 2011 and the six months ended 30 June 2012, and (iv) the high capital requirement of the Group's Projects, we are of the view that it is necessary and expedient for the Group to preserve its cash resources and alleviate its present or future liabilities so as to improve the overall liquidity and financial position given the current uncertain business and economic environment globally. Therefore, we consider that the Share Issue Transaction could enable the Company to raise additional equity funding in order to strengthen its financial position as well as to provide capital for the continuing development of the Projects.

3. Background and reasons for the Share Issue Transaction and use of proceeds

Through the Share Issue Transaction, the Company is expected to raise net proceeds of up to approximately HK\$1,810.0 million (or approximately US\$233.5 million) which will be primarily used for the development of the K&S Project and the Garinskoye Project in the following manner:

- (i) no less than 90% of the proceeds to be used for the development of the K&S Project and the Garinskoye Project, by first applying the proceeds to the on-going development of the K&S Project (including but not limited to the development of stage 2 of the K&S Project), and the remaining balance to the expansion of the Garinskoye Project; and
- (ii) no more than 10% of the proceeds as general working capital of the Group.

If only General Nice Initial Subscription Completion occurs, the General Nice Initial Subscription is expected to raise approximately HK\$800.5 million (or approximately US\$103.3 million) and such proceeds would be primarily used towards the development of the K&S Project and general working capital of the Group.

The K&S Project is currently under development. As estimated by the Directors, approximately US\$500 million is required for the development of stage 1 of the K&S Project in order to bring an initial annual production of approximately 3.2 million tonnes in 2014, which is principally funded by the existing US\$340 million ICBC Bank facility and the equity capital raised from the listing of the Company in 2010. Following the announcement of a threefold increase of reserves of the Company as a whole in March 2011, an optimisation study for a second stage development was performed to reconfigure the production profile of the K&S Mine, which suggested the potential increase in annual production capacity of the K&S Project from approximately 3.2 million tonnes to approximately 6.3 million if appropriate capital investment to access the increased reserves and to expand the plant capacity is made. As disclosed in the announcement of the Company dated 23 August 2011, total capital expenditure for the second stage development of the K&S Project is estimated at approximately US\$400 million with subsequent capital expenditure for maintaining the project estimated at approximately US\$15 million a year. Such second stage development, including developing the Sutara pit and crushing and screening plant at Sutara, conveying to Kimkan and plant expansion there, is planned to be partly funded by the Share Issue Transaction.

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The Garinskoye Project is, on the other hand, at an advanced exploration stage and the Company is currently seeking financings for its construction. A scoping study has suggested an initial annual production potential of low-cost direct shipment ore from the Garinskoye deposit of approximately 2.1 million tonnes of iron ore concentrate before proceeding with the original full-scale open-pit mining operation. As disclosed in the announcement of the Company dated 12 April 2012, total capital expenditure for such initial direct shipment ore operation is estimated at approximately US\$129 million, which involves the construction of the required transport route to deliver saleable product to final customers.

The capital requirements for the second stage development of the K&S Project and the construction of the direct shipment ore operation at Garinskoye are estimated to be approximately US\$400 million and US\$129 million respectively. The Share Issue Transaction not only provides the Group with critical part of the financings required for the development of the K&S Project and the Garinskoye Project, but also diversifies the shareholder base of the Company by introducing the Investors as the shareholders of the Company and helps raise the profile of the Company in Hong Kong and the PRC. As advised by the Directors, the fund to be raised from the Share Issue Transaction is insufficient to finance the whole development of the K&S Project and the Garinskoye Project, and the Company will, from time to time, continue to discuss with a range of potential financial providers to obtain further financings to fund the Projects.

4. Other alternative methods of financing

Apart from the Share Issue Transaction, the Directors have considered various other means of financing, including forward sale of the product from the K&S Project, debt financings by way of bank borrowings or issue of bonds (or notes) and equity financings by way of placement of new Shares to independent investors or a rights issue or open offer, to finance the Projects, as discussed below:

(i) *Forward sale of iron ore concentrate*

As advised by the Directors, the Company has been in discussion with a number of trading groups and steel companies on a possible forward sale of the product from the K&S Project. Although such proposal would not be dilutive to the Shareholders, it could attract significant penalties for any late deliveries, which the Directors consider not desirable.

(ii) *Debt financings*

As stated in the section headed "Review of the financial information of the Group" above, the Group has recorded a net cash outflow from operating activities for each of the three years ended 31 December 2011 and the six months ended 30 June 2012. As a result, it will not be practicable for the Group to arrange for any debt financings, including bank borrowings or issue of bonds (or notes), with terms and conditions which are commercially acceptable to the Group both in terms of loan amounts and interest rates. Moreover, even if additional debt financings were available, additional interest expenses would be incurred, particularly under the situation where there is an increase in interest rates during the tenure of the debt financings. With further drawdown of the existing US\$340 million ICBC Bank facility and additional debt financings, the gearing level of the Group would increase. As advised by the Directors, the Company has had discussion with several local and

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international banks on debt financings for the development of the Projects. One PRC bank indicated that they are capable of offering the Company additional loans provided that the Company has raised a certain amount of equity capital beforehand. As a result, debt financings with acceptable loan amounts and interest rates would only be possible if sizeable equity fund raising exercise has been achieved by the Company. With the equity capital raised from the Share Issue Transaction, the Company would be able to obtain further bank borrowings in future to continue to develop the Projects.

(iii) *Placement of new Shares or rights issue or open offer*

The Directors have also considered alternative equity financings which would not affect the debt position of the Group, including a private placement of Shares to independent third party investors or a rights issue or open offer to existing Shareholders.

A private placement, as far as the Independent Shareholders are concerned, has a similar dilutive effect as the Share Issue Transaction. Moreover, the amount of fund raised through a private placement under the general mandate of the Company is limited. As regards a rights issue or open offer, which will give an opportunity to all Shareholders to participate in the subscription for new Shares to be issued by the Company on a pro rata basis, the Directors have considered such factors as (a) the difficulties in finding an underwriter which is interested to underwrite a rights issue or open offer of the Company with reasonable underwriting fee, in light of the current negative operating cash flow position of the Group, (b) the price of a rights issue or open offer normally involving a substantial discount to market, based on the discounts involved for recent rights issues and open offers of companies listed on the Stock Exchange, (c) the lack of certainty in the successful implementation of a rights issue or open offer with their longer timetable, and (d) the inability of a rights issue or open offer to introduce certain strategic partners as the shareholders of the Company. On this basis, the Directors consider other ways of equity financing to be less optimal for the Group to raise additional fund for the development of the Projects.

Taking into account (i) potential synergies as a result of introducing the Investors as the shareholders of the Company, (ii) potential benefits brought by the Offtake Arrangement which forms an integral part of the strategic alliance between the Company and the Investors by way of the Share Issue Transaction as described in the section headed “Background to and reasons for the Offtake Arrangement” under Part B headed “The CCT Agreements” below, and (iii) the pros and cons of other alternative ways of financing, as discussed above, we concur with the Directors that the fund raising by way of the Share Issue Transaction is currently the best available option of financing for the Company, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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5. Principal terms of the Share Issue Transaction

(i) *General Nice Subscription Agreement*

General Nice Subscription

Pursuant to the General Nice Subscription Agreement, General Nice has conditionally agreed to subscribe for a maximum of 1,715,200,000 new Shares at the Subscription Price of HK\$0.94 per new Share, comprising:

- (a) 817,536,000 General Nice Initial Subscription Shares;
- (b) 863,600,000 General Nice Further Subscription Shares; and
- (c) up to 34,064,000 General Nice Deferred Subscription Shares.

The total consideration payable by General Nice for the General Nice Subscription Shares is approximately HK\$1,612.3 million (or approximately US\$208.0 million), assuming General Nice Further Subscription Completion takes place.

General Nice Initial Subscription

Under the General Nice Initial Subscription, the Company agreed to issue and allot to General Nice at General Nice Initial Subscription Completion, and General Nice agreed to subscribe for 817,536,000 General Nice Initial Subscription Shares. The total consideration payable in cash by General Nice at General Nice Initial Subscription Completion is approximately HK\$800.5 million (or approximately US\$103.3 million), being the Subscription Price multiplied by the total number of the General Nice Initial Subscription Shares and the maximum number of the General Nice Deferred Subscription Shares. However, the General Nice Deferred Subscription Shares shall not be issued at General Nice Initial Subscription Completion, but shall be issued at General Nice Further Subscription Completion. The exact number of General Nice Deferred Subscription Shares to be issued depends on, among others, the timing of exercise of the General Nice Further Subscription Right. Please refer to the paragraph headed “General Nice Further Subscription” below for details.

Conditions precedent to the General Nice Initial Subscription

Completion of the General Nice Initial Subscription is conditional upon the fulfillment or waiver of the General Nice Initial Subscription Conditions. For details of the General Nice Initial Subscription Conditions, please refer to the section 2(a)(ii) headed “Conditions of the General Nice Initial Subscription” in the “Letter from the Board” of the Circular.

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General Nice Further Subscription

Pursuant to the General Nice Subscription Agreement, General Nice has also been granted a right to subscribe for 863,600,000 General Nice Further Subscription Shares at the Subscription Price, exercisable by General Nice at any time within six months after the General Nice Initial Subscription Completion Date. The total consideration payable in cash by General Nice at General Nice Further Subscription Completion is approximately HK\$811.8 million (or approximately US\$104.7 million), being the Subscription Price multiplied by the total number of the General Nice Further Subscription Shares.

If the General Nice Further Subscription Right is exercised within three months after the General Nice Initial Subscription Completion Date, the Company shall issue and allot the General Nice Further Subscription Shares and the maximum number of the General Nice Deferred Subscription Shares at General Nice Further Subscription Completion.

If the General Nice Further Subscription Right is exercised after three months from the General Nice Initial Subscription Completion Date but before the General Nice Further Subscription Expiry Date, the Company shall issue and allot the General Nice Further Subscription Shares and only three-quarter of the maximum number of the General Nice Deferred Subscription Shares at General Nice Further Subscription Completion.

The maximum number of the General Nice Deferred Subscription Shares shall also be issued and allotted to General Nice on the tenth Business Day following the General Nice Further Subscription Expiry Date in the event that the Company breaches the General Nice Subscription Agreement in any material respects and the General Nice Further Subscription Right is not exercised within six months after the General Nice Initial Subscription Completion Date.

Right to nominate Director(s)

Pursuant to the General Nice Subscription Agreement, upon General Nice Initial Subscription Completion, General Nice shall have the right to nominate two non-executive Directors to the Board.

Moreover, upon General Nice Further Subscription Completion and Total Investment Completion, General Nice alone (in the case of General Nice Further Subscription Completion), and General Nice and Minmetals Cheerglory jointly (in the case of Total Investment Completion) shall have the right to nominate Director(s) to the Board and remove Directors in accordance with the Shareholders' Agreement.

(ii) *Minmetals Cheerglory Subscription Agreement*

Pursuant to the Minmetals Cheerglory Subscription Agreement, Minmetals Cheerglory has conditionally agreed to subscribe for a total of 247,300,000 new Shares at the Subscription Price of HK\$0.94 per new Share. The total consideration payable in cash by

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Minmetals Cheerglory at Minmetals Cheerglory Subscription Completion is approximately HK\$232.5 million (or approximately US\$30.0 million), being the Subscription Price multiplied by the total number of the Minmetals Cheerglory Subscription Shares.

Conditions precedent to the Minmetals Cheerglory Subscription

Completion of the Minmetals Cheerglory Subscription is conditional upon the fulfillment or waiver of the Minmetals Cheerglory Subscription Conditions. For details of the Minmetals Cheerglory Subscription Conditions, please refer to the section 2(b)(ii) headed “Conditions of the Minmetals Cheerglory Subscription” in the “Letter from the Board” of the Circular.

(iii) *Completion of the Investors’ Subscription Agreements*

For details of completion of the General Nice Subscription and the Minmetals Cheerglory Subscription, please refer to the sections 2(a)(iii) and 2(b)(iii) headed “Completion of the General Nice Initial Subscription and General Nice Further Subscription” and “Completion of the Minmetals Cheerglory Subscription” respectively in the “Letter from the Board” of the Circular.

(iv) *Restrictions on issue of new Shares by the Company and disposal of the Subscription Shares by the Investors*

The Company has undertaken to the Investors, among others, that during the Company Lock-up Period, it will not, without the prior written consents of the Investors, issue any new Shares (subject to certain exceptions), and each Investor has undertaken to the Company, among others, that during the Investors’ Lock-Up Period, it shall not, without prior written consent of the Company, dispose any of the Subscription Shares (subject to certain exceptions). Please refer to the section 2(e) headed “Restrictions on issue of new Shares by Company and disposals by the Investors” in the “Letter from the Board” of the Circular for details.

The Shareholders are drawn to the attention that the Share Issue Transaction (and therefore the Offtake Arrangement) shall not proceed if the Investors are incapable of providing the required clear funds for the subscription of the Subscription Shares.

6. Evaluation of the Subscription Price

As stated in the “Letter from the Board” of the Circular, the Subscription Price of HK\$0.94 per Subscription Share was determined after arm’s length negotiations between the Company and the Investors after taking into account a number of factors, including, among others, the recent trading prices of the Shares on the Stock Exchange and the assets, financial and business conditions of the Company.

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(i) *Price comparison of the Subscription Price*

The Subscription Price of HK\$0.94 per Subscription Share represents:

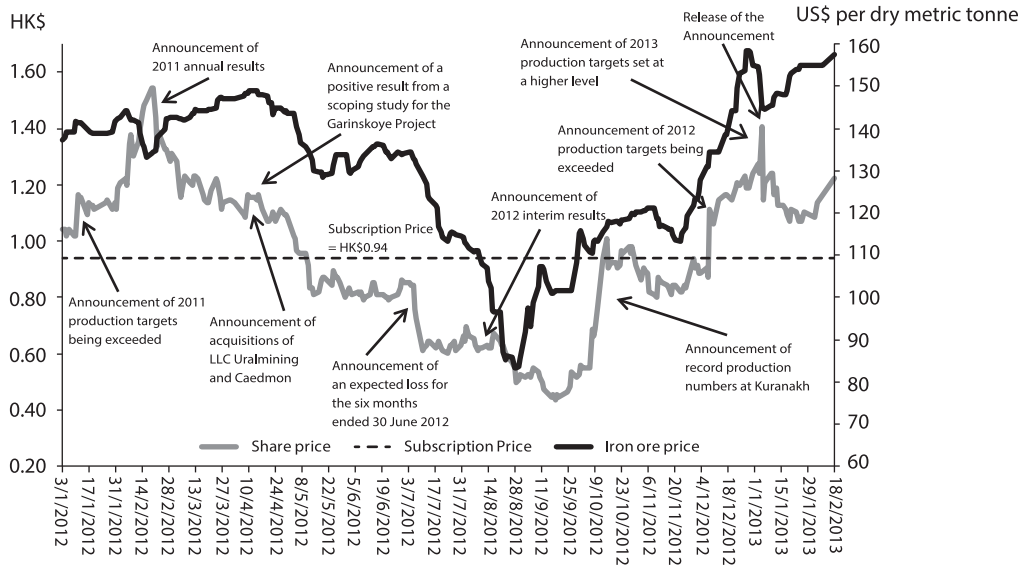
- (a) a discount of approximately 33.80% to the closing price of HK\$1.42 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 27.13% to the average closing price of approximately HK\$1.29 per Share on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;
- (c) a discount of approximately 25.40% to the average closing price of approximately HK\$1.26 per Share on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (d) a discount of approximately 23.58% to the average closing price of approximately HK\$1.23 per Share on the Stock Exchange for the last 15 trading days up to and including the Last Trading Day;
- (e) a discount of approximately 13.76% to the average closing price of approximately HK\$1.09 per Share on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;
- (f) a premium of approximately 11.90% to the average closing price of approximately HK\$0.84 per Share on the Stock Exchange for the last 180 trading days up to and including the Last Trading Day;
- (g) a discount of approximately 48.63% or 46.59% to the Group's unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$1.83 or HK\$1.76 respectively (based on a total of 3,362,000,000 Shares and 3,494,034,301 Shares as at 30 June 2012 and the Latest Practicable Date respectively, and the Group's unaudited net asset value attributable to the Shareholders of approximately HK\$6,136,698,000 as at 30 June 2012 based on an exchange rate of HK\$7.75 to US\$1); and
- (h) a discount of approximately 23.58% to the closing price of HK\$1.23 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

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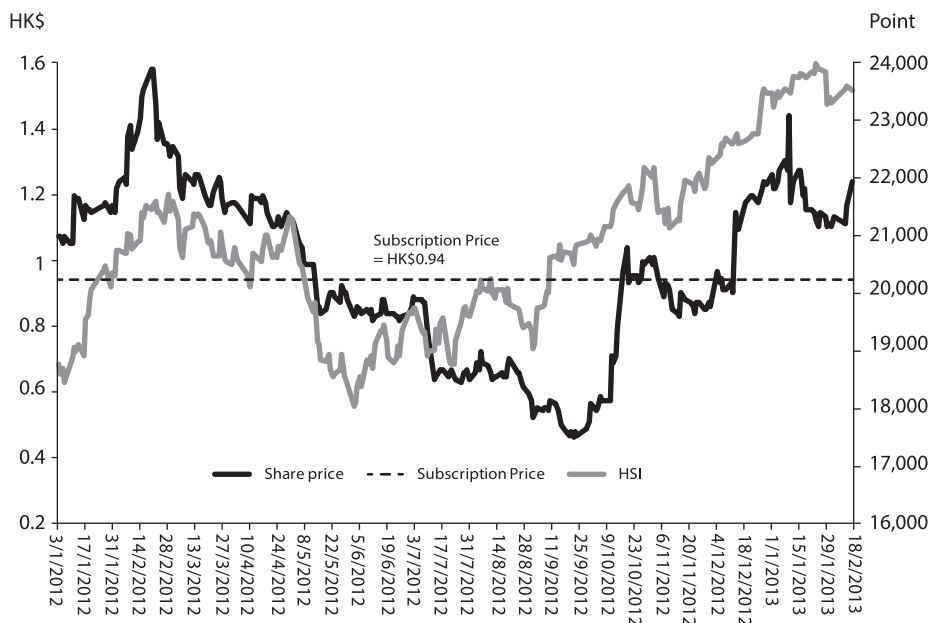
(ii) Analysis of historical Share price performance

Set out below are two charts showing the correlations of the closing prices of the Shares as quoted on the Stock Exchange and the Subscription Price with (a) the iron ore spot prices as tracked by the China import iron ore fines 62% Fe spot (CFR Tianjin port), and (b) the Hang Seng Index (the “HSI”), during the period from 3 January 2012 to the Latest Practicable Date (the “Review Period”):

Correlation between Share price, iron ore price and Subscription Price



Correlation between Share price, HSI and Subscription Price



Source: Bloomberg and the website of the Stock Exchange

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On 12 January 2012, the Company announced that the 2011 production targets at the Company's first operation, the Kuranakh mine, had been achieved and exceeded. Following the release of this announcement, the Share price rose gradually from HK\$1.19 on 11 January 2012 to the highest of HK\$1.55 on 20 February 2012. Since the release of the 2011 annual results of the Company on 22 February 2012, the Share price showed a decreasing trend and reached HK\$1.16 on 5 April 2012.

Immediately after the announcement of the acquisitions of (a) the remaining 51% interest in LLC Uralmining which held exploration and mining licences for Bolshoi Seym, a high-grade ilmenite deposit, and (b) a controlling 50% plus one share stake in Caedmon Limited (“**Caedmon**”) which held a molybdenum exploration project, and an option to acquire the remaining shares in Caedmon on 10 April 2012, the Share price fell from HK\$1.16 on 5 April 2012 to HK\$1.12 on 10 April 2012.

Before the trading in the Shares on the Stock Exchange commenced on 12 April 2012, the Company announced a positive result from an internal scoping study for the production of low-cost direct shipment ore from its Garinskoye deposit which allowed the Company to launch an intermediate operation in advance of a full scale mine. The closing price of the Share rose to HK\$1.19 on 12 April 2012, from HK\$1.11 on 11 April 2012.

The Share price continued to exhibit a downward trend. On 12 July 2012, it was announced that the Group was expected to record a loss for the six months ended 30 June 2012, mainly attributable to the softening in the market selling prices of iron ore and a one-off impairment of assets in its titanium project of its PRC subsidiary due to uncertainty regarding the project's future. Immediately after release of the announcement, the Share price dropped to HK\$0.80 on 12 July 2012, from HK\$0.88 on 11 July 2012. On 22 August 2012, the 2012 interim results of the Company were announced and the Share price closed at HK\$0.67 on the same day.

The Share price continued to fall and reached a bottom of HK\$0.50 on 26 September 2012. Since then, the Share price resumed its upward trend and closed at HK\$0.73 when the Company announced, in its third quarter trading update of 2012, record production numbers that had exceeded expectations at the Kuranakh mine as compared to the corresponding period in 2011, on 18 October 2012. Upon reaching a high of HK\$1.04 on 24 October 2012, the Share price receded to a low of HK\$0.84 on 20 November 2012 and resumed its upward momentum when the Company announced, on 19 December 2012, that the Group had achieved its 2012 iron ore production targets. Following the release of the above announcement, the Share price rose significantly from HK\$0.91 on 18 December 2012 to HK\$1.14 on 19 December 2012. On 16 January 2013, the Company published the fourth quarter trading update of 2012 and announced that the Group had exceeded its 2012 production targets for the second consecutive year with 2013 production targets set at a higher level. The Share price further rose to HK\$1.42 on 16 January 2013 from HK\$1.26 on 15 January 2013. Immediately after the release of the Announcement on 17 January 2013, the Share price fell to HK\$1.17 on the same day. The Share price closed at HK\$1.23 as at the Latest Practicable Date.

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As shown in the charts above, for most of the time during the Review Period, the movement of the Share Price has been highly correlated with those of the iron ore price and the HSI. During the first five months of 2012, the Share price fluctuated mainly in line with the HSI. However, since June 2012, the HSI had been on an upward trend whereas the Share price had been decreasing due to the slump in the iron ore price and closed at the lowest of HK\$0.50 on 24 September 2012. With the HSI further going up and the sharp rebound of the iron ore price since September 2012, the Share price soared to a recent high of HK\$1.42 on 16 January 2013.

As illustrated in the charts above, the Subscription Price of HK\$0.94 is close to the average closing price of the Shares during the Review Period which was approximately HK\$0.97. However, for most of time since the fourth quarter of 2012 until the Latest Practicable Date, the Subscription Price had been at a discount ranging from approximately 1.1% to approximately 33.8% to the prevailing market price of the Shares.

We have discussed with the Directors the basis of determining the Subscription Price. Taking into account (a) that the Share price movement is highly correlated to iron ore market prices which have exhibited the highest volatility when compared with other major base metals (including gold, copper, aluminium, zinc, lead and nickel) in 2012 (for comparison of volatilities of major base metals, please refer to the paragraph headed “Volatility of historical iron ore prices” under the section headed “The Offtake Arrangement Annual Caps” in Part B headed “CCT Agreements” below), and (b) the long-term strategic alliance between the Company and the Investors by way of the Share Issue Transaction and the Offtake Arrangement as a package, we concur with the Directors that the Subscription Price should be determined based on a longer period of Share prices, say the average closing price of the Shares during the Review Period which is approximately HK\$0.97, instead of recent closing prices of the Shares which have been traded at a premium over the Subscription Price as a result of (i) the recent market upward movement, (ii) the sharp recovery of the iron ore price from the trough since September 2012, and (iii) the market reaction to the positive news of the Company achieving its 2012 production targets with 2013 production targets set at a higher level as compared with the previous year. Coupled with limited options of financing available to the Company as detailed in the section headed “Other alternative methods of financing” above, we consider the discount of the Subscription Price to recent trading prices of the Shares to be justifiable.

(iii) Market comparables on subscription of new shares

The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industries across the world. In assessing the fairness and reasonableness of the Subscription Price, we have identified an exhaustive list of share placements (the “**Comparable Share Placements**”) as announced by companies (the “**Comparable Companies**”) listed on the Main Board of the Stock Exchange which are engaged in mining operations, during the period from 3 January 2012 to the Latest Practicable Date and not being terminated. Taking into account that the Group is an iron ore mining company and has a mining operation in place, we are of the view that the Comparable Share Placements represent a fair and representative sample for the purpose of comparing the Subscription Price to their respective subscription prices.

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In identifying the Comparable Companies, we have considered the market capitalisation as one of the factors to determine whether the list is fair and representative. In light of the limited number of companies in the list as a result, we consider it would be more representative if market capitalisation is not being taken into account in further selecting the Comparable Companies.

For each of the 25 Comparable Share Placements identified, we compared the premium or discount of its subscription price to (a) the closing price on the last trading day (the “LTD”), (b) the 5-day average closing price, (c) the 10-day average closing price, (d) the 15-day average closing price, (e) the 30-day average closing price, (f) the 60-day average closing price, (g) the 365-day average closing price, prior to and including the LTD before the release of the respective announcement, and (h) the respective net asset value (“NAV”) per share, summarised in the following table:

Date of announcement	Company name	Stock code	Principal activities	Subscription price (HK\$)	Premium/ (discount) of the subscription price over/ (to) the 5-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 10-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 15-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 30-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 60-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 365-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) NAV per share	
					(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	
8 January 2013	Siberian Mining Group Company Limited	1142	Holding of mining rights of coal mine located in Russia; conducting the business of coal trading and scrapped iron trading.	0.26	(18.75)	(15.58)	(11.86)	(10.45)	(8.84)	(19.63)	(44.07)	(87.07)
5 December 2012	Siberian Mining Group Company Limited	1142	Holding of mining rights of coal mine located in Russia; conducting the business of coal trading and scrapped iron trading.	0.25	(3.85)	(10.39)	(19.48)	(23.00)	(28.06)	(29.40)	(55.02)	(87.57)
4 December 2012	Asia Coal Limited	835	Coal and energy-related business and the manufacturing and distribution of personal care and beauty products.	0.024	(82.46)	(83.24)	(82.66)	(82.70)	(83.36)	(80.21)	(83.36)	N/A (net liabilities)
2 November 2012	Brockman Mining Limited	159	Exploration and development of iron ore mining projects in Western Australia; exploitation, processing and production of copper, zinc, lead ore concentrates in the PRC; provision of limousine rental and airport shuttle services.	0.41	3.80	5.13	(0.85)	(3.30)	(8.69)	(13.49)	(40.04)	(2.89)
31 October 2012	Dejin Resources Group Company Limited	1163	Lighting products (export and PRC markets) for lighting operation; timber for forestry operation; and gold ore concentrates for mining operation.	0.065	(14.47)	(19.95)	(17.93)	(17.30)	(18.65)	(24.33)	(84.39)	(96.92)
17 October 2012	King Stone Energy Group Limited	663	Mining and selling of coal.	0.45	(6.25)	(8.35)	(11.15)	(4.39)	3.89	10.84	(59.61)	(61.78)
8 October 2012	North Asia Resources Holdings Limited	61	Distribution of information technology products, and geological survey, exploration and development of iron, gold and other mineral deposits (mining operation) and trading of iron ore and alluvial gold.	0.17	(39.29)	(36.28)	(35.29)	(34.57)	(36.35)	(43.84)	(74.03)	(36.34)

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Date of announcement	Company name	Stock code	Principal activities	Subscription price (HK\$)	Premium/ (discount) of the subscription price over/ (to) the 5-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 10-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 15-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 30-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 60-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 365-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) NAV per share	
					(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)		
27 September 2012	L'sea Resources International Holdings Limited (formerly known as "Goodtop Tin International Holdings Limited")	195	Manufacturing and sales of insulation and heat resistance materials; trading of copper and silicone rubber; metal tin mining and sales of tin concentrates; and trading of metal resources.	0.2	(47.37)	(40.12)	(41.61)	(41.35)	(42.75)	(51.03)	(77.96)	120.63
17 August 2012	G-Resources Group Limited	1051	Mining business; provision of financial information services; and securities trading.	0.38	(12.64)	(12.84)	(11.53)	(13.70)	(15.40)	(13.29)	(26.46)	2.98
11 July 2012	Loudong General Nice Resources (China) Holdings Limited	988	Coal processing and production of industrial coke and coal-related chemicals.	0.38	(2.56)	(5.00)	(7.99)	(9.74)	(13.96)	(24.32)	(56.40)	(79.37)
5 July 2012	CVM Minerals Limited	705	Mining of dolomite and manufacture of magnesium ingots, and exploration of iron ore, coal and manganese.	0.05	(5.66)	(6.72)	(5.84)	(6.83)	(20.00)	(31.73)	(71.65)	(56.44)
15 June 2012	ABC Communications (Holdings) Limited	30	Providing financial quotation services, wireless applications development, securities trading system licensing and mining operations.	0.305	(18.67)	(19.31)	(18.45)	(18.74)	(22.49)	(14.86)	(34.56)	18.72
31 May 2012	North Mining Shares Company Limited	433	Mining operations — exploitation and exploration, property leasing operations and property management operations.	0.26	(8.77)	(8.13)	(5.18)	0.39	4.08	0.93	(5.73)	4.53
21 May 2012	Dejin Resources Group Company Limited	1163	Lighting products (export and PRC markets) for lighting operation; timber for forestry operation; and gold ore concentrates for mining operation.	0.08	1.27	(1.96)	(16.93)	(26.61)	(34.62)	(62.70)	(89.83)	(87.27)
27 April 2012	ABC Communications (Holdings) Limited	30	Providing financial quotation services, wireless applications development, securities trading system licensing and mining operations.	0.26	(18.75)	(19.25)	(17.98)	(16.58)	(17.63)	(20.53)	(51.04)	1.21
29 March 2012	Sinocop Resources (Holdings) Limited	476	Investment holding, trading of metals and minerals and processing of raw ores.	Not more than 0.75	(3.85)	(2.09)	1.76	3.21	3.21	(3.29)	(0.28)	571.16
8 March 2012	Hao Tian Resources Group Limited	474	Sale of plastic and paper boxes for luxury consumer goods, developing of underground coking coal mine, coal production and sale of coal.	0.325	(16.67)	(16.45)	(17.20)	(18.27)	(18.48)	(22.16)	(51.73)	(67.64)
7 March 2012	Bao Yuan Holdings Limited	692	Sales of fabrics and garments and other related accessories; exploration, development and mining of iron and titanium; securities investment; fashion business and money lending business.	0.2	(18.37)	(17.42)	(18.90)	(16.74)	(14.03)	(9.05)	(99.54)	(94.34)

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Date of announcement	Company name	Stock code	Principal activities	Subscription price (HK\$)	Premium/ (discount) of the subscription price over/ (to) the 5-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 10-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 15-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 30-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 60-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) the 365-day average closing price prior to and including the LTD	Premium/ (discount) of the subscription price over/ (to) NAV per share	
					(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)	(%) (Approx.)		
6 March 2012	Siberian Mining Group Company Limited	1142	Holding of mining rights of coal mine located in Russia; conducting the business of coal trading and scrapped iron trading.	0.5658	8.81	19.12	21.29	20.98	29.92	66.72	(73.90)	46.19
28 February 2012	Mongolia Energy Corporation Limited	276	Energy and metal resources exploration, coal operations and other related operations.	0.8	(1.23)	(1.23)	(0.25)	(0.41)	4.67	5.94	(49.38)	(60.14)
8 February 2012	China Yunnan Tin Minerals Group Company Limited	263	Trading of goods, provision of finance, brokerage and securities investment and exploitation and sales of minerals.	0.365	(18.89)	(14.52)	(4.82)	(4.03)	(15.41)	(28.26)	(92.66)	28.40
1 February 2012	Kiu Hung Energy Holdings Limited	381	Manufacturing and trading of toys & gifts items; and exploration and mining of natural resources.	0.06	(15.49)	(14.77)	(15.13)	(13.79)	(13.71)	(17.18)	(74.19)	(49.72)
18 January 2012	ABC Communications (Holdings) Limited	30	Providing financial quotation services, wireless applications development, securities trading system licensing and mining operations.	0.25	(9.09)	(11.35)	(11.97)	(16.29)	(23.35)	(27.92)	(65.14)	(2.69)
11 January 2012	Siberian Mining Group Company Limited	1142	Holding of mining rights of coal mine located in Russia; conducting the business of coal trading and scrapped iron trading.	0.23	(19.30)	(9.59)	(7.26)	(6.55)	1.55	(7.37)	(90.19)	(40.57)
6 January 2012	China Properties Investment Holdings Limited	736	Properties investment and investing in mining activities.	0.195	(15.22)	(18.34)	(19.45)	(20.52)	(22.69)	(27.40)	(99.28)	(96.04)
				Maximum	8.81	19.12	21.29	20.98	29.92	66.72	(0.28)	571.16
				Mean	(15.35)	(14.75)	(15.07)	(15.25)	(16.45)	(19.50)	(62.02)	(8.87)
				Median	(14.47)	(12.84)	(11.97)	(13.79)	(15.41)	(20.53)	(65.14)	(45.15)
				Minimum	(82.46)	(83.24)	(82.66)	(82.70)	(83.36)	(80.21)	(99.54)	(96.92)
17 January 2013	The Company	1029	Production and development of industrial commodities products including iron ore that are used in industry across the world.	0.94	(33.80)	(27.13)	(25.40)	(23.58)	(13.76)	(6.93)	(9.62)	(48.63)

Source: Bloomberg and the Stock Exchange's website

Note 1: The premiums or discounts of respective subscription prices over or to respective average closing prices prior to and including the LTD have taken into account any share consolidation or subdivision during the respective periods.

Note 2: The Subscription Price represents a discount of approximately 48.63% to the Group's unaudited consolidated NAV attributable to the Shareholders per Share of approximately HK\$1.83 as at 30 June 2012 (based on a total of 3,362,000,000 Shares as at 30 June 2012 and the Group's unaudited net asset value attributable to the Shareholders of approximately HK\$6,136,698,000 as at 30 June 2012 based on an exchange rate of HK\$7.75 to US\$1).

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As shown in the table above, we note that the discounts of the Subscription Price to the closing price on the Last Trading Day and the 5-day, 10-day and 15-day average closing prices prior to and including the Last Trading Day are larger than the average and median of those of the Comparable Share Placements above. As discussed above, such greater discounts to recent Share prices were mainly attributable to (a) the general improvement in market sentiment, (b) the sharp recovery of the iron ore price from the trough since September 2012, and (c) the positive news that the Company had achieved and exceeded its 2012 production targets with 2013 production targets set at a higher level as compared with the previous year. Coupled with the high correlation between the Share price and the iron ore price, and the high volatility of iron ore prices in the past one year as mentioned above, we consider it inappropriate to compare the Subscription Price to recent Share prices.

It is, however, more relevant to compare the Subscription Price to average closing Share prices with longer periods with those of the Comparable Share Placements. As illustrated in the table above, the discounts of the Subscription Price to the 30-day, 60-day and 365-day average closing prices prior to and including the Last Trading Day are smaller than the average and median of those of the Comparable Share Placements. Among the 25 Comparable Share Placements, 16 have discounts of respective subscription prices to respective 30-day average closing prices, 20 have discounts of respective subscription prices to respective 60-day average closing prices, and 23 have discounts of respective subscription prices to respective 365-day average closing prices, greater than those of the Company.

Moreover, as regards the discount of the Subscription Price to the NAV per Share as at 30 June 2012 of approximately 48.63%, it is smaller than the median of those of the Comparable Share Placements. As shown in the charts under the paragraph headed “Analysis of historical Share price performance” above, the Shares have been traded at prices below the NAV per Share during the Review Period. Consequently, if a new issue of Shares is made on usual market terms, a discount of the issue price to the NAV per Share is unavoidable.

On the above basis, we consider the Subscription Price to be fair and reasonable.

7. Financial effects of the Share Issue Transaction

(i) Working capital

According to the 2012 Interim Report, the unaudited current assets and current liabilities of the Group were approximately US\$130.6 million and US\$43.9 million respectively as at 30 June 2012, resulting in a current ratio (defined as current assets divided by current liabilities) of approximately 2.97 and net current assets of approximately US\$86.7 million. As the Company is expected to raise a gross proceed of up to approximately HK\$1,844.8 million (or approximately US\$238.0 million) from the Share Issue Transaction, the liquidity and cash position, and therefore the current ratio and net current assets of the Group, are expected to be improved upon Total Investment Completion.

(ii) NAV

According to the 2012 Interim Report, the Group’s unaudited consolidated NAV attributable to the Shareholders was approximately US\$791.8 million as at 30 June 2012. Accordingly, based on the 3,362,000,000 Shares in issue as at 30 June 2012 and an exchange rate of HK\$7.75 to US\$1, the unaudited NAV per Share was approximately HK\$1.83. Upon

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Total Investment Completion, since the Share Issue Transaction will strengthen the share capital of the Company, the NAV attributable to the Shareholders will be enhanced by the net proceeds from the Share Issue Transaction. However, as the Subscription Price of HK\$0.94 is at approximately 48.63% discount to the NAV per Share as at 30 June 2012, there will be a dilution effect on the NAV per Share upon Total Investment Completion.

(iii) *Gearing ratio*

The gearing ratio of the Group is measured as net borrowings (i.e. bank borrowings less cash and cash equivalents) divided by the sum of net borrowings and net assets. As a result of the increase in both working capital and NAV attributable to the Shareholders, being the net proceeds from the Share Issue Transaction, the gearing ratio of the Group is expected to decrease upon Total Investment Completion.

Based on the above, the Share Issue Transaction is expected to have an overall positive effect on the financial position of the Group in terms of working capital, NAV and gearing ratio upon Total Investment Completion, despite the dilutive effect of the Share Issue Transaction on the NAV per Share. In light of the need of additional capital to fund the development of the Projects while other alternative ways of fund raising (other than the Share Issue Transaction) are perceived by the Directors to be less optimal, as detailed in the section headed “Other alternative methods of financing” above, we consider the dilution in NAV per Share upon Total Investment Completion to be acceptable. Accordingly, we are of the view that the Share Issue Transaction is in the interests of the Company and the Shareholders as a whole.

8. Effect on the shareholding structure of the Company

As shown in the “Letter from the Board” of the Circular under the section 7 headed “Shareholding structure of the Company”, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 35.18% as at the Latest Practicable Date to approximately 27.06% upon Total Investment Completion assuming the General Nice Further Subscription Right would be exercised within three months from General Nice Initial Subscription Completion. However, taking into account (i) the benefits brought by the Share Issue Transaction as discussed in the section headed “Background and reasons for the Share Issue Transaction and use of proceeds” above, (ii) that it would be less optimal for the Group to raise additional capital through other means of financing such as a forward sale of the product from the K&S Project, a rights issue, open offer or debt financings, as discussed in the section headed “Other alternative methods of financing” above, (iii) that the Share Issue Transaction will improve the Group’s overall financial position, as discussed in the section headed “Financial effects of the Share Issue Transaction” above, and (iv) that the terms of the Share Issue Transaction are fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as the Independent Shareholders are concerned.

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9. Whitewash Waiver

(i) *Background*

Upon General Nice Further Subscription Completion (but before Minmetals Cheerglory Subscription Completion), General Nice will hold:

- (a) approximately 32.93% of the issued share capital of the Company as enlarged by the General Nice Subscription, provided that no additional Shares other than the General Nice Subscription Shares would be issued between the date of the Investors' Subscription Agreements and General Nice Further Subscription Completion Date, and the General Nice Further Subscription Right would be exercised within three months from the General Nice Initial Subscription Completion Date; or
- (b) approximately 32.82% of the issued share capital of the Company as enlarged by the General Nice Subscription, provided that no additional Shares other than the General Nice Subscription Shares would be issued between the date of the Investors' Subscription Agreements and General Nice Further Subscription Completion Date, and the General Nice Further Subscription Right would be exercised after three months from the General Nice Initial Subscription Completion Date but before the General Nice Further Subscription Expiry Date.

In either case, upon General Nice Further Subscription Completion, General Nice will hold more than 30% of the issued share capital of the Company as enlarged by the General Nice Subscription. Pursuant to Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances would trigger a mandatory general offer by General Nice and parties acting in concert with it for all the securities of the Company other than those already owned (or agreed to be acquired) by General Nice and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll. An application has been made by General Nice and Minmetals Cheerglory (as a party acting in concert with General Nice) to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the approval of the Independent Shareholders at the EGM by way of poll and such other condition(s) as may be imposed by the Executive. The Investors, the executive Directors, Petropavlovsk and their respective associates and any parties acting in concert with them, and those Shareholders who are interested in or involved in the Share Issue Transaction and/or the Whitewash Wavier shall abstain from voting at the EGM in respect of the EGM Resolutions.

(ii) *The Whitewash Waiver as a condition of the General Nice Subscription and the Minmetals Cheerglory Subscription*

Shareholders should note that both the General Nice Subscription and the Minmetals Cheerglory Subscription is conditional on, among other things, (a) the Independent Shareholders having approved the Whitewash Waiver at the EGM, and (b) the Executive having granted to General Nice and Minmetals Cheerglory the Whitewash Waiver, which cannot be waived. The approval of the Whitewash Waiver by the Independent Shareholders

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will be therefore necessary for the Investors' Subscription Agreements to proceed to Total Investment Completion and for the Group to raise critical capital to finance the development of the Projects, allowing the Shareholders to enjoy the benefits brought by the commercial productions of the Projects in future. The Whitewash Waiver is needed to accommodate the amount of money to be raised under the Investors' Subscription Agreements.

Shareholders should note that if the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Investors' Subscription Agreements will not become unconditional and the Company will not proceed with the Share Issue Transaction and the Investors' Subscription Agreements will be terminated. In other words, a general offer obligation on the part of General Nice and parties acting in concert with it will not arise if General Nice and Minmetals Cheerglory fails to obtain the Whitewash Waiver.

(B) THE CCT AGREEMENTS

1. Background to and reasons for the Offtake Arrangement

The CCT Agreements form an integral part of the foundation for a strategic alliance between the Company and the Investors, and have been negotiated together with the Share Issue Transaction. The proceeds from the Share Issue Transaction are primarily used to fund the completion of the K&S Project such that the K&S Mine can commence first commercial production of iron ore concentrate in 2014 which will then be sold to the Investors under the CCT Agreements.

The Company has been positioning itself as a Sino-Russian industrial commodities champion. General Nice operates a group of companies with vertically integrated businesses from mining to trading of iron ore, coke, coking coal and steel, and is one of the largest coke and coking coal traders in the PRC. Minmetals Cheerglory, on the other hand, is a wholly-owned subsidiary of China Minmetals Corporation, one of the largest state-owned conglomerates in the PRC that operates globally with core businesses in ferrous and non-ferrous metals. The strategic investment by General Nice and Minmetals Cheerglory, coupled with the long-term offtake assurance from them for purchasing the iron ore concentrate produced from the Projects, further strengthens the Company's position as a Sino-Russian champion.

Moreover, the long-term cooperation with the Investors under the Offtake Arrangement allows the Group to leverage on the considerable experience of the Investors in the seaborne market. The Investors are two of the largest importers of iron ore into the PRC and are experienced in the seaborne trade of iron ore products whereas the Group in the past only focused on export of iron ore concentrate via railway border crossing as the trade route between Russia and China is not well explored. Through the cooperation with the Investors, the Group is not only assisted in further developing its sales and marketing capacity in the sales of iron ore concentrate via dry port, but is also provided with the opportunity to increase its seaborne trade experience and diversify its iron ore trading business into the seaborne market.

Furthermore, the entering into of the Offtake Arrangement will not only diversify the Group's customer base, but will also secure long-term demand from the Investors without having to rely on uncertain short-term customer contracts while retaining the flexibility for the Group to sell its iron ore concentrate to other customers via dry port. Currently, the Group's sale of iron ore concentrate

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is reliant on a major customer, Heilongjiang Jianlong Steel Company Limited (“**Jianlong**”), a Chinese steel producer located in Heilongjiang. For the year ended 31 December 2011, Jianlong accounted for approximately 97.2% of total revenue of the Group generated from sale of iron ore concentrate. The strategic cooperation with the Investors under the Offtake Arrangement can diversify the Group’s customer base without the risk arising from losing sales to the existing customers given the iron ore concentrate selling to the Investors is from the Projects. As with other commodities, the market for iron ore is subject to the fluctuation in global demand, and a long-term offtake arrangement will reduce the Group’s risk of being unable to sell the Product from newly operated mines or to sell the Product at a commercially reasonable price in adverse market conditions, upon the commencement of commercial production from the Projects.

2. Principal terms of the CCT Agreements

The principal terms of the Seaborne Offtake Agreement and the Offtake Framework Agreement are set out below:

(i) *Seaborne Offtake Agreement*

Scope of transaction

Pursuant to the Seaborne Offtake Agreement entered into between the Company and the Investors, for each relevant year, (a) the Investors shall have the exclusive right and obligation to purchase, and the Company shall sell the Applicable Seaborne Percentage (as explained in the paragraph headed “Quantity” below under this section) of total tonnage of Product sold by the Company through seaborne delivery (i.e. Seaborne Product), and (b) the Company shall pay to the Investors a marketing commission on the sale of Dry Port Product in accordance with the Offtake Framework Agreement.

Duration

Subject to the approval by the Independent Shareholders at the EGM, the Seaborne Offtake Agreement shall become effective from the General Nice Initial Subscription Completion Date until the day that is 15 years following the first day of the first 12-month period (the “**Commercial Production Date**”) after first commercial delivery of iron ore concentrate from the K&S Project where the aggregate production volume of Product for that 12-month period is at least 1 million tonnes.

Nomination

Pursuant to the Seaborne Offtake Agreement, in each year, the Company shall nominate, at its discretion, the volume of Product in tonnage to be sold to the Investors as Seaborne Product in a yearly delivery schedule, and shall not be required to nominate a minimum volume of Seaborne Product in that schedule. Deliveries shall be made monthly in accordance with a further agreed monthly shipping schedule specifying the volume of Seaborne Product (i.e. the Take or Pay Quantities) that the Investors shall have the right and obligation to purchase in that month.

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The Investors shall be jointly and severally liable for the entire Take or Pay Quantities for each month until the Investors notify the Company which of the Investors shall be solely responsible for taking delivery of and making payment for specific shipments of Seaborne Product to be made in that month.

Quantity

In each year, the Investors shall have the exclusive right and obligation to purchase the Applicable Seaborne Percentage of the Seaborne Product sold by the Company in that year. As stated in the paragraph headed “Nomination” above, the Investors shall be obliged to purchase the Take or Pay Quantities as nominated by the Company in each month.

Upon Total Investment Completion, the Applicable Seaborne Percentage shall be 100%. In other words, if the Company nominates all of the Product to be sold as Seaborne Product, the Investors shall have the exclusive right to purchase all the Seaborne Product sold by the Company. In such case, the Company shall not be entitled to sell any Seaborne Product to any third parties without the Investors’ written consent.

The Applicable Seaborne Percentage shall be adjusted under the terms of the Offtake Framework Agreement either when Total Investment Completion has not yet occurred or in the event of reduced shareholdings of the Investors in the Company. For details of such adjustments, please refer to the section 8(a)(iii) headed “Pro rata adjustments” in the “Letter from the Board” of the Circular.

If the Applicable Seaborne Percentage is less than 100%, the Company shall have the right to sell a portion of Seaborne Product representing the difference between the relevant Applicable Seaborne Percentage and 100% of the Seaborne Product to any third parties.

The total volume of Seaborne Product to be sold under the Seaborne Offtake Agreement in each year shall not be less than the Applicable Seaborne Percentage of total tonnage of the Seaborne Product to be sold by the Company.

Pricing

The unit price for each shipment of Seaborne Product produced from the K&S Project shall be the average relevant Platts index for the twenty index publishing days before the bill of lading date for the relevant shipment of Seaborne Product, less a discount of 7% of such price with further adjustments for weight, chemical composition and moisture content. The relevant Platts index to be used depends on the iron (Fe) content of the Seaborne Product in that shipment. The Platts index of iron ore fines for a particular iron (Fe) content is the Platts Daily Iron Ore assessment for iron ore fines with that iron (Fe) content, CFR North China, as published in the Platts publication “Steel Markets Daily”.

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The terms for pricing and adjustments for product quality and impurities for Seaborne Product other than the K&S Seaborne Product shall be determined by agreement between the Investors and the Company (acting in good faith) prior to commencement of commercial production of the relevant Project. It is intended that the Platts index will be used as the relevant third party index to price the Garinskoye Seaborne Product. However, the exact Platts indices to be used in respect of the Garinskoye Seaborne Product has not yet been determined by the parties as the iron (Fe) content of the Garinskoye Seaborne Product has not yet known. It is also expected that the terms for pricing and adjustments for product quality and impurities for the K&S Seaborne Product will be used as the starting point for discussions among the parties to agree such terms for the Garinskoye Seaborne Product.

Price adjustments

The final price for a shipment of Seaborne Product will be determined by reference to the weight, chemical composition (or impurities) and percentage of free moisture loss of the Seaborne Product in that shipment at the port of discharge.

Payment term

For details of the payment term under the Seaborne Offtake Agreement, please refer to the section 8(a)(i) headed “Seaborne Product” in the “Letter from the Board” of the Circular.

Shortfall Seaborne Product, Non-Delivery Seaborne Product and Rejectable Seaborne Product

In the event that the Company fails to sell the Applicable Seaborne Percentage of the Product as Seaborne Product (the “**Shortfall Seaborne Product**”) to the Investors in a year, or fails to deliver a shipment of Seaborne Product to the Specified Investor within an agreed period (the “**Non-Delivery Seaborne Product**”), or delivers Seaborne Product with an iron content which permits the Specified Investor to reject the Product (the “**Rejectable Seaborne Product**”), the Company shall be required to pay the Investors in equal proportions or the Specified Investor (as the case may be) an amount of 7% of the total price of that shipment of Seaborne Product (save that “double recovery” in respect of that 7% cannot be made pursuant to any other rights the Investors or the Specified Investor (the “**Relevant Investor(s)**”) may have).

Conditions precedent

The Seaborne Offtake Agreement is conditional upon:

- (a) the Independent Shareholders having approved the Seaborne Offtake Agreement at the EGM; and
- (b) the General Nice Initial Subscription Completion.

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(ii) *Offtake Framework Agreement*

Scope of transaction

Pursuant to the Offtake Framework Agreement, the Investors shall use their reasonable endeavours to assist the Company in (a) developing its Dry Port Product sales and marketing capacity, and (b) identifying customers for the export of iron ore concentrate via a dry port railway border crossing.

Duration

Subject to the approval by the Independent Shareholders at the EGM, the Offtake Framework Agreement shall become effective on the General Nice Initial Subscription Completion Date and shall continue in full force until the date that is 15 years from the Commercial Production Date.

Pricing

The Dry Port Marketing Commission payable to the Investors in each year shall be the sale amount of Dry Port Quantities multiplied by a commission of 5%, whereas the Dry Port Quantities are capped at 65% of the total tonnage of Product (including Seaborne Product and Dry Port Product) sold by the Company (i.e. the Dry Port Product Cap) in that year. Each of General Nice and Minmetals Cheerglory is entitled to 50% of the Dry Port Marketing Commission.

The Dry Port Quantities for a relevant year represent the total tonnage of Product for that year less (a) the Seaborne Product sold to the Investors under the Seaborne Offtake Agreement in that year, and (b) any Seaborne Product sold during that year to parties other than the Investors.

Payment term

The Dry Port Marketing Commission shall be payable one month in arrears to the Investors on the last Business Day of each month.

Conditions precedent

The Offtake Framework Agreement is conditional upon:

- (a) the Independent Shareholders having approved the Investors' Subscription Agreements, the CCT Agreements and the Deed of Indemnity at the EGM; and
- (b) the General Nice Initial Subscription Completion.

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3. Assessment of the Offtake Arrangement

As the CCT Agreements and the Investors' Subscription Agreements are inter-conditional on each other, we have reviewed and assessed the Offtake Arrangement and the Share Issue Transaction, all of which are related to the strategic alliance between the Company and the Investors, as a package. It is presented to the Company as such, and it is not possible for the Company to accept some features and reject others. We consider the terms of the CCT Agreements and the Investors' Subscription Agreements as a whole fair and reasonable after taking into account the following factors:

(i) Bundling of the Share Issue Transaction with the Offtake Arrangement

As discussed in the section headed "Other alternative methods of financing" under Part A headed "Investors' Subscription Agreements" above, the fund raising by way of the Share Issue Transaction is currently the best available option of financing for the Company given the substantial amount of funds needed and the financial position of the Group. Without the funds raised from the Share Issue Transaction, the Company may not be able to obtain part of the required financing (with acceptable terms) to develop the Projects so as to meet its planned production schedule. The terms of the CCT Agreements as a whole, including the 7% discount under the Seaborne Offtake Agreement and the 5% Dry Port Marketing Commission under the Offtake Framework Agreement, are therefore justifiable in the sense that the Share Issue Transaction is crucial to the business expansion of the Group and is conditional upon the Offtake Arrangement being approved at the EGM.

(ii) Pro rata adjustments to the Applicable Seaborne Percentage and the Dry Port Product Cap

Pursuant to the Seaborne Offtake Agreement, the Company shall exclusively sell the Applicable Seaborne Percentage of the Seaborne Product to the Investors. Upon Total Investment Completion, the Investors shall have the exclusive right to purchase 100% of the Seaborne Product and the Company shall not be entitled to sell the Seaborne Product to any third parties. Under the Offtake Framework Agreement, the Dry Port Quantities in each year shall be capped at the Dry Port Product Cap.

As the Applicable Seaborne Percentage and the Dry Port Product Cap shall be adjusted in accordance with the Offtake Framework Agreement over time to reflect (a) the proportionate aggregate shareholdings of the Investors in the Company at General Nice Initial Subscription Completion, General Nice Further Subscription Completion and Total Investment Completion, and (b) the Investors' reduced rights under the Offtake Arrangement when they sell down their Shares in future, we consider such adjustment mechanisms to be fair and reasonable.

(iii) Pricing terms of the Seaborne Offtake Agreement

The pricing of the K&S Seaborne Product to be sold to the Investors is determined with reference to a third-party benchmark, i.e. the Platts index of iron ore fines as published in the Platts publication "Steel Markets Daily", with further adjustments for the weight, chemical composition and percentage of free moisture loss of the Seaborne Product, less a 7%

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discount. It is also intended that the Platts index will be used as the relevant third party index to price the Garinskoye Seaborne Product with the terms for pricing and adjustments for product quality and impurities determined with reference to those of the K&S Seaborne Product.

We have discussed with the management of the Group the basis of determining such pricing terms. As advised by the Directors, it is of the industry practice to adopt a benchmark price and apply appropriate adjustments to such benchmark price to account for the specific nature of the product and the situation of the respective buyers and sellers. We have also made reference to the offtake agreement (the “**Jianlong Offtake Agreement**”) entered into between the Company and Jianlong on 10 February 2009, under which the pricing of titanomagnetite concentrate is based on an annual “free on board” iron ore benchmark price by BHP Billiton and Rio Tinto plus a premium reflecting additional costs incurred by the Group. As such, we consider the use of a benchmark price in determining the pricing under the Seaborne Offtake Agreement is of a market practice.

The pricing of the K&S Seaborne Product is determined with reference to the Platts index of iron ore fines as published in the Platts publication “Steel Markets Daily”. Given that (a) Platts is a global provider of benchmark price assessments for commodities markets including iron ore, and is independent of the Group and the Investors, as confirmed by the Directors, (b) Platts indexes measure daily prices of seaborne product sold in the spot market and imported into China, which are comparable to the sale of Seaborne Product under the Seaborne Offtake Agreement, and (c) Platts indexes are published for a variety of iron ore grades ranging from a low-grade 58% iron content to a high-grade 65% iron content, which well cover different scenarios for the purpose of determining the pricing of a Product with a specific product grade, we consider the Platts index is an appropriate reference in determining the pricing of the K&S Seaborne Product under the Seaborne Offtake Agreement.

Pursuant to the Seaborne Offtake Agreement, the Investors are obliged to purchase any amount of Seaborne Product nominated by the Company, i.e. on a “take or pay” basis. We consider such 7% discount justifiable as it is effectively compensating the Investors for their “underwriting” obligations in the event of adverse market conditions.

However, under the Jianlong Offtake Agreement, no fixed discount to the relevant benchmark price is offered to Jianlong. As advised by the Directors, although Jianlong is the exclusive buyer of titanomagnetite concentrate produced at the Kuranakh mine, the Company shall determine and agree with Jianlong in additional agreements on a periodic basis as regards the quantity and price of concentrate to be sold to Jianlong.

In assessing the fairness and reasonableness of the pricing adjustment mechanism for determining the final price of a shipment of the K&S Seaborne Product by reference to its weight, chemical composition (or impurities) and percentage of free moisture loss, we have reviewed the pricing adjustment mechanism as stipulated in the Seaborne Offtake Agreement, and obtained the confirmation from the Directors that such pricing adjustment mechanism is determined based on the specific nature of the Product produced from the K&S Project and is

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in accordance with the industry practice. Such pricing adjustment mechanism is arrived at based on the parties' experience and commercial negotiation, and is not expected to give rise to significant changes in the final per tonne price of the Product.

In respect of the Garinskoye Seaborne Product, it is the intention of the parties to determine the pricing of the Garinskoye Seaborne Product with reference to the Platts index, which is considered an appropriate reference in determining the pricing of the K&S Seaborne Product as discussed above and the Garinskoye Seaborne Product. The Company will disclose details of such pricing terms by way of an announcement to the Shareholders once the parties reach an agreement in relation to the pricing terms for the Garinskoye Seaborne Product.

Concerning the 7% penalty as a result of any Shortfall Seaborne Product, Rejectable Seaborne Product or Non-Delivery Seaborne Product, we consider it justifiable given that the Company has failed to sell the Applicable Seaborne Percentage of the Seaborne Product, deliver Seaborne Product with agreed minimum quality or deliver Seaborne Product in accordance with an agreed monthly shipping schedule, respectively. As advised by the Directors, the chance of the occurrence of any Shortfall Seaborne Product, Rejectable Seaborne Product or Non-Delivery Seaborne Product is remote, and such 7% penalty is effectively to compensate for the potential lost sales suffered by the Investors as traders in the iron ore market.

(iv) Pricing terms of the Offtake Framework Agreement

Under the Seaborne Offtake Agreement, the Company is free to decide how much of the Product is to be sold as Seaborne Product and Dry Port Product. The Investors have the obligation to buy all the Seaborne Product as nominated by the Company, and are compensated with the 7% discount to the relevant benchmark price for such "underwriting" obligation. Under the Offtake Framework Agreement, the Investors shall use their reasonable endeavours to assist the Company in developing its Dry Port Product sales and marketing capacity and in identifying customers in the dry port market, and shall in return receive the 5% Dry Port Marketing Commission. In the event that the Group sells all its iron ore concentrate as Dry Port Product, the Investors shall be effectively entitled to 3.25% of total sales of the Group, being 5% multiplied by 65% inherent in the Dry Port Product Cap. Such 5% Dry Port Marketing Commission not only compensates the Investors for their efforts put in assisting the Group in developing its sales and marketing capacity in the dry port market, but also allows the Company to retain the nomination right as to how much of the Product to be sold as Dry Port Product. As advised by the Directors, although the 5% Dry Port Marketing Commission shall be paid to the Investors regardless of the outcome of their efforts made to develop the Group's dry port market, it is justifiable in the sense that the Investors will endeavor to support the Group's Dry Port Product Sales by enhancing its sales and marketing capacity and identifying new customers for the Group in the dry port market. Taking into account the critical funds to be raised from the Share Issue Transaction, we consider the terms of the Offtake Framework Agreement and the Investors' Subscription Agreements as a whole to be fair and reasonable.

4. Duration of the CCT Agreements

The duration of the CCT Agreements is a period of 15 years following the first day of the first 12-month period after first commercial delivery of iron ore concentrate from the K&S Project where the aggregate production volume of Product for that 12-month period is at least 1 million tonnes. We have discussed with the management of the Group the rationale for the duration of the CCT Agreements, as follows:

Guaranteed revenue flow for the Group

Since the second half of 2011, the mine at Kuranakh has achieved full production capacity for iron ore concentrate. For the two years ended 31 December 2011 and 2012, production of iron ore concentrate amounted to approximately 800,291 and 969,436 tonnes respectively. The K&S Project is currently under construction and is expected to start commercial production in 2014 with anticipated production of approximately 3.2 million tonnes of high-grade iron ore concentrate in the first year, quadrupling the Group's current production capacity. Given the soon commencing production from the K&S Project and the high volatility in the global demand for iron ore, the entering into of a long-term offtake agreement allows the Company to secure long-term demand for the Group's production, without having to rely on highly fluctuated market demand. To minimise the Group's risk of being unable to sell the Product or selling the Product at a substantial discount to the prevailing market price in adverse market conditions after commencement of the production from the Projects, it is essential for the Group to secure a stable and long-term revenue stream from the sales of iron ore concentrate to the Investors. Provided the fact that the Group recorded a net cash outflow from operating activities for each of the three years ended 31 December 2011 and the six months ended 30 June 2012, the entering into of the CCT Agreements will provide a level of financial stability for the Group, which will be necessary for the Group to obtain additional long-term finance required to develop the Projects.

Existing offtake arrangement between the Company and its major customer

It is a normal business practice of the Group to enter into a long-term offtake agreement in distributing its iron ore concentrate in the PRC. On 10 February 2009, the Group entered into the Jianlong Offtake Agreement with a term of 15 years, pursuant to which Jianlong agreed to purchase, on an exclusive basis, all of the titanomagnetite concentrate produced at the Kuranakh mine. It has been the strategy of the Group to develop its market share in the north-eastern region of the PRC and to put in place additional long-term offtake agreements.

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Comparable CCT Transactions

In considering the duration of the CCT Agreements, we have reviewed a number of offtake agreements entered into by companies listed on the Stock Exchange (the “**Comparable CCT Transactions**”) principally engaged in the commodity industry, including mining, processing, production or trading of metals, minerals or other resources. The following is a list of the Comparable CCT Transactions disclosed during the period from 3 January 2011 to the Latest Practicable Date that we are able to identify from the website of the Stock Exchange. Details of the Comparable CCT Transactions are set out below:

Parties	Period of agreement	Nature of transaction
1. Chinalco Mining Corporation International (“ Chinalco ”) (stock code: 3668) and Consorcio Minero S.A. (“ Cormin ”) and Hongfan International Limited (“ Hongfan ”) and Tongling Nonferrous Metals Group Co., Ltd. (“ Tongling ”) and Louis Dreyfus Commodities Metals SA (“ LDC MS ”)	5 years (two out of four will automatically continue for another 5 years thereafter)	Sale of copper concentrates by Chinalco to Cormin, Hongfan, Tongling and LDC MS Date of prospectus: 18 January 2013
2. APAC Resources Limited (“ APAC ”) (stock code: 1104) and Mount Gibson Iron Limited (“ Mount Gibson ”)	Life of the Koolan Island and Tallering Peak mines	Purchase of iron ore products by APAC from Mount Gibson Date of release of 2012 annual report: 22 October 2012
3. Prosperity International Holdings (H.K.) Limited (“ Prosperity ”) (stock code: 803) and Grace Wise Pte Limited (“ Grace Wise ”) and Century Iron Ore Holdings Inc. (“ Century Holdings ”)	— Purchase contract with Grace Wise: 2 years and 11 months — Purchase contract with Century Holdings: approximately 3 years	Purchase of iron ore by Prosperity from Grace Wise and Century Holdings Date of release of 2012 annual report: 30 July 2012
4. China Nickel Resources Holdings Company Limited (“ CNR ”) (stock code: 2889) and PT. Yiwang Mining (“ Yiwang ”)	Approximately 29 years	Purchase of iron-nickel ores by CNR from Yiwang Date of release of 2011 annual report: 26 April 2012
5. Winsway Coking Coal Holdings Limited (“ Winsway ”) (stock code: 1733) and its four suppliers	3–10 years	Purchase of coal by Winsway from its four suppliers Date of release of 2011 annual report: 25 April 2012
6. Shougang Concord International Enterprises Company Limited (“ Shougang ”) (stock code: 697) and Mount Gibson	Life of the mine	Purchase of iron ore by Shougang from Mount Gibson Date of release of 2011 annual report: 12 April 2012
7. China Gold International Resources Corp. Ltd. (“ China Gold ”) (stock code: 2099) and China National Gold Group Corporation (“ CNGG ”)	3 years	Sale of gold dore bar by China Gold to CNGG Date of release of 2011 annual report: 28 March 2012

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Parties	Period of agreement	Nature of transaction
8. MMG Limited (“ MMG ”) (formerly known as “Minmetals Resources Limited”) (stock code: 1208) and Trafigura Beheer B.V. (“ Trafigura ”)	Life of mine	Sale of copper cathode produced at the Kinsevere mine by Minmetals to Trafigura Date of circular: 24 February 2012
9. Huili Resources (Group) Limited (“ Huili ”) (stock code: 1303) and Zhuhai Southern Jinchuan Nonferrous Metal Co. Ltd. (“ Zhuhai Jinchuan ”) and Nickel City Industrial Company (“ Nickel City ”) and Hami Qin Bo Li Metal Co. Ltd. (“ Hami ”)	— Sales contract with Zhuhai Jinchuan and Nickel City: 5 years — Sales contract with Hami: 3 years	— Sale of nickel concentrate by Huili to Nickel City — Sale of copper concentrate by Huili to Zhuhai Jinchuan and Hami Date of prospectus: 29 December 2011
10. Mascotte Holdings Limited (“ Mascotte ”) (stock code: 136) and Schott Solar AG (“ Schott ”) and three other customers of Mascotte	— Sales contract with Schott: 4 years — Sales contracts with the three other customers of Mascotte: effective until at least 2015 (one has been extended to 2020)	Sale of polycrystalline silicon by Mascotte to its customers Date of circular: 19 December 2011
11. China Polymetallic Mining Limited (“ CPM ”) (stock code: 2133) and Yunnan Xiangcaopo Mining Co., Ltd. (“ Xiangcaopo ”) and CPM’s four customers	— Purchase of polymetallic tungsten-tin raw ore by CPM from Xiangcaopo on an exclusive basis: 15 years (at the sole discretion of CPM to extend the term) — Sale of lead-silver concentrate and/or zinc-silver concentrate by CPM to its four customers: 2 years	Purchase and sale of ore and concentrate Date of prospectus: 2 December 2011
12. Newton Resources Limited (“ Newton ”) (stock code: 1231) and Shougang Holding (Hong Kong) Limited (“ Shougang ”)	Not available	Sale of iron ore concentrate by Newton to Shougang, and provision of technical support by Shougang to Newton Date of prospectus: 21 June 2011

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Parties	Period of agreement	Nature of transaction
13. Glencore International Plc (“ Glencore ”) (stock code: 805) and its suppliers or customers	<ul style="list-style-type: none"> — Purchase for zinc, copper and lead operations: 1 to 15 years — Sale of alumina to Century Aluminum Company: 7 or 10 years — Sale of ferroalloys: 1 to 3 years — Glencore as the marketing agent of Xstrata plc for sale of alloys: indefinite terms — Distribution of ferrochrome into the U.S. and Canada by Glencore for Xstrata plc: indefinite terms — Distribution of vanadium by Glencore for Xstrata plc: 20 years — Glencore as the market adviser of Xstrata plc for sale of coal: 20 years — Sale or purchase of copper concentrate to or from Xstrata plc: 1 to 5 years — Purchase of nickel: 3 to 5 years — Sale of nickel products: 1 to 5 years — Purchase of cobalt: up to 5 years — Sale of cobalt: 12 months on average but can be up to 5 years — Sale of coal to PT Arutmin Indonesia: from November 2011 to September 2019 (i.e. 7 years and 11 months) 	Purchase and sale of minerals and metals Date of prospectus: 13 May 2011

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Parties	Period of agreement	Nature of transaction
14. China Qinfu Group Limited (“ China Qinfu ”) (stock code: 866) and Shanxi Huameiao Energy Group Company Limited (“ Shanxi Huameiao ”) and Tiaro Coal Limited (“ Tiaro ”)	Not available	— Purchase of coal by China Qinfu from Shanxi Huameiao — Purchase of coal and other mineral resources by China Qinfu from Tiaro or its subsidiaries Date of announcement: 3 May 2011
15. MMG (stock code: 1208) and Alcoa	30 years	Purchase of alumina by MMG from Alcoa Date of release of the 2010 annual report: 11 April 2011
16. China Kingstone Mining Holdings Limited (“ China Kingstone ”) (stock code: 1380) and its seven customers	5 years	Sale of marble slabs by China Kingstone to its seven customers Date of prospectus: 7 March 2011
17. Prosperity (stock code: 803) and Blackrock Metals Inc. (“ Blackrock ”)	2.5 years (with an option to extend to 4 years)	Purchase of iron ore by Prosperity from Blackrock Date of announcement: 31 January 2011

Sources: The announcements, annual reports, circulars or prospectus of the respective companies

The Comparable CCT Transactions above have durations ranging from approximately 1 year (transaction no. 13) to as long as an indefinite term or lives of respective mines (transaction no. 2, 6, 8 and 13). Among the 15 Comparable CCT Transactions with known durations, 12 have terms of more than three years. As a result, long-term offtake agreements are common in the commodities industry.

Taking into account the duration of the CCT Agreements (i) allows the Group to secure long-term demand for the Product given the high volatility in the global demand for iron ore, (ii) provides a stable and long-term revenue stream and therefore a level of financial stability for the Group, assisting the Group in obtaining further financings to develop the Projects, after considering the negative operating cash flow position of the Group in the past years, (iii) is in line with that of the Jianlong Offtake Agreement, (iv) is comparable to the long-term nature as regards the durations of the Comparable CCT Transactions, and (v) must be considered, as a package, with the Share Issue Transaction which is essential for the Group to raise critical part of the required financing to develop the Projects, we consider that it is normal business practice for contracts in the nature of the CCT Agreements to be of such duration.

5. The Offtake Arrangement Annual Caps

Expression of the Offtake Arrangement Annual Caps as expected transaction volumes of the Product

The Offtake Arrangement Annual Caps apply to the sales of Seaborne Product and the Dry Port Product Sales in aggregate for each of the financial years ending 31 December 2029, and are expressed as expected annual aggregate production volumes of product from the K&S Project and the Garinskoye Project over the term of the Offtake Arrangement, with a 10% buffer built in in the event of over-production. This provides the Company with the flexibility to allocate its sales among seaborne and dry port products within the limit of the Offtake Arrangement Annual Caps depending on the market conditions. In determining whether the expression of the Offtake Arrangement Annual Caps as a fixed quantum (instead of a monetary amount) each year over the term of the Offtake Arrangement is fair and reasonable, we have considered the following factors:

(i) *Volatility of historical iron ore prices*

Pursuant to the terms of the CCT Agreements, the Offtake Arrangement Annual Caps are determined by reference to expected annual aggregate production volumes of the K&S Project and the Garinskoye Project over the term of the Offtake Arrangement. If the Company were to use monetary annual caps for the transactions contemplated under the CCT Agreements, one of the key parameters in determining such caps would be the expected iron ore prices over the term of the Offtake Arrangement. Given the high volatility of historical iron ore prices, the amounts payable for sales of Seaborne Product and the Dry Port Marketing Commission payable by the Company will vary significantly depending on the then prevailing iron ore price, which is outside of the Company's or the Investors' control. As such, the Directors consider it impracticable to establish a reasonable basis for future iron ore prices, and therefore the monetary annual caps for the Offtake Arrangement, especially for such a long time horizon. Volatility in iron ore prices has also given rise to concerns over insufficient provision of monetary annual caps for normal business use even if the actual volume of iron ore concentrate sold falls within the Group's production schedule.

We have observed the price movements of major base metals including iron ore, gold, copper, aluminium, zinc, lead and nickel in 2012, as tracked by the China import iron ore fines 62% Fe spot (CFR Tianjin port), the gold spot price and the cash prices of copper, aluminium, zinc, lead and nickel on the London Metal Exchange, and their standardised volatilities (as measured by standard deviation divided by mean) were approximately 12.1%, 3.8%, 4.8%, 6.4%, 5.1%, 7.0% and 8.7% respectively during the year. Compared with other major base metals, iron ore prices have exhibited the highest volatility in 2012.

In 2012, the iron ore prices fluctuated within a range of approximately US\$86.7 per dry metric tonne ("DMT") to approximately US\$149.4 per DMT with an average of approximately US\$128.3 per DMT. Set out below is a sensitivity analysis on the

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correlation of the monetary annual caps for the Offtake Arrangement with respective iron ore prices in 2012, and how changes to the iron ore price will affect the monetary annual caps of the Offtake Arrangement:

Tianjin iron ore prices					
(US\$/DMT) (in 2012)					
	Minimum	Average	Maximum	Maximum variance	
	US\$86.7	US\$128.3	US\$149.4	Amount	%
Monetary annual caps					
(in US\$ million) for:	A		B	B – A	(B – A)/A
(a) Seaborne Offtake Agreement (Note 1, 2)					
— Year 2014	282.2	417.6	486.3	204.1	72.3%
— Year 2015	612.8	906.8	1,056.0	443.2	72.3%
— Each of the years from 2016 to 2029	975.6	1,443.8	1,681.2	705.6	72.3%
(b) Offtake Framework Agreement (Note 1, 3)					
— Year 2014	9.9	14.6	17.0	7.1	72.3%
— Year 2015	21.4	31.7	36.9	15.5	72.3%
— Each of the years from 2016 to 2029	34.1	50.5	58.8	24.7	72.3%

Note 1: The monetary annual caps for the CCT Agreements are based on the expected annual aggregate production volumes of product from the K&S Project and the Garinskoye Project over the term of the Offtake Arrangement, with a 10% buffer built in, i.e. approximately 3.5 million tonnes in 2014, approximately 7.6 million tonnes in 2015 and approximately 12.1 million tonnes for each of the years from 2016 to 2029.

Note 2: The monetary annual caps for the Seaborne Offtake Agreement are calculated as the Offtake Arrangement Annual Caps (expressed in fixed quanta) multiplied by respective Tianjin iron ore prices, less a 7% discount.

Note 3: The monetary annual caps for the Offtake Framework Agreement are calculated as the Offtake Arrangement Annual Caps (expressed in fixed quanta) times 65% (being the Dry Port Product Cap), multiplied by respective Tianjin iron ore prices and a 5% Dry Port Marketing Commission.

As shown in the sensitivity analysis above, for each financial year, by applying historical iron ore prices in 2012 to respective volume-based Offtake Arrangement Annual Caps, the variances in total transaction values and percentage terms are significant despite the production volume remaining the same in that year. If the baseline price used for determining the monetary annual caps is the average iron ore price in 2012 (i.e. US\$128.3 per DMT), the monetary annual caps for the Offtake Arrangement would be easily exceeded if global iron ore prices soared above the baseline price.

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We have also considered the decision made by the Stock Exchange in 2007, where the Stock Exchange agreed to waive the monetary annual cap requirement to those issuers engaged in the oil and gas business provided that the relationship between the monetary annual caps and respective commodity prices is properly disclosed. Such issuers cited that the volatility in the commodity prices of oil and gas had given rise to concerns over insufficient provision of caps for normal business use. Given iron ore is analogous to oil and gas and the Group's business is subject to similar volatility recently, we consider the same would apply to the Offtake Arrangement Annual Caps.

(ii) *Stable production volume from the K&S Project and the Garinskoye Project*

Each mining project of the Group will, at a suitable stage of exploration and development, have a mining plan developed with the assistance of independent technical experts which will set out the estimated volume of iron ore to be produced at the mine annually once it reaches commercial production. The Group will then estimate the volume of iron ore concentrate to be produced annually based on the resource data in the mining plan. As advised by the Directors, once production reaches the designed capacity, the volume of iron ore concentrate capable of being produced by the Group from a mining project will, to a large extent, be stable and it is highly unlikely that the actual production volume will materially increase suddenly and exceed the estimated amount. Given the stability of the estimated production volume of the Group as compared to volatile iron ore prices as described above, we consider it more relevant and meaningful to express the Offtake Arrangement Annual Caps as the maximum expected transaction volumes of the Product.

Having considered the above, we consider the setting of the Offtake Arrangement Annual Caps as fixed quanta is fair and reasonable so far as the Independent Shareholders are concerned.

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Assessment of the Offtake Arrangement Annual Caps

Set out below are the production schedules of the K&S Project and the Garinskoye Project and the Offtake Arrangement Annual Caps for the period from 2014 to 2029:

(in million tonnes)	Year		2016 to
	2014	2015	2029
The K&S Project	3.2	4.8	6.3
The Garinskoye Project	—	2.1	4.6
Scheduled production volume	3.2	6.9	10.9
Offtake Arrangement Annual caps	3.5	7.6	12.1

According to the 2012 Interim Report, the K&S Mine is expected to commence first commercial production in 2014, with an initial annual production of approximately 3.2 million tonnes of iron ore concentrate and the potential to approximately 6.3 million tonnes afterwards. As further disclosed in the announcement of the Company dated 23 August 2011, the Company had completed an optimisation study for the K&S Project following the threefold increase in reserves of the Group announced in March 2011. The optimisation study demonstrated that the annual production of iron ore concentrate at the K&S Mine can significantly increase to approximately 6.3 million tonnes starting from 2016 with modest capital investment to access the increased reserves and to expand the production capacity.

The Garinskoye Project is currently at an advanced stage of exploration and the Company is seeking financings for its construction. As disclosed in the announcement of the Company dated 12 April 2012, an internal scoping study suggested a low-cost direct shipment ore operation for the Garinskoye Project as an intermediate opportunity before proceeding with the original full-scale open-pit mining operation. Such initial direct shipment ore operation is expected to produce approximately 2.1 million tonnes of iron ore concentrate per annum, and analysis for a larger scale operation at Garinskoye will continue so as to ramp up the production capacity. As advised by the Directors, provided that the required financings would be obtained by the end of 2013 and the Garinskoye Project would be developed on a “best case” timetable, the first commercial production from the Garinskoye Project would commence in 2015, with an initial production potential of approximately 2.1 million tonnes of iron ore concentrate per annum. Based on the competent person’s report contained in Appendix V of the Company’s prospectus dated 30 September 2010, the Directors estimate that the annual production at Garinskoye would further ramp up to approximately 4.6 million tonnes of iron ore concentrate starting from 2016.

Moreover, in estimating the Offtake Arrangement Annual Caps, the Directors are of the view that a certain degree of flexibility is required for the Group to capture additional revenue in case of over-production and as business opportunities arise from further demand from the Investors in respect of the Seaborne Product or other third-party customers in respect of sales of the Dry Port Product.

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Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Offtake Arrangement Annual Caps in a way that can accommodate the potential growth of the Group's business. Provided that the conduct of the Offtake Arrangement is subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the Offtake Arrangement Annual Caps are tailored to future business growth.

In assessing the reasonableness of the Offtake Arrangement Annual Caps, we have discussed with the management of the Group (i) the mining plan for the K&S Project with estimated additional capital expenditure, (ii) the result of the optimisation study performed for the K&S Project in 2011, (iii) the scoping study performed for the Garinskoye Project in 2012, and (iv) the financing and mining plans for the Garinskoye Project with estimated capital expenditure. Based on the above analysis, we consider that the Offtake Arrangement Annual Caps for the Offtake Arrangement are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that the Offtake Arrangement Annual Caps should not be construed as an assurance or forecast by the Group of its future productions.

6. Annual review of the Offtake Arrangement

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Offtake Arrangement is subject to the following annual review requirements:

- (i) each year the independent non-executive Directors must review the Offtake Arrangement and confirm in the annual report and accounts that the Offtake Arrangement has been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) either 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 favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Offtake Arrangement:
 - (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

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- (c) have been entered into in accordance with the relevant agreements governing the Offtake Arrangement; and
- (d) have not exceeded the Offtake Arrangement Annual Caps;
- (iii) the Company shall allow, and shall procure the relevant counterparties to the Offtake Arrangement to allow, the Company's auditors to have sufficient access to their records for the purpose of the reporting on the Offtake Arrangement as set out in paragraph (ii). The Board must state in the annual report whether the Company's auditors have confirmed the matters stated in Listing Rule 14A.38; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) respectively.

In light of the reporting requirements for the Offtake Arrangement, in particular, (i) the restriction of the transaction volumes of the Offtake Arrangement by way of the Offtake Arrangement Annual Caps, and (ii) the requirements under the Listing Rules for ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Offtake Arrangement and the Offtake Arrangement Annual Caps, we are of the view that there exist appropriate measures to govern the conduct of the Offtake Arrangement and to safeguard the interests of the Independent Shareholders.

(C) THE SPECIAL DEALS

1. Background to and principal terms of the Special Deals

In relation to the US\$340 million ICBC Facility Agreement entered into between, *inter alia*, ICBC Bank, K&S and Petropavlovsk, Petropavlovsk has granted a guarantee in favour of the lenders in relation to the obligations and liabilities of K&S under the ICBC Facility Agreement. The potential liability of Petropavlovsk under the ICBC Guarantee is therefore the entire amount under the ICBC Facility Agreement although Petropavlovsk held only approximately 63.13% of the issued share capital of the Company as at the Latest Practicable Date.

The Recourse Agreement was entered into between Petropavlovsk, the Company and K&S on 13 December 2010 to set out the terms on which Petropavlovsk agreed to provide the ICBC Guarantee. Pursuant to the Recourse Agreement, Petropavlovsk shall have the right (but not the obligation) to inject funds into the Company by way of shareholder loans, which shall then be lent to K&S, in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes.

Under the terms of the Recourse Agreement, no fee shall be payable by the Company in respect of the provision of the ICBC Guarantee by Petropavlovsk as long as the Company remains as a subsidiary of Petropavlovsk. However, in the event that Petropavlovsk ceased to be the parent company of the Company, a fee established on normal commercial terms shall be payable by the Company to Petropavlovsk in respect of the ICBC Guarantee. Upon General Nice Further Subscription Completion or Total Investment Completion, the Company would be no longer a

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subsidiary of Petropavlovsk, and a monthly Guarantee Fee shall become payable by the Company to Petropavlovsk. The Guarantee Fee is proposed to be an amount not exceeding 1.75% per annum of the principal amount outstanding under the ICBC Facility Agreement in each month end.

As part of the transaction, General Nice and Minmetals Cheerglory have agreed to assist Petropavlovsk in procuring the release of the ICBC Guarantee or reducing its potential liability under the ICBC Guarantee. On 17 January 2013, Petropavlovsk and General Nice entered into the Deed of Indemnity, pursuant to which General Nice agreed to grant an indemnity in favour of Petropavlovsk to share such percentage (the “**Percentage**”) of any liability of Petropavlovsk under the ICBC Guarantee and any loans made by Petropavlovsk to the Company under the Recourse Agreement as represented by General Nice’s shareholding in the Company as a proportion of the combined shareholdings of Petropavlovsk and General Nice in the Company. (I) Any repayments made by the Company or K&S to Petropavlovsk in respect of (a) the payments made by Petropavlovsk for the amount owed by the Company and becoming due under the ICBC Facility Agreement, or (b) the loans made by Petropavlovsk to the Company under the Recourse Agreement, and (II) the Guarantee Fee payable by the Company to Petropavlovsk under the Recourse Agreement, which is proposed to be an amount, on a per annum basis, not exceeding 1.75% of the principal amount outstanding under the ICBC Facility Agreement, shall also be shared between Petropavlovsk and General Nice in the same proportion as above, provided that General Nice has previously provided an indemnity for Petropavlovsk’s liabilities under (a) and (b) above. General Nice is effectively conferring a benefit on Petropavlovsk by sharing its obligation and liability under the ICBC Guarantee. The Deed of Indemnity shall take effect upon General Nice Further Subscription Completion, subject to the approval by the Independent Shareholders at the EGM.

Upon Total Investment Completion (assuming General Nice Further Subscription Right is exercised within 3 months of General Nice Initial Subscription Completion), the Percentage would be approximately 43.74%, being 31.43% (i.e. the shareholding of General Nice in the Company) divided by the sum of 31.43% and 40.43% (the combined shareholdings of Petropavlovsk and General Nice in the Company). On this basis, General Nice would share approximately 43.74% of the Guarantee Fee to be received by Petropavlovsk. As at 31 December 2012, approximately US\$119,437,000 was drawn down under the US\$340 million ICBC Bank facility. Based on this outstanding principal amount, the maximum monthly Guarantee Fee to be paid by the Company to Petropavlovsk would be approximately US\$174,000 (being US\$119,437,000 multiplied by 1.75% (being the maximum percentage) and divided by 12 months), of which General Nice would share approximately US\$76,000 (being US\$174,000 multiplied by 43.74%).

2. Assessment of the principal terms of the Special Deals

(i) *Guarantee Fee*

The payment of a guarantee fee agreed on normal commercial terms by the Company to Petropavlovsk in respect of the ICBC Guarantee upon Petropavlovsk ceasing to be the parent company of the Company at General Nice Further Subscription Completion or Total Investment Completion is in accordance with the terms of the Recourse Agreement entered into between Petropavlovsk, the Company and K&S on 13 December 2010.

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In assessing whether the Guarantee Fee of not exceeding 1.75% per annum of the principal amount outstanding under the ICBC Facility Agreement is fair and reasonable, we have discussed with the Directors the basis of determining the Guarantee Fee. As advised by the Directors, the Guarantee Fee is determined by reference to (a) the interest rates paid by the Company to local Russian banks for short-term facilities on an unsecured basis, which is approximately 10% per annum as disclosed in the 2012 Interim Report, (b) the effective interest rate paid by the Company under the ICBC Facility Agreement with the ICBC Guarantee, being approximately 5.63%, as disclosed in the 2012 Interim Report, which has also incorporated the insurance premium paid by the Company for the US\$340 million ICBC Bank facility, and (c) the security offered by the Company under the ICBC Facility Agreement. Regarding the item (c) above, as advised by the Directors, an existing Russian bank of the Group has indicated that the difference in interest rates between an unsecured loan and one that has certain assets being charged, subject to market conditions and quality of assets, could be approximately 1% to 1.5% per annum. On this basis, the guarantee fee is estimated to be within a range of approximately 2.87% to 3.37% per annum. We therefore consider the Guarantee Fee of not exceeding 1.75% per annum of the principal amount outstanding under the ICBC Facility Agreement to be fair and reasonable so far as the Independent Shareholders are concerned. In short, the guarantee fee could be estimated as follows:

	<i>Approx.</i>
Interest rate on an unsecured basis (<i>Note</i>)	10%
<i>Less: effective interest rate paid by the Company under the ICBC Facility Agreement with the ICBC Guarantee (i.e. on a secured basis)</i>	<u>(5.63%)</u>
	4.37%
<i>Less: interest rate compensating for the assets charged under the ICBC Facility Agreement</i>	<u>(1%) to (1.5%)</u>
Estimated guarantee fee	<u><u>2.87% to 3.37%</u></u>

Note: As advised by the Directors, at the time when the Company was negotiating with the ICBC Bank regarding the ICBC Facility Agreement, the ICBC Bank would not agree to provide the US\$340 million credit facility to the Company if Petropavlovsk failed to provide the ICBC Guarantee. As such, no reference interest rate was available from the ICBC Bank for unsecured loan with no guarantee from the controlling Shareholder. In order to perform a meaningful analysis on the fairness and reasonableness of the 1.75% Guarantee Fee, we have made reference to the interest rate available from local Russian banks to the Group on an unsecured basis with no guarantee as a starting point for comparison purpose.

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(ii) *Deed of Indemnity*

We consider the terms of the Deed of Indemnity to be fair and reasonable so far as the Independent Shareholders are concerned after taking into account the following factors:

- (a) in granting the ICBC Guarantee under the ICBC Facility Agreement, Petropavlovsk assisted the Company in obtaining financings on better terms than would otherwise be possible. As disclosed in the Company's prospectus dated 30 September 2010, support by Petropavlovsk in the form of a guarantee would help the Company to obtain financing for the K&S Project at a lower cost and on other more favorable terms. As a result, Petropavlovsk has been benefiting minority Shareholders in the first place without being compensated for the ICBC Guarantee. By entering into the Deed of Indemnity, although General Nice is conferring a benefit on Petropavlovsk by sharing its obligation and liability under the ICBC Guarantee in its capacity as a fellow controlling Shareholder with Petropavlovsk, it is not possible to offer such benefit to any other Shareholders since Petropavlovsk is the sole Shareholder who has given such guarantee under the ICBC Facility Agreement; and
- (b) the reason for entering into the Deed of Indemnity is that General Nice will become a controlling Shareholder while Petropavlovsk will cease to be the parent company of the Company upon General Nice Further Subscription Completion or Total Investment Completion. As Petropavlovsk will no longer control the majority of the voting rights in the Company, it is commercially unreasonable for Petropavlovsk to continue to bear the entire potential liability under the ICBC Guarantee. The sharing of liability pursuant to the Deed of Indemnity simply reflects the new ownership structure of the Company.

(D) RISK FACTORS

During our assessment of the fairness and reasonableness of the Share Issue Transaction and the Offtake Arrangement as a package, we have considered the principal risks associated thereof, the details of which please refer to the section 9 headed "Risk factors" in the "Letter from the Board" of the Circular.

As mentioned above, completion of the Share Issue Transaction and the Offtake Arrangement is subject to a number of conditions precedents including the approval by the Independent Shareholders of the EGM Resolutions at the EGM. If these conditions are not satisfied or waived (where permitted) by the respective long stop dates or such other dates as agreed by the parties, or the Investors are incapable of providing the required clear funds for the subscription of the Subscription Shares, the Share Issue Transaction and the Offtake Arrangement will not proceed. If the Share Issue Transaction does not take place or only the General Nice Initial Subscription takes place, the Group will have to consider other alternative ways of financing in order to develop the K&S Project and the Garinskoye Project. The development of the K&S Project and the Garinskoye Project may be delayed if the required funding is not available on time.

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As disclosed in the “Letter from the Board” of the Circular, the expected productions from the K&S Project and the Garinskoye Project would constitute a majority of total iron ore concentrate production volume of all the Group’s projects, the sale of which is reliant on the Investors under the Offtake Arrangement. If the Investors fail to perform their obligations under the CCT Agreements or if the CCT Agreements are terminated for whatever reason or are not renewed after its initial term, the Group will have to identify and contract with other purchasers for the product from the K&S Project and the Garinskoye Project. In such case, the Group may not be able to sell all or substantially all of the product from the K&S Project and the Garinskoye Project, which could adversely affect the Group’s business, results of operations, financial condition, prospects and cash flows.

The Group currently has only one offtake agreement, i.e. the Jianlong Offtake Agreement, in respect of the sale of titanomagnetite concentrate produced at the Kuranakh mine, the Company’s sole operating mine. The risk of the Group being dependent on the sale under the Jianlong Offtake Agreement has been properly disclosed in the section headed “Risk factors” in the prospectus of the Company dated 30 September 2010. Since the commencement of its commercial production and prior to the Offtake Arrangement becoming effective, the Group has relied on one customer for the sale of product from its sole operating mine. With the Offtake Arrangement in place, the Group is able to expand its customer base and secure demand from the Investors for the product from the Projects over the term of the CCT Agreements, therefore mitigating the risk associated with the Group’s present reliance on Jianlong’s sale. In light of the uncertainty as to the iron ore market price in future and the volatile global demand for iron ore products, although the Group is expected to rely on the Investors for the sale of the Product from the K&S Project and the Garinskoye Project, we are of the view that the entering into of an exclusive offtake agreement with the Investors will lessen the Group’s present risk of too relying on one customer, and are in the interests of the Company and the Shareholders as a whole, whether or not it is usual for a company in the industry to rely on few offtakers on an exclusive basis.

DISCUSSION AND ANALYSIS

In our work, we have reviewed and assessed the Share Issue Transaction, the Offtake Arrangement and the Special Deals as a package. It is presented to the Company as such, and it is not possible for the Company to accept some features and reject others. Independent Shareholders should therefore consider the Share Issue Transaction, the Offtake Arrangement and the Special Deals as a whole, based on the factors set out in details above, and summarised below:

1. Strategic move for the Group

The Share Issue Transaction not only provides the Group with critical part of the financing required for the development of its flagship K&S Mine and other exploration projects, but also helps to introduce the Investors as the shareholders of the Company. General Nice is one of the largest private iron ore importers in the PRC while Minmetals Cheerglory is one of the largest PRC state-owned iron ore traders in the PRC. The CCT Agreements, bundled with the Share Issue Transaction, form the foundation for a strategic alliance between the Company and the Investors in the way that the Product produced from the Projects to be funded by the Share Issue Transaction will then be sold to the Investors under the Offtake Arrangement. Through the Offtake Arrangement, the Group not only can leverage on the considerable experience of the Investors in the seaborne market, but also can secure long-term demand for its iron ore concentrate from the Investors without having to rely on uncertain short-term customer contracts while retaining the

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flexibility for the Group to sell the Product via dry port. The Share Issue Transaction and the Offtake Arrangement as a whole further strengthen the Company's position as a Sino-Russian industrial commodities champion.

2. Decrease in Independent Shareholders' percentage shareholding

Independent Shareholders' holdings are expected to be diluted from approximately 35.18% as at the Latest Practicable Date to approximately 27.06% upon Total Investment Completion. We regard this as a significant dilution but a considerable degree of dilution was inevitable once it was decided to raise part of the required funds for the development of the Projects through the Share Issue Transaction, which we agree is prudent given other alternative ways of financing are considered by the Directors to be less optimal. A forward sale of iron ore concentrate from the K&S Project is possible but could attract significant penalties for any late deliveries, which the Directors consider not desirable. Debt financings, including bank borrowings or issue of bonds (or notes), were also considered by the Board, but the terms being offered by some banks were deemed less attractive by the Directors both in terms of loan amounts and interest rates. Debt financings with acceptable terms would only be possible if sizeable equity fund raising exercise has been achieved by the Company, given the Group's current negative operating cash flow position. For a private share placement under the general mandate of the Company, the amount of fund raised would be limited. As regards a rights issue or open offer, the Directors consider them to be less optimal in view of the longer timetable, greater execution risk and difficulty in finding an underwriter for a rights issue or open offer of the Company with reasonable underwriting fee. The dilution is itself an unattractive feature, but in our view should be assessed in the context of the Share Issue Transaction, which we consider essential to the Group's business development and fair on the grounds summarised above.

3. Subscription Price compared to market

The Subscription Price of HK\$0.94 per Share was agreed based on arm's length negotiations between the Company and the Investors. Given the high correlation between the Share price and iron ore prices, the high volatility exhibited by iron ore prices in past one year and the long-term relationship between the Company and the Investors established through the Share Issue Transaction and the Offtake Arrangement, we are of the view that the Subscription Price should be set by reference to the Share prices of a longer period, say the average closing price of the Shares during the Review Period which is approximately HK\$0.97. The Subscription Price represents a premium of approximately 11.90% to the average closing price of approximately HK\$0.84 per Share on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day. Moreover, the discounts of the Subscription Price to the 30-day, 60-day and 365-day average closing prices prior to and including the Last Trading Day are smaller than the average and median of those of the Comparable Share Placements.

4. Dilution in NAV per Share

The Subscription Price of HK\$0.94 per Share represents a discount of approximately 48.63% to the unaudited NAV per Share of the Group of approximately HK\$1.83 as at 30 June 2012. As shown in the charts in the sub-section headed "Analysis of historical Share price performance"

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under Part A headed “Investors’ Subscription Agreements” above, the Shares have been traded at prices below the NAV per Share during the Review Period. Consequently, if a new issue of Shares is made on usual market terms, a discount of the issue price to the NAV per Share is unavoidable.

We also consider the dilutive effect of the Share Issue Transaction on the NAV per Share as at 30 June 2012 is itself an unattractive factor, but should not of itself rule out the transaction if other attractive features outweigh them, especially in light of the need of additional capital to fund the development of the Projects while other alternative ways of fund raising (other than the Share Issue Transaction) are perceived by the Directors to be less optimal.

5. Working capital, net asset value and gearing ratio

The Share Issue Transaction is expected to have an overall positive effect on the financial position of the Group in terms of working capital, net asset value and gearing ratio upon Total Investment Completion as the Company is expected to raise gross proceeds of up to approximately HK\$1,844.8 million (or approximately US\$238.0 million) from the Share Issue Transaction.

6. Whitewash Waiver

The Whitewash Waiver is a condition of the Share Issue Transaction which cannot be waived. We consider the issue of the Subscription Shares to the Investors, which gives rise to the need for the Whitewash Waiver, is the most appropriate means of financing which is crucial to the business expansion of the Group. The Whitewash Waiver is needed to accommodate the amount of money to be raised under the Share Issue Transaction.

7. Terms of the CCT Agreements

Since the CCT Agreements and the Investors’ Subscription Agreements are inter-conditional on each other, the Offtake Arrangement and the Share Issue Transaction should be reviewed and assessed as a package. The proceeds raised from the Share Issue Transaction are essential for the development of the K&S Project and the Garinskoye Project which are scheduled to start commercial productions in 2014 and 2015 respectively, while other alternative ways of financing, such as a forward sale of the product from the K&S Project, debt financings, private share placements and a rights issue or open offer, were considered by the Directors to be less optimal. The terms of the CCT Agreements as a whole are therefore justifiable given that the Share Issue Transaction is crucial to the business expansion of the Group. The 7% discount under the Seaborne Offtake Agreement is justifiable as it is effectively compensating the Investors for their “underwriting” obligations in the event of adverse market conditions, while the 5% Dry Port Marketing Commission compensates the Investors for their reasonable efforts made in assisting the Group in developing its sales and marketing capacity in the dry port market, and allows the Company to retain the nomination right as to how much of the Product to be sold as Dry Port Product. As a result, we are of the view that the terms of the CCT Agreement, bundled with the Investors’ Subscription Agreements, are fair and reasonable as a whole so far as the Independent Shareholders are concerned.

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8. Duration of the CCT Agreements

We consider the long-term nature of the CCT Agreements is of a normal business practice as it not only allows the Group to secure long-term demand for the Product in light of the high volatility in the global demand for iron ore, but also provides a stable and long-term revenue stream and therefore a level of financial stability for the Group to assist it in obtaining further financings to develop its projects in future, given the current negative operating cash flow position of the Group. The term of the CCT Agreements is also in line with that of the Jianlong Offtake Agreement and is comparable to those of the Comparable CCT Transactions. The duration of the CCT Agreements is part of the terms of the CCT Agreements which should be reviewed and assessed with the Share Issue Transaction as a whole.

9. Expression of the Offtake Arrangement Annual Caps as fixed quanta

Taking into account (i) the high volatility of historical iron ore prices exhibited in 2012, which may give rise to insufficient provision of monetary annual caps for normal business use even though the actual volume of iron ore concentrate sold is within the Group's production schedule, and (ii) the stability of estimated production volumes from the K&S Project and the Garinskoye Project, we consider it more relevant and meaningful to express the Offtake Arrangement Annual Caps as the maximum expected transaction volumes of the Product.

10. The Offtake Arrangement Annual Caps

Provided that the required financings, including that from the Share Issue Transaction, would be obtained and the Projects would be developed as planned, the commercial productions from the K&S Project and the Garinskoye Project are expected to commence in 2014 and 2015 respectively. The Offtake Arrangement Annual Caps, commencing from 2014 and ending in 2029, are determined by reference to the estimated production schedules of the K&S Project and the Garinskoye Project with a certain degree of flexibility built in to accommodate the potential growth of the Group's business, which we consider to be fair and reasonable.

11. The Guarantee Fee

The Guarantee Fee of not more than 1.75% per annum of the principal amount outstanding under the ICBC Facility Agreement, which is determined by reference to (i) the interest rates paid by the Company to local Russian banks on an unsecured basis and under the ICBC Facility Agreement with the ICBC Guarantee, (ii) the security offered by the Company under the ICBC Facility Agreement, and (iii) the insurance premium paid by the Company for the US\$340 million ICBC Bank facility, is considered fair and reasonable.

12. The Deed of Indemnity

Through the Deed of Indemnity, General Nice is conferring a benefit on Petropavlovsk by sharing part of its liability under the ICBC Guarantee. As (i) it is not possible to offer such benefit to any other Shareholders since they did not provide the ICBC Guarantee in the first place, and (ii) such sharing of liability simply reflects the new ownership structure of the Company among Petropavlovsk and General Nice, we consider the terms of the Deed of Indemnity to be fair and reasonable so far as the Independent Shareholders are concerned.

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OPINION AND RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Investors' Subscription Agreements, the CCT Agreements and the Special Deals are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. In our view, the entering into of the CCT Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. We also consider the Whitewash Waiver, the setting of the Offtake Arrangement Annual Caps based on a fixed quantum for the corresponding financial year, and the Offtake Arrangement Annual Caps themselves, are fair and reasonable so far as the Independent Shareholders are concerned, and that it is the normal business practice for contracts in the nature of the CCT Agreements to be of such duration. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the EGM Resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine David Ching
Chairman Director

1 SUMMARY OF THE FINANCIAL INFORMATION

The following is a summary of the consolidated results and financial information of the Group for the three years ended 31 December 2009, 2010 and 2011, being the last three years for which the information has been published, and the six months ended 30 June 2012, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012:

Financial Summary

	For the six months ended 30 June 2012	For the year ended 31 December		
	2012	2011	2010	2009
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
Revenue	56,948	122,208	25,792	8,260
Operating expenses	(68,051)	(131,389)	(61,584)	(40,555)
Impairment charges (<i>Note 2</i>)	(6,061)	—	(35,972)	(97,371)
	(17,164)	(9,181)	(71,764)	(129,666)
Share of results of an associate	(5)	87	—	—
Share of results of joint ventures	(1,878)	(515)	(135)	(90)
Net operating loss	(19,047)	(9,609)	(71,899)	(129,756)
Other gains and losses and other expenses	(7)	12,708	(5,570)	(13,552)
Financial income	194	716	10,929	15,145
Financial expenses	(843)	(555)	(11,813)	(10,337)
Profit/(loss) before taxation	(19,703)	3,260	(78,353)	(138,500)
Taxation expense	(110)	(1,684)	(3,676)	(637)
Profit/(loss) for the period/year	<u>(19,813)</u>	<u>1,576</u>	<u>(82,029)</u>	<u>(139,137)</u>
Profit/(loss) for the period/year attributable to:				
Owners of the Company	(19,880)	1,001	(82,358)	(139,291)
Non-controlling interests	<u>67</u>	<u>575</u>	<u>329</u>	<u>154</u>
Dividends (<i>Note 3</i>)	—	—	—	—
Dividends per share	—	—	—	—
Basic earnings/(loss) per Share (US cents)	<u>(0.61)</u>	<u>0.03</u>	<u>(3.62)</u>	<u>(7.66)</u>

	As at	As at 31 December		
	30 June	2011	2010	2009
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
		(restated)		
Total Assets	921,469	862,582	867,519	886,867
Total Liabilities	(125,042)	(49,504)	(62,901)	(287,527)
Net Current Assets	86,687	94,585	224,550	408,153
Equity attributable to:				
Owners of the Company	791,832	808,453	800,292	594,976
Non-controlling interests	4,595	4,625	4,326	4,364
Total equity	<u>796,427</u>	<u>813,078</u>	<u>804,618</u>	<u>599,340</u>

Notes:

1. The financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011 were audited by Deloitte Touche Tohmatsu. No qualified opinion has been issued by Deloitte Touche Tohmatsu in respect of the financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011.
2. Exceptional items for the financial years ended 31 December 2009, 31 December 2010 and 2011 and the six months ended 30 June 2012.
3. Excluding an interim dividend of US\$644,437,000 proposed and approved on 22 June 2010 by Aricom Limited, prior to the listing of the Shares on The Stock Exchange of Hong Kong Limited under a group-reorganisation.

2 AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Consolidated Income Statement*For the year ended 31 December 2011*

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Revenue	7	122,208	25,792
Operating expenses	8	(131,389)	(61,584)
Impairment charges	11	<u>—</u>	<u>(35,972)</u>
		(9,181)	(71,764)
Share of results of an associate	22	87	—
Share of results of joint ventures	23	<u>(515)</u>	<u>(135)</u>
Net operating loss		(9,609)	(71,899)
Other gains and losses and other expenses	12	12,708	(5,570)
Financial income	13	716	10,929
Financial expenses	14	<u>(555)</u>	<u>(11,813)</u>
Profit (loss) before taxation		3,260	(78,353)
Taxation expense	15	<u>(1,684)</u>	<u>(3,676)</u>
Profit (loss) for the year		<u><u>1,576</u></u>	<u><u>(82,029)</u></u>
Profit (loss) for the year attributable to:			
Owners of the Company		1,001	(82,358)
Non-controlling interests		<u>575</u>	<u>329</u>
		<u><u>1,576</u></u>	<u><u>(82,029)</u></u>
Earnings (loss) per share (US cents)	17		
Basic		<u><u>0.03</u></u>	<u><u>(3.62)</u></u>
Diluted		<u><u>0.03</u></u>	<u><u>(3.62)</u></u>

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2011*

	2011	2010
	<i>US\$'000</i>	<i>US\$'000</i>
Profit (loss) for the year	1,576	(82,029)
Other comprehensive income (expenses) for the year:		
Exchange differences on translation of foreign operations and translation to presentation currency	(420)	766
Reclassification adjustment on translation difference upon acquisition of additional interest in Jiatai Titanium project	<u>(882)</u>	<u>—</u>
Total comprehensive income (expenses) for the year	<u><u>274</u></u>	<u><u>(81,263)</u></u>
Total comprehensive income (expenses) attributable to:		
Owners of the Company	(25)	(81,552)
Non-controlling interests	<u>299</u>	<u>289</u>
	<u><u>274</u></u>	<u><u>(81,263)</u></u>

Consolidated Statement of Financial Position*At 31 December 2011*

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
NON-CURRENT ASSETS			
Intangible assets	<i>19</i>	44,493	31,533
Property, plant and equipment	<i>20</i>	568,385	499,270
Goodwill	<i>41</i>	6,061	—
Interest in an associate	<i>22</i>	703	—
Interests in joint ventures	<i>23</i>	7,086	10,346
Other non-current assets	<i>24</i>	98,360	44,550
Restricted bank deposit	<i>32</i>	<u>6,000</u>	<u>—</u>
		<u>731,088</u>	<u>585,699</u>
CURRENT ASSETS			
Inventories	<i>25</i>	41,301	27,121
Trade and other receivables	<i>26</i>	57,005	29,231
Cash and cash equivalents	<i>29</i>	<u>33,188</u>	<u>225,468</u>
		<u>131,494</u>	<u>281,820</u>
TOTAL ASSETS		<u>862,582</u>	<u>867,519</u>
CURRENT LIABILITIES			
Trade and other payables	<i>30</i>	(21,616)	(57,085)
Current income tax payable		(293)	(185)
Bank borrowings — due within one year	<i>32</i>	<u>(15,000)</u>	<u>—</u>
		<u>(36,909)</u>	<u>(57,270)</u>
NET CURRENT ASSETS		<u>94,585</u>	<u>224,550</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>825,673</u>	<u>810,249</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	<i>31</i>	(2,160)	(2,024)
Provision for close down and restoration costs	<i>33</i>	(4,092)	(3,607)
Bank borrowings — due more than one year	<i>32</i>	<u>(6,343)</u>	<u>—</u>
		<u>(12,595)</u>	<u>(5,631)</u>
TOTAL LIABILITIES		<u>(49,504)</u>	<u>(62,901)</u>
NET ASSETS		<u><u>813,078</u></u>	<u><u>804,618</u></u>

		2011	2010
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
CAPITAL AND RESERVES			
Share capital	34	4,330	4,330
Share premium		1,029,131	1,028,468
Treasury shares	35	(43,000)	(43,000)
Capital reserve		17,918	16,946
Reserves		35,209	29,684
Accumulated losses		<u>(235,135)</u>	<u>(236,136)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
		808,453	800,292
NON-CONTROLLING INTERESTS		<u>4,625</u>	<u>4,326</u>
TOTAL EQUITY		<u><u>813,078</u></u>	<u><u>804,618</u></u>

Statement of Financial Position*At 31 December 2011*

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	20	28	51
Investment in subsidiaries	21	<u>1,007,358</u>	<u>877,300</u>
		<u>1,007,386</u>	<u>877,351</u>
CURRENT ASSETS			
Other receivables	26	196	134
Amounts due from subsidiaries	28	20	11
Cash and cash equivalents	29	<u>7,185</u>	<u>146,793</u>
		<u>7,401</u>	<u>146,938</u>
TOTAL ASSETS		<u>1,014,787</u>	<u>1,024,289</u>
CURRENT LIABILITIES			
Amount due to ultimate holding company	28	(26)	(246)
Amount due to subsidiaries	28	(756)	—
Accruals and other payables	30	<u>(2,186)</u>	<u>(5,951)</u>
		<u>(2,968)</u>	<u>(6,197)</u>
NET CURRENT ASSETS		<u>4,433</u>	<u>140,741</u>
NET ASSETS		<u>1,011,819</u>	<u>1,018,092</u>
CAPITAL AND RESERVES			
Share capital	34	4,330	4,330
Share premium		1,029,131	1,028,468
Capital reserve		526	254
Share-based payments reserve	38	7,885	1,334
Accumulated losses	36	<u>(30,053)</u>	<u>(16,294)</u>
TOTAL EQUITY		<u>1,011,819</u>	<u>1,018,092</u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Total attributable to owners of the Company										
	Share capital US\$'000	Share premium US\$'000	Capital reserve US\$'000	Treasury shares US\$'000	Accumulated losses US\$'000	Share-based payments reserve US\$'000	Translation reserve US\$'000	Other reserves ^(d) US\$'000	Sub-total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2010	2,265	1,183,520	6,908	—	(619,700)	11,108	(18,725)	29,600	594,976	4,364	599,340
Loss for the year	—	—	—	—	(82,358)	—	—	—	(82,358)	329	(82,029)
Other comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	806	—	806	(40)	766
Total comprehensive (expenses) income for the year	—	—	—	—	(82,358)	—	806	—	(81,552)	289	(81,263)
Exercise of warrants issued	192	153,040	—	—	—	—	—	—	153,232	—	153,232
Capital reduction ^(a)	—	(1,336,560)	—	—	1,336,560	—	—	—	—	—	—
Interim dividend (note 16)	—	—	—	—	(644,437)	—	—	—	(644,437)	—	(644,437)
Share-based payments	—	—	—	—	—	1,334	—	—	1,334	—	1,334
Shares acquired by Employee Benefit Trust ("EBT")	—	—	—	(43,000)	—	—	—	—	(43,000)	—	(43,000)
Deemed contribution from an equity holder ^(b)	—	—	10,038	—	—	—	—	—	10,038	—	10,038
Transfer to an equity holder (note 34(b))	—	—	—	—	(171,613)	—	3,104	—	(168,509)	—	(168,509)
Transfer from an equity holder (note 34(c))	—	—	—	—	205,412	—	—	—	205,412	—	205,412
Issue of shares and combination of Aricom Limited ("Aricom") and Aricom's subsidiaries (collectively the "Aricom Group") (note 34(a))	—	697,637	—	—	(260,000)	—	—	—	437,637	—	437,637
Deemed contribution arising from Group Restructuring ^(c)	(2,457)	—	—	—	—	—	—	2,457	—	—	—
Capitalisation of share capital	2,990	(2,990)	—	—	—	—	—	—	—	—	—
Transaction costs attributable to issue of new shares	—	(11,578)	—	—	—	—	—	—	(11,578)	—	(11,578)
Issue of new shares	1,340	299,813	—	—	—	—	—	—	301,153	—	301,153
Dividend distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(327)	(327)
Contribution from a parent company	—	45,586	—	—	—	—	—	—	45,586	—	45,586
Balance at 31 December 2010 and 1 January 2011	4,330	1,028,468	16,946	(43,000)	(236,136)	12,442	(14,815)	32,057	800,292	4,326	804,618
Profit for the year	—	—	—	—	1,001	—	—	—	1,001	575	1,576
Other comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—	—	—	—	(144)	—	(144)	(276)	(420)
Reclassification to profit or loss upon acquisition of additional interest in Jiatai Titanium project (note 41)	—	—	—	—	—	—	(882)	—	(882)	—	(882)
Total comprehensive income (expenses) for the year	—	—	—	—	1,001	—	(1,026)	—	(25)	299	274
Share-based payments	—	—	272	—	—	6,551	—	—	6,823	—	6,823
Deemed contribution from an equity holder ^(b)	—	—	700	—	—	—	—	—	700	—	700
Reversal of over-accrued listing-related expenses	—	663	—	—	—	—	—	—	663	—	663
Balance at 31 December 2011	4,330	1,029,131	17,918	(43,000)	(235,135)	18,993	(15,841)	32,057	808,453	4,625	813,078

- (a) On 27 May 2010, a reduction of Aricom's share capital was undertaken. In accordance with the United Kingdom Companies Act 2006, this reduction is considered to be a realised profit, and accordingly the share premium of US\$1,336,560,000 was transferred to accumulated losses.
- (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) 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 2011 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 then 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.
- (d) The amount arose from acquisition of minority interests and deemed contribution arising from Group Restructuring.

Consolidated Statement of Cash Flows*For the year ended 31 December 2011*

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
OPERATING ACTIVITIES			
Cash used in operations	37	(24,778)	(49,111)
Interest expenses paid		(140)	—
Income tax paid		<u>(562)</u>	<u>(674)</u>
NET CASH USED IN OPERATING ACTIVITIES		<u>(25,480)</u>	<u>(49,785)</u>
INVESTING ACTIVITIES			
Interest received		716	1,505
Proceeds on disposal of property, plant and equipment		324	3,713
Purchases of and prepayment for property, plant and equipment and intangible assets		(158,554)	(122,680)
Contribution to share capital of an associate	22	(616)	—
Acquisition of a subsidiary, net of cash acquired	41	(2,185)	—
Restricted bank deposits placed	32	(6,000)	—
Loan issued to related parties	27	—	(6,035)
Joint venture registered capital contribution	23	—	(4,731)
Repayment of loan issued to related parties		<u>—</u>	<u>22,506</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(166,315)</u>	<u>(105,722)</u>
FINANCING ACTIVITIES			
Dividends paid to shareholders of Aricom Limited		—	(22,460)
Dividends paid to non-controlling interests of subsidiaries		—	(327)
Proceeds from bank borrowings		21,958	—
Insurance premium paid		(22,520)	—
Loan arrangement fees paid		(3,370)	(4,090)
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	35	—	(43,000)
Loans advanced from a related party	27	—	94,370
Contribution from a parent company		<u>—</u>	<u>45,586</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(3,932)</u>	<u>364,668</u>

	<i>Notes</i>	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(195,727)	209,161
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		225,468	18,415
Effect of foreign exchange rate changes		<u>3,447</u>	<u>(2,108)</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		<u><u>33,188</u></u>	<u><u>225,468</u></u>

Notes to the Consolidated Financial Statements*For the year ended 31 December 2011***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 including iron ore that are used in industry across the world. The main activities of the Group are in Russia and China and the Group predominantly serves the Russian and Chinese markets. 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 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 PRESENTATION 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 the year ended 31 December 2010 have been prepared as if the current group structure had been in existence throughout the year ended 31 December 2010, 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.

Changes in the Group's ownership interests in existing subsidiaries

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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses as specified by applicable HKFRSs). 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.

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, Amendments and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2011 financial year.

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

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

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ¹ Disclosures — Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁵
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ⁶
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). Under the Interpretation, the costs from this waste removal activity (“stripping”) which provide improved access to ore is recognised as a non-current asset (“stripping activity asset”) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with HKAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

HK(IFRIC)-Int 20 is effective for annual periods beginning on or after 1 January 2013 with transitional provisions. The directors anticipate that the Interpretation will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013. The Directors anticipate that the adoption of HK(IFRIC)-Int 20 in the future may affect the period in which the stripping costs is charged to profit or loss. Under the existing policy, during production phase, the Group would defer the portion of stripping costs in which the tonnage of the waste mined to the quantity of the ore mined exceeds the life-to-mine ratio to a subsequent period.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Business combinations not under common control

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 share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); 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, when applicable, on the basis specified in another Standard.

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.

Acquisition of assets

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

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of in jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities.

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 and liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and 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.

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's 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 statement of financial position at cost less any identified impairment losses.

Investments in associates

An associate is an entity over which the Group has 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and 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.

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 its associate, profits and losses from the transaction with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the associate that are not related to the Group.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency 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 retranslated 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. 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 entities which have a functional currency other than US Dollars are translated at exchange rates prevailing at the end of each reporting period. 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.

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.

Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, is capitalised and recorded on the 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 the 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 start-up date of the titanium sponge plant.

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 carried at cost less impairment.

Mining assets

Mining assets are reclassified from “mine development costs” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. Mining assets are carried at cost, less subsequent accumulated depreciation and accumulated impairment loss, if any. Depreciation policy for mining assets set out below under “*Depreciation*”.

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, less subsequent accumulated depreciation and accumulated impairment loss, if any.

Capital construction in progress

Assets in the course of construction are capitalised in the capital construction in progress account, which are carried at cost less any recognised impairment loss. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment and commences depreciation on the same basis as other property assets.

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 determined based on the mineable reserves of the mine 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.

Whereas the current period stripping ratio is within the life-to-mine ratio, such costs are charged to the profit or loss.

The determination of life-of-mine and waste-to-ore ratio is dependent 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 other than mine development costs and capital construction in progress 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 which are already capable of undertaking mining activities intended by the Group. 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
	<i>Number of years</i>
Buildings	15–50
Plant and machinery	2–20
Vehicles	5–7
Office equipment	2–10
Computer equipment	3–5
	THE COMPANY
	Estimated useful life
	<i>Number of years</i>
Leasehold improvements	2
Furniture and fixtures	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.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 in the Group's consolidated statement of financial position and company statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, cash and cash equivalent, restricted bank deposits, and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be 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. 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. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

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 interest 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

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

Finished goods and work in progress are valued at the lower of average cost of production and net realisable value. Finished goods include iron ore and ilmenite concentrates produced. Iron ore concentrate is treated as a main product and ilmenite concentrate as a by-product. The average cost of production of the main product comprises total costs incurred on mining and processing including direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location, less net revenue from the sale of the by-product, allocated to the main product on a units produced basis. Processed by-products are valued at net realisable value. Cost of raw materials and consumables which are grouped as stores and spares, work in progress and finished goods are 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

Rentals payable under operating leases are charged to profit or loss 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 estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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 profit as reported in the consolidated 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 temporary 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 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.

Employee benefit trust

The carrying value of shares held by the EBT are recorded as treasury shares, shown as a deduction to owners' 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, goodwill, interests in an associate 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, any 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.

Estimation of Percentage Completion of Engineering Contracts of OJSC Institute for Engineering of Ore Mining Enterprises Giproruda (“Giproruda”)

To estimate the percentage of 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 necessary 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”), comprises iron ore projects in production phase. This segment includes the Kuranakh project* upon its commencement of production in September 2010.
- Mines in Development segment (“Mines in Development”), comprises iron ore projects in the exploration and development phase. This 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”), comprises 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. In 2011, the Group successfully acquired the remaining 35% interest in Jiatai Titanium project (as defined in note 41) from the joint venture partner pursuant to which Heilongjiang Jiatai Titanium Co., Limited becomes a wholly-owned subsidiary of the Group. There is no change in the reporting segment for the Jiatai Titanium project after the acquisition.

* *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 central cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than deferred tax and bank borrowings.

For the year ended 31 December 2011

	Mines in production <i>US\$'000</i>	Mines in development <i>US\$'000</i>	Engineering <i>US\$'000</i>	Other <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue					
External sales	110,388	—	11,820	—	122,208
Total revenue	110,388	—	11,820	—	122,208
Site operating expenses and service costs	(90,141)	(887)	(9,555)	(4,209)	(104,792)
<i>Site operating expenses and service costs include:</i>					
Depreciation	(7,241)	(3,041)	(529)	(92)	(10,903)
Share of results of an associate	—	87	—	—	87
Share of results of joint ventures	—	—	—	(515)	(515)
Segment results	<u>20,247</u>	<u>(800)</u>	<u>2,265</u>	<u>(4,724)</u>	16,988
Central administrative expenses					(26,214)
Central depreciation and amortisation					(383)
Other gains and losses and other expenses					12,708
Financial income					716
Financial expenses					<u>(555)</u>
Profit before taxation					<u>3,260</u>
Other segment information					
Additions to non-current assets:					
– Capital expenditure	12,331	74,896	345	352	87,924
Exploration and evaluation expenditure capitalised within intangible assets	<u>—</u>	<u>12,960</u>	<u>—</u>	<u>—</u>	<u>12,960</u>
Segment assets	156,896	648,848	21,300	20,750	847,794
Central cash and cash equivalents					<u>14,788</u>
Total assets					<u>862,582</u>
Segment liabilities	(12,192)	(3,994)	(3,250)	(6,565)	(26,001)
Bank borrowings					(21,343)
Deferred tax liabilities					<u>(2,160)</u>
Total liabilities					<u>(49,504)</u>

For the year ended 31 December 2010

	Mines in production <i>US\$'000</i>	Mines in development <i>US\$'000</i>	Engineering <i>US\$'000</i>	Other <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue					
External sales	12,634	—	13,158	—	25,792
Total revenue	12,634	—	13,158	—	25,792
Site operating expenses and service costs	(14,947)	(7,796)	(10,863)	(40,597)	(74,203)
<i>Site operating expenses and service costs include:</i>					
Impairment charges	—	(1,028)	—	(34,944)	(35,972)
Depreciation	(2,368)	(1,402)	(621)	(28)	(4,419)
Share of results of joint ventures	—	—	—	(135)	(135)
Segment results	<u>(2,313)</u>	<u>(7,796)</u>	<u>2,295</u>	<u>(40,732)</u>	(48,546)
Central administrative expenses					(22,847)
Central depreciation and amortisation					(506)
Other gains and losses and other expenses					(5,570)
Financial income					10,929
Financial expenses					<u>(11,813)</u>
Loss before taxation					<u>(78,353)</u>
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	<u>—</u>	<u>3,323</u>	<u>—</u>	<u>—</u>	<u>3,323</u>
Segment assets	132,191	495,596	19,492	17,412	664,691
Central cash and cash equivalents					<u>202,828</u>
Total assets					<u>867,519</u>
Segment liabilities	(8,763)	(31,640)	(2,597)	(17,877)	(60,877)
Deferred tax liabilities					<u>(2,024)</u>
Total liabilities					<u>(62,901)</u>

Revenue by geographical location^(a)

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Russia	11,820	13,184
PRC	<u>110,388</u>	<u>12,608</u>
	<u><u>122,208</u></u>	<u><u>25,792</u></u>

(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)

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Russia	717,295	575,237
PRC	7,765	10,411
Hong Kong	<u>28</u>	<u>51</u>
	<u><u>725,088</u></u>	<u><u>585,699</u></u>

(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 years ended 31 December 2011 and 2010. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2011 sales were made to Heilongjiang Jianlong Steel Company Limited (US\$107,288,000) attributable to the Mines in Production segment comprising 88% of the total revenue. There were no other customers that contributed over 10% on the total revenue of the Group during the year ended 31 December 2011.

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.

7. REVENUE

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

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Revenue		
Sales of goods	110,388	12,634
Rendering of services	<u>11,820</u>	<u>13,158</u>
	<u><u>122,208</u></u>	<u><u>25,792</u></u>

8. OPERATING EXPENSES

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Operating expenses		
Site operating expenses and service costs ^(a)	104,792	38,231
Central administration expenses ^(b)	<u>26,597</u>	<u>23,353</u>
	<u>131,389</u>	<u>61,584</u>

(a) Site operating expenses and service costs.

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Staff costs	37,127	22,274
Fuel	12,614	2,753
Materials	16,846	7,953
Depreciation	10,903	4,419
Electricity	2,770	1,143
Royalties	1,218	544
Railway tariff	30,597	4,853
Movement in finished goods and work in progress	(8,142)	(16,289)
Engineering services cost	9,017	3,503
Professional fees*	767	753
Bank charges	332	202
Insurance	129	51
Office rent	791	645
Business travel expenses	1,110	669
Office costs	1,999	953
Mine development costs capitalised in property, plant and equipment	(20,974)	(5,949)
Reversal of allowance for bad debts**	(190)	(42)
Loss on disposal of property, plant and equipment	115	918
Other expenses	<u>7,763</u>	<u>8,878</u>
	<u>104,792</u>	<u>38,231</u>

(b) Central administration expenses.

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Staff costs	9,109	7,328
Depreciation	383	506
Professional fees*	2,967	4,341
Bank charges	78	56
Insurance	584	321
Office rent	1,750	1,764
Business travel expenses	2,757	2,540
Share-based payments	6,823	1,588
Office costs	674	705
Other expenses	2,404	5,220
Rental income less outgoings	<u>(932)</u>	<u>(1,016)</u>
	<u>26,597</u>	<u>23,353</u>

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

** Reversal of allowance for doubtful debts of approximately US\$190,000 and US\$42,000 were recognised in profit and loss for the year ended 31 December 2011 and 2010, respectively. The amount for the year ended 31 December 2011 and 2010 represented certain recovery of a trade debtor at Giproruda.

9. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group's consolidated financial statements	<u>478</u>	<u>459</u>
Non-audit fees		
Fees for reporting accountants services ^(a)	—	2,729
Tax services	—	4
Other services	<u>125</u>	<u>105</u>
	<u>125</u>	<u>2,838</u>
Total	<u><u>603</u></u>	<u><u>3,297</u></u>

(a) 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.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The aggregate remuneration of employees (including directors) comprised:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Wages and salaries	36,812	25,082
Social security and other benefits	9,185	4,366
Retirement benefit contribution	239	154
Share-based payments	<u>6,823</u>	<u>1,588</u>
	<u><u>53,059</u></u>	<u><u>31,190</u></u>
	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Directors' Emoluments		
Emoluments for executive directors:		
— salaries and other benefits	1,815	984
— performance bonus ^(a)	—	617
— retirement benefit contribution	225	118
— share-based payments	4,125	779
Emoluments for non-executive directors:		
— directors' fees	<u>623</u>	<u>180</u>
	<u><u>6,788</u></u>	<u><u>2,678</u></u>

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

	Directors' fees <i>US\$'000</i>	Salaries and other benefits <i>US\$'000</i>	Retirement benefit contribution <i>US\$'000</i>	Share-based payments^(a) <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended 31 December 2011					
Executive directors of the Company:					
George Jay Hambro	—	705	88	1,650	2,443
Yury Makarov	—	613	78	1,444	2,135
Raymond Woo	—	497	59	1,031	1,587
Non-executive directors of the Company:					
<i>Non independent non-executive directors</i>					
Simon Murray	102	—	—	—	102
Dr. Pavel Maslovskiy	98	—	—	—	98
<i>Independent non-executive directors</i>					
Daniel Bradshaw	141	—	—	—	141
Jonathan Martin Smith	141	—	—	—	141
Chuang-fei Li	141	—	—	—	141
	<u>623</u>	<u>1,815</u>	<u>225</u>	<u>4,125</u>	<u>6,788</u>

	Directors' fees <i>US\$'000</i>	Salaries, performance bonus and other benefits <i>US\$'000</i>	Retirement benefit contribution <i>US\$'000</i>	Share-based payments ^(a) <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended 31 December 2010					
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)	—	81	6	17	104
	<u>—</u>	<u>507</u>	<u>36</u>	<u>124</u>	<u>667</u>
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:					
<i>Non independent non-executive directors</i>					
Simon Murray (appointed 16 November 2010)	13	—	—	—	13
Dr. Pavel Maslovskiy (appointed 3 September 2010)	32	—	—	—	32
<i>Independent non-executive directors</i>					
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
	<u>180</u>	<u>1,094</u>	<u>82</u>	<u>655</u>	<u>2,011</u>

The variances in directors' emoluments between 2011 and 2010 reflected in the above tables mainly reflect duration of directorship but not adjustments in salary levels.

- (a) The share-based payments were recognised in accordance with the relevant accounting standards and for details, please refer to note 38.

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. In year 2011, Brian Egan did not participate in the Group's businesses while George Jay Hambro resigned from his position in Petropavlovsk PLC, so no allocation of remuneration was made.

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. In year 2011, Andrey Maruta did not participate in the Group's businesses, so no allocation of remuneration was made.

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 2011, the five highest paid individuals included three directors of the Company (2010: three directors of the Company and Aricom). The emoluments of the remaining highest paid individuals for the years ended 31 December 2010 and 2011 are as follows:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Employees		
— salaries and other benefits	641	755
— share-based payments	<u>495</u>	<u>43</u>
	<u><u>1,136</u></u>	<u><u>798</u></u>

Their emoluments were within the following bands:

	No. of Directors	
	2011	2010
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately US\$192,802 to US\$257,068)	—	1
HK\$4,000,001 to HK\$4,500,000 (equivalent to approximately US\$514,139 to US\$578,406)	1	1
HK\$4,500,001 to HK\$5,000,000 (equivalent to approximately US\$578,407 to US\$642,674)	<u>1</u>	<u>—</u>
	<u><u>2</u></u>	<u><u>2</u></u>

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

At 31 December 2011 and 2010, the Company considered whether further impairment or the need to reverse previously recognised impairment existed at Kuranakh project and K&S, a magnetite project, which is at the developing stage and is located in the Evreyskaya Avtonomnaya Region of the Russian Federation ("EAO Region"). Management concluded that neither further impairment charge nor reversal of impairment charge is required.

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

	2011	2010
Nominal discount rate post-tax	10.6% and 8.0%	13.8% and 9.0%
Nominal discount rate pre-tax	13.2% and 10.0%	17.3% and 11.3%
Average Russian inflation rate from the year-end to 2042	2.0%	2.0%
Average Russian Rouble: US dollar exchange rate from the year-end to 2042	33.0	31.5
Average titanomagnetite concentrate prices from the year-end to 2042	US\$/tonne 130.0	US\$/tonne 104.7
Average ilmenite prices from the year-end to 2042	US\$/tonne 208.1	US\$/tonne 110.0

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 has estimated the long term forecast sales prices for titanomagnetite concentrate 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 particularly 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.

The 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 loans advanced of US\$1,028,000 in 2010. In 2011, the Group made an additional investment of US\$616,000 in the associate for the finalisation of an exploration project (see note 22). There was no impairment indicator found to this additional investment as at 31 December 2011 as the management considered that the exploration project is now seen as commercially viable to progress.

In 2010, the Group was advised that its joint venture partner Aluminium Corporation of China Limited (“Chinalco”) had decided to withdraw from some of its non-core ventures and consequently no longer wishes to proceed with the Jiatai Titanium project (as defined in note 23). As of 31 December 2010, the Group had 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 impairment against the invested amounts of US\$34.9 million. This impairment was allocated to intangible assets (US\$0.7 million), property, plant and equipment (US\$14.6 million) and interests in joint ventures (US\$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.

In 2011, the Group has successfully acquired the remaining 35% interest in Jiatai Titanium project from the joint venture partner and plan to proceed with the project while seeking a different joint venture partner. Please see note 41 for details. For the purposes of impairment testing, goodwill has been allocated to one CGU, comprising a subsidiary holding the Jiatai Titanium project in the segment category “Other”. During the year ended 31 December 2011, management of the Group determined that there was no impairment of the CGU containing goodwill. The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation use cash flow projections based on financial budgets approved by management covering a 3-year period, the cash flow beyond 3-year period are extrapolated using a steady 2% growth rate, which is based on the relevant industry growth forecasts, and a discount rate of 10.8%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and net operating expenses, such estimation is based on the management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

12. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	2011 US\$'000	2010 US\$'000
Change in fair value of financial instruments at FVTPL	—	1,711
Net foreign exchange gain	700	2,074
Reversal of (provision for) listing expenses ^(a)	3,198	(9,355)
Gain on acquisition of an additional interest in Jiatai Titanium project (<i>note 41</i>)		
— Provisional gain on remeasurement of previously held equity interest	428	—
— Reclassification of foreign exchange translation gain of Jiatai Titanium project previously accumulated in translation reserve	882	—
Derecognition of financial liability ^(b)	<u>7,500</u>	<u>—</u>
	<u>12,708</u>	<u>(5,570)</u>

(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) The amount represented derecognition of a third party payable relating to acquisition of a technology know-how. Effective on 30 December 2011, the Group and the third party entered into a novation agreement pursuant to which the obligations owed to each other were discharged and the Group surrendered its exclusive right in the technology know-how and was required to make a final payment of US\$448,000. Having considered the final payment, the payable of US\$7,500,000 was derecognised and credited to profit or loss.

13. FINANCIAL INCOME

	2011 US\$'000	2010 US\$'000
Interest income on loans receivable from related parties (<i>see note 27</i>)	—	10,585
Interest income on cash and cash equivalents	706	275
Interest income on other loans and receivables	<u>10</u>	<u>69</u>
	<u>716</u>	<u>10,929</u>

14. FINANCIAL EXPENSES

	2011 US\$'000	2010 US\$'000
Interest expenses on loan wholly repayable to related parties within five years	—	11,254
Unwinding of discount on environmental obligation	291	549
Interest expenses on bank borrowings wholly repayable within five years	<u>264</u>	<u>10</u>
	<u>555</u>	<u>11,813</u>

15. TAXATION EXPENSE

	2011 US\$'000	2010 US\$'000
UK current tax	(700)	(3,062)
Cyprus current tax	13	(49)
Russia current tax	(465)	(481)
PRC Enterprise Income Tax	(270)	—
	<u> </u>	<u> </u>
Current tax expense	(1,422)	(3,592)
Deferred tax expense	(262)	(84)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	(1,684)	(3,676)

UK corporation tax is calculated at 26.5% and 28% of the estimated assessable profit for the years ended 31 December 2011 and 2010 respectively.

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.

Along with acquisition of a PRC subsidiary during the year ended 31 December 2011, the Group is subject to PRC tax. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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 profit (loss) before taxation per the consolidated income statement as follows:

	2011 US\$'000	2010 US\$'000
Profit (loss) before taxation	<u>3,260</u>	<u>(78,353)</u>
Tax at the Russian corporation tax rate of 20% and UK corporation tax rate of 28% for the years ended 31 December 2011 and 2010 respectively ^(a)	652	(21,938)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	1,272	6,092
Tax effect of share of results of joint ventures	103	22
Tax effect of share of results of an associate	(17)	—
Tax effect of tax losses not recognised	8,905	13,090
Tax effect of expenses that are not deductible in determining taxable profit ^(b)	5,577	16,337
Tax effect of income that are not taxable in determining taxable profit	(12,813)	(5,940)
Tax effect of utilisation of previously not recognised deductible temporary differences	(1,972)	(3,615)
Others	(23)	(372)
	<u> </u>	<u> </u>
Taxation expense for the year	<u>1,684</u>	<u>3,676</u>

(a) For the years ended 31 December 2011 and 2010, majority of the assessable profits of the Group was derived from subsidiaries situated in the Russia and the UK respectively. The applicable income tax rates in Russia and UK for the years ended 31 December 2011 and 2010 were 20% and 28% respectively.

(b) Amount in 2011 mainly related to the non-deductible professional fees and the amount in 2010 mainly related to the impairment charges for the year (see note 11).

16. DIVIDENDS

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 34(b)).

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

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period.

17. EARNINGS/LOSS PER SHARE

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

Profit (loss)

	2011	2010
	<i>US\$'000</i>	<i>US\$'000</i>
Earnings/loss for the purposes of basic and diluted earnings/loss per ordinary share being profit (loss) attributable to owners of the Company	<u>1,001</u>	<u>(82,358)</u>

Number of shares

	2011	2010
	<i>Number '000</i>	<i>Number '000</i>
Weighted average number of ordinary shares for the purpose of basic earnings/loss per ordinary share	3,245,900	2,265,032
Effect of dilutive potential ordinary shares:		
Shares awarded under Long-term Incentive Plan	<u>33,046</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings/loss per ordinary share	<u>3,278,946</u>	<u>2,265,032</u>

The number of ordinary shares for the purpose of calculating basic loss per share for 2010 has been retrospectively adjusted for the share sub-division as disclosed in note 34(a), 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.

For the year ended 31 December 2010, 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 does not assume the conversion of Aricom's outstanding warrants and share options, shares awarded under the Company's Long-term Incentive Plan (see note 38(d)) since their exercise would result in a decrease in loss per share.

18. OPERATING LEASE ARRANGEMENTS**The Group as a lessee**

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Minimum lease payments under operating leases in respect of the Group's office premises recognised as an expense in the year	<u>1,963</u>	<u>1,896</u>

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:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Within one year	9,693	1,070
In the second to fifth years inclusive	<u>20,921</u>	<u>3,751</u>
	<u>30,614</u>	<u>4,821</u>

The Group as a lessor

The Group earned property rental income of approximately US\$932,000 during the year ended 31 December 2011 (2010: US\$1,016,000), relating to the sub-let of part of the floor space of a building owned by a subsidiary of the Group, OJSC Giproruda. The lease contracts are at fixed rates for a period not exceeding eleven months as at 31 December 2011 and 2010. 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\$903,000 and US\$987,000 as at 31 December 2011 and 2010 respectively. This rental income is shown net of the associated cost within operating expenses.

19. INTANGIBLE ASSETS**The Group**

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
At the beginning of year	31,533	28,690
Additions	12,960	3,323
Transfers from plant, property and equipment	—	237
Impairment (<i>see note 11</i>)	<u>—</u>	<u>(717)</u>
At the end of year	<u>44,493</u>	<u>31,533</u>

Garinskoye and the Garinskoye and Kostengiskoye Flanks are classified as exploration and evaluation assets within intangible assets. Additions in both 2011 and 2010 mainly related to exploration and evaluation expenses capitalised in intangible assets.

In 2010, the impairment represented the amount paid to acquire licences for intellectual property in relation to the processing of titanium sponge, as set out in note 11. The carrying amount of these licenses was nil as at 31 December 2011 and 2010.

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 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 and 1 January 2011	842,545	83,960	59,106	14,636	1,000,247
Additions	82,177	839	320	4,588	87,924
Disposals	(701)	—	(203)	—	(904)
Transfers	(5,464)	6,850	419	(1,805)	—
Acquired on acquisition of a subsidiary (see note 41)	—	—	658	—	658
Exchange adjustments	—	—	(550)	—	(550)
At 31 December 2011	918,557	91,649	59,750	17,419	1,087,375
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 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 and 1 January 2011	(453,750)	(2,490)	(30,165)	(14,572)	(500,977)
Depreciation charge for the year	(2,792)	(13,519)	(2,206)	—	(18,517)
Eliminated on disposals	280	—	66	—	346
Exchange adjustments	—	—	158	—	158
At 31 December 2011	(456,262)	(16,009)	(32,147)	(14,572)	(518,990)
CARRYING AMOUNTS					
At 31 December 2011	462,295	75,640	27,603	2,847	568,385
At 31 December 2010	388,795	81,470	28,941	64	499,270

(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	Computer equipment	Furnitures and fixtures	Office equipment	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
COST					
At 4 June 2010, date of incorporation	—	—	—	—	—
Additions	9	6	3	46	64
At 31 December 2010	9	6	3	46	64
Additions	—	10	—	—	10
At 31 December 2011	9	16	3	46	74
ACCUMULATED DEPRECIATION					
At 4 June 2010, date of incorporation	—	—	—	—	—
Depreciation charge for the period	(2)	(1)	(1)	(9)	(13)
At 31 December 2010	(2)	(1)	(1)	(9)	(13)
Depreciation charge for the year	(4)	(4)	(1)	(24)	(33)
At 31 December 2011	(6)	(5)	(2)	(33)	(46)
CARRYING AMOUNTS					
At 31 December 2011	<u>3</u>	<u>11</u>	<u>1</u>	<u>13</u>	<u>28</u>
At 31 December 2010	<u>7</u>	<u>5</u>	<u>2</u>	<u>37</u>	<u>51</u>

At 31 December 2011, cumulative capitalised interest and borrowing costs of US\$1,507,000 (31 December 2010: 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 2011 and 2010 was nil. Depreciation of US\$968,000 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 2011 (31 December 2010: US\$842,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US\$1,318,000 and US\$8,863,000 during each of the years ended 31 December 2011 and 2010 respectively which relates to the removal of overburden at the Kuranakh mine.

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

At 31 December 2011 and 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$332,698,000 and US\$471,732,000 respectively. There were no authorized but not contracted commitments as at 31 December 2011 and 2010.

At 31 December 2011 and 2010, the Group had commitment to contribute US\$80,640,000 and US\$48,700,000 to the share capital of Heilongjiang Jiatai Titanium Co. Limited respectively.

21. INVESTMENTS IN SUBSIDIARIES

The Company

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Unlisted shares at costs	<u>1,007,358</u>	<u>877,300</u>

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

22. INTEREST IN AN ASSOCIATE

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
At the beginning of the year	—	—
Capital contribution made	616	—
Share of results of an associate	<u>87</u>	<u>—</u>
At the end of the year	<u>703</u>	<u>—</u>

Interest in an associate held at 31 December 2011 and 2010 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 2011, there was an additional investment in Uralmining totaling US\$1,258,000 in which the Group has contributed US\$616,000 to maintain its ownership interest in Uralmining of 49%.

There was no revenue generated by the associate during the years end 31 December 2011 and 2010. Aggregated amounts relating to Uralmining are set out below.

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Total assets	16,136	15,709
Total liabilities	<u>(14,701)</u>	<u>(15,709)</u>
Net assets	<u>1,435</u>	<u>—</u>

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Revenue	<u>—</u>	<u>—</u>
Profit for the year	<u>177</u>	<u>—</u>
Other comprehensive income	<u>—</u>	<u>—</u>
The Group's share of profit and other comprehensive income of associate for the year	<u>87</u>	<u>—</u>

23. INTERESTS IN JOINT VENTURES

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
At the beginning of year	10,346	22,692
Contribution of share capital	—	4,731
Share of results of joint ventures	(515)	(135)
Transfers from other non-current assets	—	1,828
Upon acquisition of remaining interest in Jiatai Titanium project (see note 41)	(3,215)	—
Exchange adjustments	470	885
Impairment (see note 11)	—	(19,655)
	<u>7,086</u>	<u>10,346</u>
At the end of year	<u>7,086</u>	<u>10,346</u>

In accordance with the terms of the joint venture agreement between the Company and a Chinese partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly controlled Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited (“Jiatai Titanium project”) was established in the PRC with 65% interest held by the Group and the remaining 35% held by a joint venture partner. Unanimous consent is required from both parties for all strategic financial and operating decisions relating to the Jiatai Titanium project. On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US\$11.5 million pursuant to which the Jiatai Titanium project becomes a wholly-owned subsidiary of the Group. Please see note 41 for details.

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 established 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 as the strategic financial and operating decisions relating to the Vanadium Joint Venture require the unanimous consent from the three parties.

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 attributable to the Group's interest therein is set out below.

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Share of joint ventures' assets and liabilities:		
Non-current assets	13,530	1,605
Current assets	<u>6,018</u>	<u>11,985</u>
	19,548	13,590
Current liabilities	(5,296)	—
Non-current liabilities	<u>(7,166)</u>	<u>(3,244)</u>
The Group's share of net assets	<u><u>7,086</u></u>	<u><u>10,346</u></u>
Share of joint ventures' revenue and expenses:		
Revenue	—	—
Net operating expenses	<u>(478)</u>	<u>(63)</u>
Operating loss	(478)	(63)
Financial income	26	20
Financial expenses	<u>(63)</u>	<u>(92)</u>
The Group's share of loss for the year	<u><u>(515)</u></u>	<u><u>(135)</u></u>

24. OTHER NON-CURRENT ASSETS

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Deferred insurance premium for bank facilities	22,057	22,518
Prepayments for property, plant and equipment	68,580	15,837
Deferred loan arrangement fee	7,373	5,780
Cash advances to employees	<u>350</u>	<u>415</u>
	<u><u>98,360</u></u>	<u><u>44,550</u></u>

25. INVENTORIES

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Stores and spares	29,110	18,545
Work in progress	3,958	4,896
Finished goods	<u>8,233</u>	<u>3,680</u>
	<u><u>41,301</u></u>	<u><u>27,121</u></u>

No inventories had been pledged as security and written down to the net realisable value during the year ended 31 December 2011 and 2010.

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

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Site operating expenses and service costs	24,207	12,918
Central administrative expenses	—	474
	<u>24,207</u>	<u>13,392</u>

26. TRADE AND OTHER RECEIVABLES

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
VAT recoverable	28,588	12,399
Advances to suppliers	13,401	8,871
Amounts due from customers under engineering contracts	2,514	1,511
Trade receivables	6,165	5,054
Other debtors	6,337	1,396
	<u>57,005</u>	<u>29,231</u>

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 2011 and 2010 related to both iron ore concentrate sold and services performed under engineering contracts and invoiced to those customers.

The Group has concentration of credit risk as 81.3% (31 December 2010: 72.7%) 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.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 97% (2010: 80%) of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records.

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

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

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Less than one month	5,976	4,039
One month to three months	177	462
Over three months to six months	3	10
Over six months	9	543
	<u>6,165</u>	<u>5,054</u>
Total	<u>6,165</u>	<u>5,054</u>

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:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Less than one month	—	—
One to three months	5	4
Over three months to six months	3	3
Over six months	<u>3</u>	<u>543</u>
Total	<u><u>11</u></u>	<u><u>550</u></u>

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 trade receivables:

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
At the beginning of year	3,130	3,718
Change in allowance for doubtful debts	(190)	(42)
Amounts written off as uncollectible	(707)	—
Exchange adjustments	<u>(65)</u>	<u>(546)</u>
At the end of year	<u><u>2,168</u></u>	<u><u>3,130</u></u>

Included in the allowance for doubtful debts was impaired trade receivables of US\$2,168,000 and US\$3,130,000 as at 31 December 2011 and 2010, respectively. The amount mainly represented full impairment for a trade debtor at Olekma. The Group did not hold any collateral over these balances.

The Company

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Other debtors and prepayment	<u>196</u>	<u>134</u>

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

In 2010, loans issued to related parties amounted to US\$6,035,000. The loans due from related parties were fully settled before 31 December 2010. There was no additional loan issued to related parties during the years ended 31 December 2011 and 2010.

In 2010, loans advanced from related parties amounted to US\$94,370,000. As the loans payable were transferred to Thorrouble Limited (“Thorrouble”) and Thordollar Limited (“Thordollar”) as part of the Restructuring, these are intercompany loans and are eliminated on consolidation at 31 December 2010 (see note 2). There was no additional loan advanced from related parties during the years ended 31 December 2011 and 2010.

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

	2011 <i>US\$ '000</i>	2010 <i>US\$ '000</i>
Loans due from related parties		
Petrovavlovsk PLC	—	107,166
Peter Hambro Mining Treasury UK Ltd, a fellow subsidiary	—	207,904
Peter Hambro Mining Group Finance Limited, a fellow subsidiary	—	40,006
EBT	—	20,308
	<u>—</u>	<u>375,384</u>

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. The carrying amount of these assets approximates their fair value.

The Group

	2011 <i>US\$ '000</i>	2010 <i>US\$ '000</i>
Bank accounts and deposits	<u>33,188</u>	<u>225,468</u>

The Company

	2011 <i>US\$ '000</i>	2010 <i>US\$ '000</i>
Bank accounts and deposits	<u>7,185</u>	<u>146,793</u>

30. TRADE AND OTHER PAYABLES

The Group

	2011 <i>US\$ '000</i>	2010 <i>US\$ '000</i>
Trade creditors	10,512	12,360
Advances from customers	2,992	1,261
Insurance premium payable	—	24,218
Accruals and other payables	<u>8,112</u>	<u>19,246</u>
	<u>21,616</u>	<u>57,085</u>

For individual third party trade creditors, the average credit period on purchases of goods and services for the year was 32 days (2010: 22 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 based on invoice date.

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Less than one month	6,254	7,414
One month to three months	1,327	1,711
Over three months to six months	380	1,418
Over six months	<u>763</u>	<u>29</u>
	8,724	10,572
Trade payables not yet billed	<u>1,788</u>	<u>1,788</u>
Total	<u><u>10,512</u></u>	<u><u>12,360</u></u>

The Company

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Accruals and other payables	<u>2,186</u>	<u>5,951</u>

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) assets recognised by the Group and movements thereon during the year.

	Property, plant and equipment <i>US\$'000</i>	Inventory <i>US\$'000</i>	Capitalised exploration and evaluation expenditure <i>US\$'000</i>	Other temporary differences <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2010	(1,522)	(32)	(65)	(342)	(1,961)
Credit (charge) to the consolidated income statement	44	140	—	(268)	(84)
Exchange adjustments	<u>13</u>	<u>(2)</u>	<u>—</u>	<u>10</u>	<u>21</u>
At 31 December 2010 and 1 January 2011	(1,465)	106	(65)	(600)	(2,024)
Credit (charge) to the consolidated income statement	14	35	—	(311)	(262)
Exchange adjustments	<u>90</u>	<u>(24)</u>	<u>—</u>	<u>60</u>	<u>126</u>
At 31 December 2011	<u><u>(1,361)</u></u>	<u><u>117</u></u>	<u><u>(65)</u></u>	<u><u>(851)</u></u>	<u><u>(2,160)</u></u>

At 31 December 2011 and 2010, the Group had unused tax losses of US\$159.7 million and US\$117.4 million respectively, majority of which will expire from 2016 to 2020. For the tax losses as at 31 December 2011 and 2010, no deferred tax asset was recognised as there was not sufficient certainty that there will be sufficient taxable profit against which to offset these losses.

The Group had not recognised deferred tax assets of US\$30.5 million and US\$40.4 million as at 31 December 2011 and 2010 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 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. These subsidiaries are incorporated in Russia and subjected to Russia tax rate at 20%. Unremitted earnings that would be subject to taxation comprised an aggregate of US\$12.3 million and US\$8.2 million at 31 December 2011 and 2010 respectively.

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

32. BANK BORROWINGS

	2011 US\$'000	2010 US\$'000
Bank loans		
Asian Pacific Bank	15,000	—
Industrial and Commercial Bank of China ("ICBC")	6,343	—
	<u>21,343</u>	<u>—</u>
Total	<u>21,343</u>	<u>—</u>
Secured	6,343	—
Unsecured	15,000	—
	<u>21,343</u>	<u>—</u>
Total	<u>21,343</u>	<u>—</u>
Carrying amount repayable		
Within one year	15,000	—
More than two years, but not exceeding five years	6,343	—
	<u>21,343</u>	<u>—</u>
Total	<u>21,343</u>	<u>—</u>

Bank loan from Asian Pacific Bank

On 10 October 2011, the Group entered into US\$15,000,000 term-loan facility with Asian Pacific Bank. The loan bears an annual interest of 10% which is payable monthly. The principal of the loan is repayable on 9 October 2012. As at 31 December 2011 the whole loan amount was drawn down under the loan facility. The loan is not secured against any assets of the Group.

Bank loan from Industrial and Commercial Bank of China

On 6 December 2010, LLC KS GOK, a wholly owned 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 ICBC (the "ICBC Facility Agreement") pursuant to which ICBC will lend US\$340,000,000 (equivalent to HK\$2.64 billion) to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is repayable from 2014 and is fully repayable by 2022.

Petropavlovsk PLC has agreed to guarantee the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC has given 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 2011 and 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 such covenants will constitute an event of default, subject to any available grace periods. If an event of default is outstanding the lenders may cancel any commitments and may declare any outstanding amounts under the ICBC Facility Agreement immediately due and payable or payable on demand: (i) Petropavlovsk PLC must directly or indirectly retain not less than 30% of the issued share capital of the Company; (ii) Petropavlovsk PLC has an obligation to maintain a minimum consolidated tangible net assets of not less than US\$750,000,000, a minimum consolidated interest cover ratio of 3.5:1 and a maximum consolidated leverage ratio of 4:1; and (iii) there are also certain limited restrictions on the ability of the Company, Petropavlovsk PLC and its Material Subsidiaries, as defined under the ICBC Facility Agreement, to grant security over the assets or make disposals of the assets. Save for certain exceptions, the ability of Petropavlovsk PLC to enter into merger transactions is restricted. The Company may not enter into any merger transaction, unless relevant consents have been obtained.

On 14 December 2011, the Group made the first drawdown amounting to US\$6,958,000 and the loan is carried at amortised cost with effective interest rate at 5.63% per annum.

As at 31 December 2011, US\$6,000,000 was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets.

As at 31 December 2011, the Group had approximately US\$333,042,000 (2010: US\$340,000,000) undrawn finance facility in relation to the ICBC Facility Agreement.

33. PROVISION FOR CLOSE DOWN AND RESTORATION COSTS

The Group

	2011	2010
	<i>US\$'000</i>	<i>US\$'000</i>
At the beginning of year	3,607	2,990
Unwinding of discount	291	549
Exchange adjustments	(232)	(24)
Change in estimates	<u>426</u>	<u>92</u>
At the end of year	<u><u>4,092</u></u>	<u><u>3,607</u></u>

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.

34. 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.

	The Company	
	<i>Number</i>	<i>US\$'000</i>
Authorised		
Ordinary shares of HK\$1.00 each at date of incorporation	1,000	—
Subdivision of shares	99,000	—
Increase in authorised share capital	<u>9,999,900,000</u>	<u>12,820</u>
Ordinary shares of HK\$0.01 each at 31 December 2010 and 2011	<u>10,000,000,000</u>	<u>12,820</u>
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	<u>2,321,994,840</u>	<u>2,990</u>
At 31 December 2010 and 2011	<u>3,362,000,000</u>	<u>4,330</u>

Details of the ordinary shares of the Company in issue at the date of incorporation, ordinary shares of the Company issued during the year ended 31 December 2010, and ordinary shares of the Company in issue at the end of 31 December 2010 and 2011 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 and 31 December 2011	Number of ordinary shares on issue at the end of the reporting period	0.01	3,362,000,000

Note: The Company listed its shares on the Stock Exchange 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 34(c), these receivables were transferred to Thordollar and Thorrouble for consideration less than the contractual amounts payable. The difference of US\$205,412,000 has been recognised as a transfer of equity by the owner.

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

Accordingly, at 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	
	<i>Number '000</i>	<i>US\$'000</i>
Authorised		
Ordinary shares	<u>20,000,000</u>	<u>—</u>
Allotted, called up and fully paid		
At 1 January 2010	11,828,638	2,265
Exercise of warrant	<u>1,330,000</u>	<u>192</u>
At 5 August 2010	<u>13,158,638</u>	<u>2,457</u>

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

Date	Description	Price GBP	No. of shares
1 January 2010	Number of ordinary shares on issue at the end of year		11,828,637,632
26 May 2010	Exercise of warrants granted to Petropavlovsk PLC	0.08	<u>1,330,000,000</u>
5 August 2010	Number of ordinary shares on issue at the date of acquisition by Thorholdco		<u>13,158,637,632</u>

Warrants in issue

On 26 May 2010 Petropavlovsk PLC exercised all warrants in Aricom. As a result Aricom issued 1,330,000,000 ordinary shares of GBP0.0001 for consideration of GBP0.08 per share which amounted to US\$154.37 million, and was settled via a promissory note issued by Petropavlovsk PLC. This promissory note has since been settled by the dividend declared by Aricom (see note 16 for details).

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 1 January 2010 represented the issued capital of Aricom, which became a subsidiary of the Company during the year ended 31 December 2010.

35. TREASURY SHARES

The Group

	2011 <i>US\$'000</i>	2010 <i>US\$'000</i>
Balance at the beginning of the year	43,000	—
Acquired in the year	<u>—</u>	<u>43,000</u>
Balance at the end of the year	<u><u>43,000</u></u>	<u><u>43,000</u></u>

Treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). During the year ended 31 December 2010, approximately 116,100,000 shares were acquired and held under the EBT and no additional shares were acquired afterwards up to the end of 31 December 2011.

36. ACCUMULATED LOSSES

The Company

	US\$'000
As at 4 June 2010, date of incorporation	—
Loss for the period	<u>16,294</u>
As at 31 December 2010	16,294
Loss for the year	<u>13,759</u>
As at 31 December 2011	<u><u>30,053</u></u>

37. NOTES TO THE CASH FLOW STATEMENTS

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

	2011 <i>US\$ '000</i>	2010 <i>US\$ '000</i>
Profit (loss) before taxation	3,260	(78,353)
Adjustments for:		
Depreciation of property, plant and equipment	11,286	4,925
Financial income	(716)	(10,929)
Financial expenses	555	11,813
Loss on disposal of property, plant and equipment	115	920
Impairment charges	—	35,972
Share-based payments and LTIP expense (defined in note 38)	6,823	1,334
Share of results of an associate	(87)	—
Share of results of joint ventures	515	135
Net foreign exchange gain	(700)	(2,074)
Net change in fair value of financial instruments at FVTPL	—	(1,711)
Reversal of allowance for doubtful debts	(190)	(42)
Derecognition of financial liability	(7,500)	—
Other non-cash adjustments	(4,389)	8,206
	<u>8,972</u>	<u>(29,804)</u>
Operating cash flows before movements in working capital	8,972	(29,804)
Increase in inventories	(7,770)	(15,009)
Increase in trade and other receivables	(28,876)	(13,348)
Increase in trade and other payables	2,896	9,050
	<u>2,896</u>	<u>9,050</u>
Cash used in operations	<u>(24,778)</u>	<u>(49,111)</u>

(b) Major non-cash transactions

Following the acquisition of Aricom by Petropavlovsk PLC in 2009, 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 in 2009 (see note 34(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.

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 37(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 34(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 34(b)).

In relation to the bank facilities (see note 32), the Group is required to pay insurance premium of US\$22.5 million as part of the ICBC Facility Agreement, which is outstanding as at 31 December 2010. Such insurance premium was paid as of 31 December 2011.

During the year ended 31 December 2011, the Group has reversed the accrued costs of approximately US\$3,198,000 in relation to the listing of the Company on the Stock Exchange that relate to existing shares listed.

38. SHARE-BASED PAYMENTS

(a) Petropavlovsk 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 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. Following the acquisition, no further options were granted under the Aricom Share Option Scheme.

For the year ended 31 December 2011

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2011	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2011
22.4.2009	From 19 July 2009 to 19 July 2012	6.72	50,000	—	—	—	50,000

For the year ended 31 December 2010

Date of grant	Date exercisable	Exercise price GBP	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

The weighted average exercise price of the outstanding Petropavlovsk PLC share options at 31 December 2010 was GBP6.72. The weighted average remaining contractual life of the options outstanding at 31 December 2011 and 31 December 2010 was 0.5 year and 1.5 years respectively (exercisable until 19 July 2012).

The Group recognised total expenses of nil for both years 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.

During the year ended 2010, the 1,182,500 ordinary shares awarded have been fully vested and no additional ordinary shares were awarded in 2011.

For the year ended 31 December 2011, the Group recorded an expense of nil (2010: US\$221,000) in respect of the Replacement LTIP.

(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 number 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 (GBP)	6.00	6.00
Exercise price (GBP)	—	—
Expected volatility (%)	72.98	72.98
Expected life in years	3	3
Risk-free rate (%)	2.13	2.13
Expected dividends yield (%)	1.25	1.25
Expected annual forfeitures	—	—
Fair value per award (GBP)	<u>4.083</u>	<u>5.778</u>

The Group recognised total expenses of US\$272,000 relating to the Petropavlovsk PLC LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2011 (2010: US\$339,000).

(d) The Company's Long-term Incentive Plan (the "Company's LTIP")

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. These shares have been purchased by the Group's trustee. Upon the management's recommendation, the Board will determine the number of shares awarded to the Selected Grantees, with vesting dates for various tranches. Any shares under the Company's LTIP awarded to a Selected Grantee who is also a director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee.

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

Vesting conditions for those shares granted in 2010

- 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.

Vesting conditions for those shares granted in 2011

- 20% of the award vesting is relating to the achievement of certain production targets;
- 20% of the award vesting is relating to profitability;
- 20% of the award vesting is relating to the growth and development of the Group;
- 20% of the award vesting is relating to the meeting of certain health, safety and environmental requirements; and
- 20% of the award vesting is relating to the share price performance of the Company.

On 3 November 2010, 91,135,500 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. No shares being awarded during the year was vested or forfeited and the outstanding number of shares under the Company's LTIP were 91,135,500 as at 31 December 2010.

On 1 August 2011, another 2,332,000 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 approximately US\$536,000 (determined based on the closing share price of the Company as of 1 August 2011 of HK\$1.79 per share) which is recognised to the consolidated income statement over the vesting period. No shares being awarded was vested or forfeited and the outstanding number of shares under the Company's LTIP were 93,467,500.

The amount expensed during the year was US\$6,551,000 (2010: 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 participated in various defined contribution pension plans for all of its employees in the UK. Under the rules of the 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. There are no retirement benefit scheme contributions charged to the consolidated income statement for the year and 31 December 2011 (2010: US\$58,000) as Aricom has become an investment holding company with no staff employed since 2011.

Each employee of Aricom chose their own pension plan. There were approximately eight different pension plans where the Group 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 for the year ended 31 December 2011 amounted to US\$72,000 (2010: US\$34,000).

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, bank borrowings 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 32 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 financial 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 2011 <i>US\$'000</i>	Carrying value as at 31 December 2010 <i>US\$'000</i>
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>46,040</u>	<u>232,333</u>
Financial liabilities		
Amortised cost	<u>(34,601)</u>	<u>(38,858)</u>

The Company

	Carrying value as at 31 December 2011 <i>US\$'000</i>	Carrying value as at 31 December 2010 <i>US\$'000</i>
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>7,205</u>	<u>146,804</u>
Financial liabilities		
Amortised cost	<u>(2,141)</u>	<u>(1,657)</u>

Financial risk management objectives

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in iron ore concentrate price and 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, GB Pounds and Russian Roubles.

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

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

The Group

	Assets		Liabilities	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Russian Roubles	25,521	86,658	15,446	39,193
US Dollars	3,414	2,652	15	9
Renminbi	1,935	—	1,143	—
GB Pounds	39	13	131	296
Kazakh Tenge	625	539	—	—
Euro	492	7	—	—
Hong Kong Dollars	<u>333</u>	<u>325</u>	<u>135</u>	<u>61</u>

The Company

	Assets		Liabilities	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Hong Kong Dollars	123	276	106	56
GB Pounds	47	—	130	333
Euro	<u>—</u>	<u>11</u>	<u>—</u>	<u>—</u>

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US Dollars and Russian Roubles. The following table details sensitivity of the Group to a 25% change in exchange rates of functional currency (i.e. US Dollars) of the group companies against the relevant foreign currency (i.e. Russian Roubles) for the year (2010: 25%). The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

A negative number below indicates a decrease in post-tax profit (loss) where the functional currencies of the group companies strengthen 25% (2010: 25%) against the relevant foreign currency. For a 25% (2010: 25%) weakening of functional currency the group companies against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

The Group

	Russian Roubles currency impact	
	2011	2010
	US\$'000	US\$'000
Profit or loss	<u>(2,015)</u>	<u>(9,493)</u>

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 is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 32 for details of these borrowings). The Group aims at keeping borrowings at variable rates.

It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings.

The Group did not enter into any interest rate swaps to hedge against its exposure to changes in fair values of the borrowings.

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, and bank borrowings. 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 and financial liabilities 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 balances of interest bearing financial asset investments held during the year. An increase/decrease of 1% in interest rates has been applied which 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\$1,172,000 (2010: decrease/increase by US\$1,151,000).

The Company

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's result for the year would decrease/increase by US\$351,000 (2010: 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, restricted bank deposits and trade receivables. Cash equivalents represent amounts held on deposit with financial institutions.

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

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 43. Amounts held on deposit as at 31 December 2011 and 2010 with these banks were US\$3,090,000 and US\$21,138,000, representing 3% and 8% 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 of the investment guidelines where appropriate. These, excluding related parties, represent 19% of total monetary assets held by the Group at 31 December 2011 (2010: 73%). 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	Carrying value	Carrying value
			31 December 2011	31 December 2011	31 December 2010
				US\$'000	US\$'000
Cash equivalent	UBS	US\$	AAA-	—	42,655
Cash equivalent	OJSC VTB Bank	US\$	Baa1	2,597	2,500
Cash equivalent	OJSC VTB Bank	Russian Roubles			
			Baa1	3,619	1,641
Cash equivalent	Royal Bank of Scotland (“RBS”) Asset Management — Global Treasury Fund USD ⁽¹⁾	US\$	A-	10,885	143,850
Cash equivalent	Barclays Bank LLC — deposit accounts	Russian Roubles	Ba1	—	4,378
Cash equivalent	Asian Pacific Bank — deposits accounts	Russian Roubles	B-	7,879	12,619
Total				<u>24,980</u>	<u>207,643</u>

- (1) The minimum investment criteria for these funds require that investments have a minimum rating of A-1 (Standard & Poor’s (“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 from the sales of iron ores and 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 2011 is included in note 26.

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 company statement of financial position respectively.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2011, the Group’s and the Company’s principal financial liabilities were trade and other payables and bank borrowings. 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 at the end of the reporting period.

The Group

	Due on demand or within one year <i>US\$'000</i>	Due within one to two years <i>US\$'000</i>	Due within two to five years <i>US\$'000</i>	Due after more than five years <i>US\$'000</i>	Total undiscounted cash flows <i>US\$'000</i>	Carrying amount at 31 December 2011 <i>US\$'000</i>
As at 31 December 2011						
Trade and other payables	13,258	—	—	—	13,258	13,258
Bank borrowings	16,500	250	6,598	—	23,348	21,343
	<u>29,758</u>	<u>250</u>	<u>6,598</u>	<u>—</u>	<u>36,606</u>	<u>34,601</u>
As at 31 December 2010						
Trade and other payables	38,858	—	—	—	38,858	38,858

The Company

	Due on demand or within one year <i>US\$'000</i>	Due within one to two years <i>US\$'000</i>	Due within two to five years <i>US\$'000</i>	Due after more than five years <i>US\$'000</i>	Total undiscounted cash flows <i>US\$'000</i>	Carrying amount at 31 December 2011 <i>US\$'000</i>
As at 31 December 2011						
Other payables	1,359	—	—	—	1,359	1,359
Amount due to subsidiaries	756	—	—	—	756	756
Amount due to ultimate holding company	26	—	—	—	26	26
	<u>2,141</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,141</u>	<u>2,141</u>
As at 31 December 2010						
Other payables	1,411	—	—	—	1,411	1,411
Amount due to ultimate holding company	246	—	—	—	246	246
	<u>1,657</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,657</u>	<u>1,657</u>

41. ACQUISITION OF A SUBSIDIARY

In accordance with the terms of the joint venture agreement between the Company and a PRC partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly control Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited was established in the PRC with 65% interest held by the Group and the remaining 35% held by a joint venture partner.

As discussed in note 11, the Company was advised in 2010 that the 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. With a view to proceed with the project alone or with a different joint venture partner, the Group entered into an agreement with the joint venture partner on 25 August 2010 pursuant to which, and subject to certain conditions, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for the joint venture partner's stake in the Jiatai Titanium project.

On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US\$11.5 million pursuant to which Heilongjiang Jiatai Titanium Co. Limited becomes a wholly-owned subsidiary of the Group. Pursuant to the equity transfer agreement, upon completion of the acquisition by the Group, the joint venture partner waived and

released Jiatai Titanium project from its obligations to pay to the joint venture partner's subsidiary an amount of US\$3.5 million relating to engineering design, management contracting and other services that the joint venture partner's subsidiary has previously made to the Jiatai Titanium project.

Consideration transferred

	US\$'000
Cash paid	11,535
Adjustment on part relating to waiver of debt of Jiatai Titanium project by the joint venture partner	<u>(3,512)</u>
	<u>8,023</u>

Acquisition-related costs were insignificant and recognised as an expense within the administrative expenses in the consolidated income statement.

The provisional fair value of assets acquired and liabilities assumed at the date of acquisition

	US\$'000
<i>Current assets</i>	
Cash and cash equivalents	9,350
Other receivables	76
<i>Non-current assets</i>	
Property, plant and equipment	658
<i>Current liabilities</i>	
Other payables	<u>(4,479)</u>
	<u>5,605</u>

The initial accounting for the acquisition has only been provisionally determined at the end of the reporting period. At the date of issue of these consolidated financial statements, the necessary market valuation of the property, plant and equipment held by the Jiatai Titanium project, purchase price allocation of other net identifiable assets and liabilities and fair value of the previously held equity interest had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate of the likely fair value. The directors expects that any additional identification, and the market valuation, of the assets acquired and the liabilities assumed at the date of acquisition would be completed before April 2012 and the Company will then adjust these provisional amounts retrospectively.

The provisional fair value of other receivables acquired approximated the gross contractual amounts. There are no contractual cash flows not expected to be collected.

Provisional goodwill arising on acquisition

	US\$'000
Consideration transferred	8,023
Plus: Provisional fair value of the previously held equity interest (65%)	3,643
Less: Recognised amount of provisional fair value of identifiable net assets acquired	<u>(5,605)</u>
	<u>6,061</u>

Goodwill arose in the acquisition of Jiatai Titanium project because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies of Jiatai Titanium project. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow arising on acquisition

	US\$'000
Consideration paid in cash	11,535
Less: Cash and cash equivalent balances acquired	<u>(9,350)</u>
	<u>2,185</u>

Impact of acquisition of the remaining 35% equity stake in Jiatai Titanium project on the results of the Group

- (1) An aggregate provisional gain of US\$1,310,000 was recognised as a result of remeasurement of the previously held equity interest (65%) and the reclassification of foreign translation gain of the project previously recognised in translation reserve (note 12).
- (2) Included in the profit for the year is a post-acquisition loss of US\$2,542,000 attributed to Jiatai Titanium project which has not yet started to generate revenue since the date of the acquisition.
- (3) Had the acquisition of the remaining 35% equity stake in Jiatai Titanium project been effected at 1 January 2011, the revenue of the Group for the year ended 31 December 2011 would have remained at approximately US\$122,208,000 and the profit for the year would have been US\$904,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

42. 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 34(c), 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.

43. 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, which is the Group's ultimate holding company, its subsidiaries are considered to be related parties. Mr. Peter Hambro and Dr. Pavel Maslovskiy, shareholders to Petropavlovsk PLC, are close family members of the directors of the Group, Mr. George Jay Hambro and Mr. Yury Makarov, respectively.

Asian Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have interests and exercise significant influence over Asian Pacific Bank. As at 31 December 2011 and 2010, each of Mr. Peter Hambro and Dr. Pavel Maslovskiy indirectly held 16.82% and 16.56% of ownership interest in Asian Pacific Bank, respectively.

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.

Vanadium Joint Venture is a joint venture of the Group and hence is a related party.

Jiatai Titanium is a joint venture of the Group in 2010 and till 10 April 2011 (note 41) and hence is a related party. 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 below.

Trading transactions

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

	Sales		Purchases	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	97	688	722	1,249
OJSC Irgiredmet	—	—	563	711
LLC NPGF Regis	48	33	302	417
LLC Obereg CHOP	—	—	—	401
CJSC Peter Hambro Mining				
Engineering	2	129	3,663	5,096
CJSC Pokrovsky Rudnik	62	3,971	34	21
CJSC Malomyrskiy Rudnik	—	7	—	—
Dalgeologia	781	146	5,651	5,565
Kapstroy	155	2,734	1,202	17,860
MC Petropavlovsk	955	838	395	438
PRP Stansii	3	—	17	37
CJSC YamalZoloto	438	—	—	—
OJSC ZDP Koboldo	6	—	—	—
LLC Karagay	1	—	—	—
Gidrometallurgia	171	152	—	—
Aricom Rouble Treasury UK Ltd.	—	17	—	—
Aricom Finance UK Ltd.	—	26	—	—
Aricom Treasury UK Ltd.	—	27	—	—
	<u>—</u>	<u>27</u>	<u>—</u>	<u>—</u>
Trading transactions with other related parties				
Apatit	1,732	3,974	—	—
Asian Pacific Bank	70	70	—	—
Millennium Implementation Ltd	—	—	667	—
	<u>—</u>	<u>—</u>	<u>667</u>	<u>—</u>

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

The 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)	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	160	—	26	246
OJSC Irgiredmet	97	610	—	5
LLC NPGF Regis	5	4	11	205
LLC Obereg CHOP	—	—	—	42
CJSC Peter Hambro Mining				
Engineering	553	1,789	367	1,187
CJSC Pokrovsky Rudnik	6	228	1	1
CJSC Malomyrskiy Rudnik	—	9	—	800
Dalgeologia	195	95	43	625
Kapstroy	1	—	—	127
MC Petropavlovsk	7	34	1,817	—
CJSC YamalZoloto	79	—	—	—
LLC Karagay	23	—	—	—
Gidrometallurgia	2	2	—	—
Aricom Rouble Treasury UK Ltd.	—	17	—	—
Aricom Finance UK Ltd.	—	26	—	—
Outstanding balances with other related parties				
Apatit	1,480	925	—	—
Asian Pacific Bank	4	—	—	—
Millennium Implementation Ltd	—	—	667	—
	<u>2,612</u>	<u>3,739</u>	<u>2,932</u>	<u>3,238</u>

(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 32, the Group has bank accounts with Asian Pacific Bank.

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

	2011 US\$'000	2010 US\$'000
Asian Pacific Bank	<u>7,888</u>	<u>13,531</u>

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

	2011 US\$'000	2010 US\$'000
Interest income from cash and cash equivalents	<u>9</u>	<u>3</u>

Key Management Compensation

During the year ended 31 December 2010, George Jay Hambro, Brian Egan and Yury Makarov, who were then employed by Petropavlovsk PLC, were also considered the key management personnel of the Group. Accordingly, a component of their Petropavlovsk PLC remuneration was allocated and charged to the Group to reflect the proportion of their roles that related to the Group's business during that year. During the year ended 31 December 2011, George Jay Hambro, Yury Makarov, Raymond Woo, Daniel Bradshaw, Jonathan Martin Smith, Chuang-fei Li, Pavel Maslovskiy and Simon Murray were considered the key management of the Group. The remuneration of key management personnel is set out below in aggregate.

	2011	2010
	<i>US\$'000</i>	<i>US\$'000</i>
Short-term benefits	2,438	1,781
Post-employment benefits	225	118
Share-based payments	<u>4,125</u>	<u>779</u>
	<u><u>6,788</u></u>	<u><u>2,678</u></u>

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 PLC Group in order to put the Company's 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 34(b). Details of the dividend are set out in note 16.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital/ registered capital ^(d)	Equity interest attributable to the Group		Principal activities
			2011 ^(e)	2010 ^(e)	
Arfin Limited	Cyprus 22 August 2005	US\$10,000	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US\$2,912	100%	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US\$6,080	100%	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US\$2,502	100%	100%	Investment holding
Expokom Limited	Cyprus 22 December 2005	US\$158,808	100%	100%	Investment holding
Guiner Enterprises Limited	Cyprus 25 August 2007	US\$271,080	100%	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US\$32,500	100%	100%	Investment holding
Lapwing Limited	Cyprus 9 August 2006	EUR28,795	99.58%	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US\$22,740	100%	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US\$3,640	100%	100%	Investment holding
Rumier Holdings Limited	Cyprus 3 October 2007	US\$270,945	100%	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US\$197	100%	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US\$4,650	100%	100%	Investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,315,864	100%	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP241,481,039	100%	100%	Investment holding
Heilongjiang Jiatai Titanium Co. Limited	PRC 11 February 2009	RMB219,024,974	100%	65%	Development of Titanium Sponge
Ariti HK Limited	Hong Kong 11 February 2008	HK\$1	100%	100%	Dormant
Ariva HK Limited	Hong Kong 11 March 2008	HK\$1	100%	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital/ registered capital ^(d)	Equity interest attributable to the Group		Principal activities
			2011 ^(c)	2010 ^(c)	
Thorholdco Limited	Cayman Islands 18 May 2010	US\$31	100%	100%	Investment holding
Thorrouble Limited	Cayman Islands 18 May 2010	RUR100,000	100%	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US\$3,000	100%	100%	Provision of financing services for the Group
LLC Petropavlovsk — Iron Ore (formerly LLC Aricom)	Russia 25 August 2004	RUR10,000,000	100%	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUR141,514,865	100%	100%	Exploration and mining — K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUR1,378,664,935	100%	100%	Exploration and mining — Kuranakh project
LLC Rubicon	Russia 9 January 2007	RUR100,000	100%	100%	Development of bridge and other infrastructure projects for the Group
CJSC Soviet Harbour Maritime Trade Port (“CJSC SGMTP”) ^(a)	Russia 30 August 2005	RUR1,000,000	100%	100%	Development of port for the Group
LLC TOK	Russia 3 April 2007	RUR10,000	100%	100%	Dormant
OJSC Giproruda ^(b)	Russia 8 December 1992	RUR4,639	70.28%	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUR780,000,000	99.58%	99.58%	Exploration and mining — Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUR10,000	100%	100%	Exploration and mining — Kostenginskoye project
LLC Orlovsko-Sokhatinsky Rudnik	Russia 3 April 2007	RUR10,000	100%	100%	Exploration and mining — Garinskoye Flanks
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUR1,000,000	100%	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUR10,000,000	99.9%	99.9%	Procurement services
LLC Karier Ushumunskiy	Russia 15 March 2007	RUR1,000,000	100%	100%	Coal production

- (a) CJSC is a Closed Joint Stock Company in Russia. CJSC issued shares cannot be freely traded.
- (b) OJSC is an Open Joint Stock Company in Russia. OJSC issued shares can be freely traded.
- (c) As at 31 December 2011 and 2010, except for Thorholdco Limited, which was directly held by the Company, all of the interests in remaining subsidiaries are indirectly attributable to the Group.
- (d) Apart from Heilongjiang Jiatai Titanium Co. Limited, a wholly-owned foreign enterprise established in the PRC with registered capital of RMB219,024,974, class of shares held by all other subsidiaries is ordinary shares.

45. 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 Limited 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 and no further proceeding was made afterwards. 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.

46. EVENT AFTER THE REPORTING PERIOD

The Group has no material event after the end of the reporting period.

3 UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

Condensed Consolidated Income Statement*For the six months ended 30 June 2012*

	<i>Notes</i>	Six months ended 30 June	
		2012	2011
		<i>US\$'000</i>	<i>US\$'000</i>
		(unaudited)	(unaudited)
Revenue	5	56,948	60,432
Operating expenses	6	(68,051)	(66,140)
Impairment charges	7	<u>(6,061)</u>	<u>—</u>
		(17,164)	(5,708)
Share of results of joint ventures		(1,878)	(80)
Share of results of an associate		<u>(5)</u>	<u>(617)</u>
Net operating loss		(19,047)	(6,405)
Other gains and losses and other expenses	8	(7)	10,135
Financial income	9	194	525
Financial expenses	10	<u>(843)</u>	<u>(325)</u>
(Loss) profit before taxation		(19,703)	3,930
Taxation expense	11	<u>(110)</u>	<u>(190)</u>
(Loss) profit for the period		<u><u>(19,813)</u></u>	<u><u>3,740</u></u>
(Loss) profit for the period attributable to:			
Owners of the Company		(19,880)	3,637
Non-controlling interests		<u>67</u>	<u>103</u>
(Loss) profit for the period		<u><u>(19,813)</u></u>	<u><u>3,740</u></u>
(Loss) earnings per share (US cent)	13		
Basic		<u><u>(0.61)</u></u>	<u><u>0.11</u></u>
Diluted		<u><u>(0.61)</u></u>	<u><u>0.11</u></u>

Condensed Consolidated Statement of Comprehensive Income*For the six months ended 30 June 2012*

	Six months ended 30 June	
	2012 <i>US\$'000</i> (unaudited)	2011 <i>US\$'000</i> (unaudited)
(Loss) profit for the period	(19,813)	3,740
Other comprehensive (expenses) income for the period:		
Exchange differences on translation of foreign operations	(223)	1,710
Reclassification adjustment on translation difference upon acquisition of additional interest in Jiatai Titanium project	<u>—</u>	<u>(882)</u>
Total comprehensive (expenses) income for the period	<u>(20,036)</u>	<u>4,568</u>
Total comprehensive (expenses) income attributable to:		
Owners of the Company	(20,006)	4,084
Non-controlling interests	<u>(30)</u>	<u>484</u>
	<u>(20,036)</u>	<u>4,568</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2012

		As at 30 June 2012 US\$'000 (unaudited)	As at 31 December 2011 US\$'000 (audited) (restated)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Exploration and evaluation assets	14	45,196	44,493
Property, plant and equipment	14	584,338	568,385
Land use right	7	—	6,061
Interest in an associate		698	703
Interests in joint ventures		5,220	7,086
Other non-current assets	15	149,406	98,360
Restricted bank deposit	19	<u>6,000</u>	<u>6,000</u>
		<u>790,858</u>	<u>731,088</u>
CURRENT ASSETS			
Inventories	16	47,592	41,301
Trade and other receivables	17	64,523	57,005
Cash and cash equivalents		<u>18,496</u>	<u>33,188</u>
		<u>130,611</u>	<u>131,494</u>
TOTAL ASSETS		<u>921,469</u>	<u>862,582</u>
CURRENT LIABILITIES			
Trade and other payables	18	(26,649)	(21,616)
Current income tax payable		(275)	(293)
Bank borrowings — due within one year	19	<u>(17,000)</u>	<u>(15,000)</u>
		<u>(43,924)</u>	<u>(36,909)</u>
NET CURRENT ASSETS		<u>86,687</u>	<u>94,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>877,545</u>	<u>825,673</u>

		As at 30 June 2012 US\$'000 (unaudited)	As at 31 December 2011 US\$'000 (audited) (restated)
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(2,073)	(2,160)
Provision for close down and restoration costs		(4,059)	(4,092)
Bank borrowings — due more than one year	19	<u>(74,986)</u>	<u>(6,343)</u>
		<u>(81,118)</u>	<u>(12,595)</u>
TOTAL LIABILITIES		<u>(125,042)</u>	<u>(49,504)</u>
NET ASSETS		<u>796,427</u>	<u>813,078</u>
CAPITAL AND RESERVES			
Share capital		4,330	4,330
Share premium		1,029,131	1,029,131
Treasury shares		(43,000)	(43,000)
Capital reserve		17,984	17,918
Reserves		38,402	35,209
Accumulated losses		<u>(255,015)</u>	<u>(235,135)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		791,832	808,453
NON-CONTROLLING INTERESTS		<u>4,595</u>	<u>4,625</u>
TOTAL EQUITY		<u>796,427</u>	<u>813,078</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Total attributable to owners of the Company								Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Treasury shares	Accumulated losses	Share-based payments reserve	Translation reserve	Other reserves ^(a)			Sub-total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2011 (audited)	4,330	1,028,468	16,946	(43,000)	(236,136)	12,442	(14,815)	32,057	800,292	4,326	804,618
Profit for the period	—	—	—	—	3,637	—	—	—	3,637	103	3,740
Other comprehensive income for the period											
Exchange differences on translation of foreign operations	—	—	—	—	—	—	1,329	—	1,329	381	1,710
Reclassification to profit or loss upon acquisition of additional interest in the Jiatai Titanium project (note 20)	—	—	—	—	—	—	(882)	—	(882)	—	(882)
Total comprehensive income for the period	—	—	—	—	3,637	—	447	—	4,084	484	4,568
Share-based payments	—	—	—	—	—	3,347	—	—	3,347	—	3,347
Reversal of over-accrued listing-related expenses	—	663	—	—	—	—	—	—	663	—	663
Balance at 30 June 2011 (unaudited)	4,330	1,029,131	16,946	(43,000)	(232,499)	15,789	(14,368)	32,057	808,386	4,810	813,196
Balance at 1 January 2012 (audited)	4,330	1,029,131	17,918	(43,000)	(235,135)	18,993	(15,841)	32,057	808,453	4,625	813,078
Loss for the period	—	—	—	—	(19,880)	—	—	—	(19,880)	67	(19,813)
Other comprehensive expenses for the period											
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(126)	—	(126)	(97)	(223)
Total comprehensive expenses for the period	—	—	—	—	(19,880)	—	(126)	—	(20,006)	(30)	(20,036)
Share-based payments	—	—	66	—	—	3,319	—	—	3,385	—	3,385
Balance at 30 June 2012 (unaudited)	4,330	1,029,131	17,984	(43,000)	(255,015)	22,312	(15,967)	32,057	791,832	4,595	796,427

(a) The amount arose from acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2012*

	<i>Note</i>	Six months ended 30 June	
		2012	2011
		<i>US\$'000</i>	<i>US\$'000</i>
		(unaudited)	(unaudited)
OPERATING ACTIVITIES			
Net cash used in operations		(8,882)	(33,565)
Interest expenses paid		(927)	—
Income tax paid		(309)	(265)
NET CASH USED IN OPERATING ACTIVITIES		(10,118)	(33,830)
INVESTING ACTIVITIES			
Purchases of and prepayment for property, plant and equipment and exploration and evaluation assets		(86,857)	(69,653)
Acquisition of a subsidiary, net of cash acquired	20	—	(2,185)
Contribution to share capital of associate		—	(617)
Interest received		194	525
Proceeds on disposal of property, plant and equipment		5,697	—
NET CASH USED IN INVESTING ACTIVITIES		(80,966)	(71,930)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		77,519	—
Loan arrangement and commitment fees paid		(844)	(2,066)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		76,675	(2,066)
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD		(14,409)	(107,826)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD		33,188	225,468
Effect of foreign exchange rate changes		(283)	4,433
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD		18,496	122,075

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2012***1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity and going concern of the Company and its subsidiaries (collectively referred to as the “Group”) in light of the Group’s loss for the period and the Group’s capital and other commitments as at 30 June 2012. The directors of the Company are satisfied that the Group has sufficient financial resources and available funding to meet its financial obligations as they fall due for the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied for the first time, a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. ADJUSTMENTS TO PROVISIONAL AMOUNTS

The fair value assessment in respect of the acquisition of Jiatai Titanium Project (see Note 20) was completed in April 2012, and the comparative 31 December 2011 consolidated statement of financial position has been restated to reflect the adjustment set out below:

	31 December 2011	Restatement	31 December 2011 and 1 January 2012
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(originally stated)		(as restated)
Goodwill	6,061	(6,061)	—
Land use right	—	6,061	6,061
	<u>6,061</u>	<u>—</u>	<u>6,061</u>

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2012 (unaudited)

	Mine in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Segment revenue					
External sales	51,657	—	5,291	—	56,948
Total revenue	51,657	—	5,291	—	56,948
Site operating expenses and service costs	(47,135)	(17)	(5,145)	(1,981)	(54,278)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation	(4,823)	(2,278)	(251)	(45)	(7,397)
Impairment charges	—	—	—	(6,061)	(6,061)
Share of results of joint ventures	—	—	—	(1,878)	(1,878)
Share of results of an associate	—	(5)	—	—	(5)
Segment profit (loss)	<u>4,522</u>	<u>(22)</u>	<u>146</u>	<u>(9,920)</u>	(5,274)
Central administrative expenses					(13,589)
Central depreciation and amortisation					(184)
Other gains and losses and other expenses					(7)
Financial income					194
Financial expenses					<u>(843)</u>
Loss before taxation					<u>(19,703)</u>

Six months ended 30 June 2011 (unaudited)

	Mine in production <i>US\$'000</i>	Mines in development <i>US\$'000</i>	Engineering <i>US\$'000</i>	Other <i>US\$'000</i>	Total <i>US\$'000</i>
Segment revenue					
External sales	53,871	—	6,561	—	60,432
Total revenue	53,871	—	6,561	—	60,432
Site operating expenses and service costs	(44,030)	(1,646)	(5,861)	(1,124)	(52,661)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation	(3,140)	(1,187)	(270)	(42)	(4,639)
Share of results of joint ventures	—	—	—	(80)	(80)
Share of results of an associate	—	(617)	—	—	(617)
Segment profit (loss)	<u>9,841</u>	<u>(2,263)</u>	<u>700</u>	<u>(1,204)</u>	7,074
Central administrative expenses					(13,273)
Central depreciation and amortisation					(206)
Other gains and losses and other expenses					10,135
Financial income					525
Financial expenses					<u>(325)</u>
Profit before taxation					<u>3,930</u>

5. REVENUE

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

	Six months ended 30 June	
	2012 <i>US\$'000</i> (unaudited)	2011 <i>US\$'000</i> (unaudited)
Revenue		
Sales of goods	51,657	53,871
Rendering of services	<u>5,291</u>	<u>6,561</u>
	<u>56,948</u>	<u>60,432</u>

6. OPERATING EXPENSES

	Six months ended 30 June	
	2012	2011
	US\$ '000	US\$ '000
	(unaudited)	(unaudited)
Site operating expenses and service costs ^(a)	54,278	52,661
Central administrative expenses ^(b)	13,773	13,479
	<u>68,051</u>	<u>66,140</u>

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2012	2011
	US\$ '000	US\$ '000
	(unaudited)	(unaudited)
Staff costs	24,151	19,298
Fuel	8,291	5,555
Materials	10,360	4,675
Depreciation	7,397	4,639
Electricity	1,417	1,393
Royalties	1,156	549
Railway tariff	17,788	15,080
Movement in finished goods and work in progress	(16,383)	(184)
Inventory written off	—	1,065
Engineering services cost	6,012	4,648
Professional fees**	136	432
Bank charges	280	152
Insurance (compensation) expenses, net	(54)	92
Office rent	533	450
Business travel expenses	390	551
Office costs	1,232	740
Mine development costs capitalised in property, plant and equipment	(13,140)	(8,570)
Allowance for (reversal of) allowance for bad debts*	9	(133)
(Gain) loss on disposal of property, plant and equipment	(966)	6
Other expenses	5,669	2,223
	<u>54,278</u>	<u>52,661</u>

* Reversal of allowance for bad debts of approximately US\$133,000 was recognised in profit and loss for the six months ended 30 June 2011, which represented certain recovery of a trade debtor at OJSC Giproruda.

(b) Central Administrative Expenses

	Six months ended 30 June	
	2012	2011
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Staff costs	6,069	4,698
Depreciation	184	206
Professional fees**	1,654	1,831
Bank charges	31	37
Insurance	100	461
Office rent	907	910
Business travel expenses	890	884
Share-based payments	3,385	3,347
Office costs	303	344
Loss on disposal of property, plant and equipment	—	2
Other expenses	250	759
	<u>13,773</u>	<u>13,479</u>

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

7. LAND USE RIGHT

	As at	As at
	30 June	31 December
	2012	2011
	US\$'000	US\$'000
	(unaudited)	(audited)
		(restated)
At the beginning of the period	6,061	—
Acquired on acquisition of Heilongjiang Jiatai Titanium Co. Limited (note 20)	—	6,061
Impairment recognised	<u>(6,061)</u>	<u>—</u>
At the end of the period	<u>—</u>	<u>6,061</u>

As disclosed in note 3, the comparative 31 December 2011 consolidated statement of financial position has been restated to reflect the finalised fair value of assets acquired and liabilities assumed from acquisition of Jiatai Titanium Project.

Prior to the period end, the Group was advised that the potential venture partner previously identified would not be proceeding with the investment in the Jiatai Titanium project. As a result, the directors of the Company decided to postpone the Jiatai Titanium project indefinitely. As the usage of the parcel of land owned by Jiatai Titanium project is restricted and transfer of legal title is subject to approval by the municipal authorities, the Group's ability to recover the land use right was call into in doubt. The directors of the Company concluded that the most appropriate course of action was to recognise an impairment charge of approximately US\$6 million. This impairment charge was recognised in the condensed consolidated income statement for the six months ended 30 June 2012.

8. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	Six months ended 30 June	
	2012	2011
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Gain on acquisition of an additional interest in Jiatai Titanium project (note 20)		
— Gain on remeasurement of previously held equity interest	—	428
— Reclassification of foreign exchange translation gain of Jiatai Titanium project previously accumulated in translation reserve	—	882
Net foreign exchange (loss) gain	(7)	6,825
Reversal of listing expenses ^(a)	—	2,000
	<u>(7)</u>	<u>10,135</u>

(a) The amount for the six months ended 30 June 2011 represented the proportion of the costs refunded by the underwriter in relation to the listing of the Company on the Stock Exchange that relate to existing shares listed.

9. FINANCIAL INCOME

	Six months ended 30 June	
	2012	2011
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Interest income on cash and cash equivalents	190	520
Interest income on other loans and receivables	<u>4</u>	<u>5</u>
	<u>194</u>	<u>525</u>

10. FINANCIAL EXPENSES

	Six months ended 30 June	
	2012	2011
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Interest expenses on bank borrowings	1,032	—
Less: interest expenses capitalised	<u>(250)</u>	<u>—</u>
	782	—
Unwinding of discount on environmental obligation	<u>61</u>	<u>325</u>
	<u>843</u>	<u>325</u>

11. TAXATION EXPENSE

	Six months ended 30 June	
	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Cyprus current tax	—	(1)
Russia current tax	(162)	(176)
	<u> </u>	<u> </u>
Current tax expense	(162)	(177)
Deferred tax credit (expense)	52	(13)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	(110)	(190)

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2011 and 2012.

Cyprus corporation tax is calculated at a rate of 10% of the estimated assessable profit for each of the six months ended 30 June 2011.

For the six months ended 30 June 2012, the Group had no assessable profit subject to Cyprus corporation tax. No Hong Kong profits tax, UK Corporation tax and PRC enterprise income tax was provided for as the Group had no assessable profit arising in or derived from these tax jurisdictions during both periods.

12. DIVIDENDS

No dividends were paid, declared or proposed during both six months ended 30 June 2012 and 2011. The directors do not recommend the payment of an interim dividend.

13. LOSS/EARNINGS PER SHARE

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

Loss/earnings

	Six months ended 30 June	
	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
(Loss) earnings for the purposes of basic and diluted (loss) earnings per ordinary share ((loss) profit for the period attributable to owners of the Company)	(19,880)	3,637
	<u> </u>	<u> </u>

Number of shares

	Six months ended 30 June	
	2012	2011
	Number '000	Number '000
Number of ordinary shares for the purposes of basic (loss) earnings per ordinary share	3,246,000	3,246,000
Effect of dilutive potential ordinary shares:		
Shares awarded under the Group's long-term incentive plan	—	26,919
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per ordinary share	<u>3,246,000</u>	<u>3,272,919</u>

The computation of diluted loss per share for the six months ended 30 June 2012 does not include the outstanding shares issuable under the Group's long-term incentive plan since their issuance would result in a decrease in loss per share.

14. EXPLORATION AND EVALUATION ASSETS AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US\$86.9 million (for the period ended 30 June 2011: US\$69.7 million) on the mine development and acquisition of property, plant and equipment, including prepayments for property, plant and equipment as disclosed in note 15.

At 30 June 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$279.4 million (31 December 2011: US\$332.7 million).

At 30 June 2012 and 31 December 2011, the Group had a commitment to contribute US\$80.6 million to capital of its subsidiary, Heilongjiang Jiatai Titanium Co. Limited.

15. OTHER NON-CURRENT ASSETS

	As at 30 June 2012	As at 31 December 2011
	US\$ '000 (unaudited)	US\$ '000 (audited)
Deferred insurance premium for bank facilities	17,056	22,057
Prepayments for property, plant and equipment	125,563	68,580
Deferred loan arrangement fee	6,416	7,373
Cash advances to employees	371	350
	<u>149,406</u>	<u>98,360</u>

16. INVENTORIES

	As at 30 June 2012	As at 31 December 2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)
Stores and spares	29,366	29,110
Work in progress	8,833	3,958
Finished goods	9,393	8,233
	<u>47,592</u>	<u>41,301</u>

17. TRADE AND OTHER RECEIVABLES

	As at 30 June 2012	As at 31 December 2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)
VAT recoverable	34,835	28,588
Advances to suppliers	12,118	13,401
Amounts due from customers under engineering contracts	2,623	2,514
Trade receivables	9,645	6,165
Other debtors	5,302	6,337
	<u>64,523</u>	<u>57,005</u>

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.

The following is an analysis of the trade receivables by age, presented based on the invoice date.

	As at 30 June 2012	As at 31 December 2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)
Less than one month	7,754	5,976
One month to three months	1,520	177
Over three months to six months	86	3
Over six months	285	9
	<u>9,645</u>	<u>6,165</u>
Total	<u>9,645</u>	<u>6,165</u>

The Group allows credit periods ranging from 10 days to 45 days (2011: 10 days to 45 days) to individual third party customers.

18. TRADE AND OTHER PAYABLES

	As at 30 June 2012 <i>US\$'000</i> (unaudited)	As at 31 December 2011 <i>US\$'000</i> (audited)
Trade payables	8,734	10,512
Advances from customers	4,125	2,992
Accruals and other payables	13,790	8,112
	<u>26,649</u>	<u>21,616</u>

The following is an analysis of the trade payables by age, presented based on the invoice date.

	As at 30 June 2012 <i>US\$'000</i> (unaudited)	As at 31 December 2011 <i>US\$'000</i> (audited)
Less than one month	3,819	6,254
One month to three months	337	1,327
Three months to six months	475	380
Over six months	4,103	763
	<u>8,734</u>	<u>8,724</u>
Trade payables not yet billed	—	1,788
	<u>8,734</u>	<u>10,512</u>

19. BANK BORROWINGS

	As at 30 June 2012 <i>US\$'000</i> (unaudited)	As at 31 December 2011 <i>US\$'000</i> (audited)
Bank loans		
Asian Pacific Bank	17,000	15,000
Industrial and Commercial Bank of China (“ICBC”)	74,986	6,343
	<u>91,986</u>	<u>21,343</u>
Total	<u>91,986</u>	<u>21,343</u>
Unsecured	17,000	15,000
Secured	74,986	6,343
	<u>91,986</u>	<u>21,343</u>
Total	<u>91,986</u>	<u>21,343</u>
Carrying amount repayable		
Within one year	17,000	15,000
More than two years, but not exceeding five years	74,986	6,343
	<u>91,986</u>	<u>21,343</u>
Total	<u>91,986</u>	<u>21,343</u>

Bank loans from Asian Pacific Bank

On 10 October 2011, the Group entered into a US\$15,000,000 loan facility with Asian Pacific Bank. The facility bears an annual interest of 10.0% which is payable monthly. The principal of the drawdown is repayable by 9 October 2012. As at 30 June 2012 and 31 December 2011, the whole amount was utilised under the loan facility.

On 21 March 2012, the Group further entered into a US\$10,000,000 trade finance facility with Asian Pacific Bank. The facility bears an annual interest of 10.3% which is payable monthly. The principal of the drawdown is repayable by 31 December 2012. As at 30 June 2012, US\$2,000,000 was utilised under the trade finance facility.

As at 30 June 2012, the Group had US\$8,000,000 (31 December 2011: nil) undrawn financial facility granted by Asian Pacific Bank.

The loans are not secured against any assets of the Group or other related parties.

Bank loan from Industrial and Commercial Bank of China

On 6 December 2010, LLC KS GOK, a wholly owned subsidiary of the Company, had entered into the HK\$3.11 billion (equivalent to US\$400 million) engineering, procurement and construction contract with China National Electric Engineering Corporation, contractor at the twin deposits of Kimkan and Sutara (“K&S”) project for the construction of the Group’s mining operations at K&S.

On 13 December 2010, the Group entered into a project finance facility agreement with ICBC (the “ICBC Facility Agreement”) pursuant to which ICBC would lend US\$340,000,000 (equivalent to HK\$2.64 billion) to LLC KS GOK to fund the construction of the Group’s mining operations at K&S. Interest under the facility was charged at 2.80% above London Interbank Offering rate (“LIBOR”) per annum. The facility is repayable over a period of 11 years.

On 14 December 2011, the Group made the first drawdown amounting to US\$6,958,000. During the six months ended 30 June 2012, the Group made further drawdowns amounting to US\$75,519,000. The loan is carried at amortised cost with effective interest rate at 5.63% per annum as at 30 June 2012 and 31 December 2011, respectively.

As at 30 June 2012 and 31 December 2011, US\$6,000,000 was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets.

As at 30 June 2012, the Group had approximately US\$257,523,000 (2011: US\$333,042,000) undrawn financial facility in relation to the ICBC Facility Agreement.

Details of guarantee granted by Petropavlovsk PLC in relation to the ICBC Facility Agreement are set out in note 21.

20. ACQUISITION OF A SUBSIDIARY

In accordance with the terms of a joint venture agreement entered into by the Group and a Chinese partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly controlled Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited (“Jiatai Titanium project”) was established in the PRC with 65% interest held by the Group and the remaining 35% held by the Chinese joint venture partner.

In 2010, the Group was advised that the 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. With a view to proceeding with the project alone or with a different joint venture partner, the Group entered into an agreement with the joint venture partner on 25 August 2010 pursuant to which the Group bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for the joint venture partner’s stake in the Jiatai Titanium project.

On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US\$11.5 million pursuant to which the Jiatai Titanium project became a wholly-owned subsidiary of the Group. Pursuant to the equity transfer agreement, the joint venture partner waived and released the Jiatai Titanium project from its obligations to pay to a subsidiary of the joint venture partner an amount of US\$3.5 million relating to engineering design, management contracting and other services previously made to the project upon completion of the acquisition by the Group.

Consideration transferred

	US\$'000 (audited)
Cash paid	11,535
Adjustment on part relating to waiver of debt of Jiatai Titanium project by the joint venture partner	<u>(3,512)</u>
	<u><u>8,023</u></u>

Acquisition-related costs were insignificant and recognised as an expense within the administrative expenses in the condensed consolidated income statement for the six months ended 30 June 2011.

Fair value of assets acquired and liabilities assumed at the date of acquisition

	US\$'000 (audited) (restated)
Current assets	
Cash and cash equivalents	9,350
Other receivables	76
Non-current assets	
Property, plant and equipment	658
Land use right	6,061
Current liabilities	
Other payables	<u>(4,479)</u>
	<u><u>11,666</u></u>

Net cash outflow arising on acquisition

	US\$'000 (audited)
Consideration paid in cash	11,535
Less: Cash and cash equivalent balances acquired	<u>(9,350)</u>
	<u><u>2,185</u></u>

Impact of acquisition of the remaining 35% equity stake in Jiatai Titanium project on the results of the Group

- Jiatai Titanium project has changed from a joint venture to a subsidiary of the Group. An aggregate gain of US\$1,310,000 was recognised for the six months ended 30 June 2011 as a result of remeasurement of the previously held equity interest (65%) and the reclassification of foreign translation gain of the project previously recognised in translation reserve (note 8).
- Included in the profit for the six months ended 30 June 2011 was a post-acquisition loss of US\$507,000 attributed to Jiatai Titanium project which has not yet started to generate revenue since the date of the acquisition.
- Had the acquisition of the remaining 35% equity stake in Jiatai Titanium project been effected at 1 January 2011, the revenue of the Group for the six months ended 30 June 2012 would have remained at US\$60,432,000, and the profit for the respective period would have been US\$3,643,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

21. 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 and approved by independent members of the Board of Directors.

During the six months ended 30 June 2012, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is the Group's ultimate holding company, its subsidiaries and joint ventures are considered to be related parties. Mr. Peter Hambro and Dr. Pavel Maslovskiy, shareholders of Petropavlovsk PLC, are close family members of the Group's directors, Mr. George Jay Hambro and Mr. Yuri Makarov, respectively.

Asian Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have interests and, collectively, exercise significant influence over Asian Pacific Bank.

Vanadium Joint Venture is a joint venture of the Group and hence is a related party.

LLC Uralmining ("Uralmining") is an associate of the Group and hence is a related party.

Other than those disclosed in elsewhere in the condensed consolidated financial statements, transactions with related parties of the Group entered into during the six months ended 30 June 2012 including that related to the day-to-day operating of the business are set out below.

	Services provided ^(a)		Services received ^(b)	
	Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	21	21	187	515
OJSC Irgiredmet	—	—	125	535
LLC NPGF Regis	23	25	74	144
CJSC Peter Hambro Mining				
Engineering	—	1	261	1,582
CJSC Pokrovsky Rudnik	28	34	—	9
Dalgeologia	—	278	42	4,295
Kapstroy	—	151	—	1,233
MC Petropavlovsk	421	445	283	120
CJSC Yamalzoloto	216	—	—	—
OJSC ZDP Koboldo	4	—	—	—
LLC Karagay	2	—	—	—
LLC Albynskiy Rudnik	5,697 ^(c)	—	—	—
PRP Stansii	—	3	—	9
Gidrometallurgia	86	87	—	—
	<u>86</u>	<u>87</u>	<u>—</u>	<u>—</u>
Petropavlovsk PLC's joint venture				
Odolgo	—	6	—	—
	<u>—</u>	<u>6</u>	<u>—</u>	<u>—</u>

- (a) Amounts represent fee received from related parties for provision of administrative support.
- (b) Amounts represent fee paid to related parties for receive of administrative support and helicopter services.
- (c) Amount represents the consideration from the disposal of property, plant and equipment.

The 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)	
	As at 30 June 2012 US\$'000 (unaudited)	As at 31 December 2011 US\$'000 (audited)	As at 30 June 2012 US\$'000 (unaudited)	As at 31 December 2011 US\$'000 (audited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	184	160	54	26
OJSC Irgiredmet	125	97	—	—
LLC NPGF Regis	4	5	53	11
CJSC Peter Hambro Mining				
Engineering	385	553	411	367
CJSC Pokrovsky Rudnik	6	6	1	1
Dalgeologia	172	195	58	43
Kapstroy	—	1	—	—
MC Petropavlovsk	216	7	1,998	1,817
PRP Stansii	19	—	—	—
Gidrometallurgia	1	2	—	—
CJSC Yamalzoloto	—	79	55	—
LLC Karagay	58	23	—	—
Outstanding balances with other related parties				
Millennium Implementation Ltd	—	—	—	667
	<u>1,170</u>	<u>1,128</u>	<u>2,630</u>	<u>2,932</u>

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

Banking arrangements

The Group has bank accounts with Asian Pacific Bank. The bank balances at the end of the reporting period are set out below:

	As at 30 June 2012 US\$'000 (unaudited)	As at 31 December 2011 US\$'000 (audited)
Asian Pacific Bank	<u>6,533</u>	<u>7,888</u>

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

	Six months ended 30 June	
	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Interest income from cash and cash equivalents	<u>44</u>	<u>7</u>

Guarantee arrangements

In relation to the ICBC loan as disclosed in note 19, Petropavlovsk PLC has guaranteed the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee ("Recourse Agreement"). No fee will be payable by the 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 obligation 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 30 June 2012, Petropavlovsk PLC beneficially owns approximately 65.61% (at 31 December 2011: 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 PLC has an obligation to maintain a minimum tangible net worth of not less than US\$750,000,000, a minimum interest cover ratio of 3.5:1 and a maximum leverage ratio of 4:1; and (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.

Key management compensation

During the six months ended 30 June 2011, George Jay Hambro, Yury Makarov, Raymond Woo, Daniel Bradshaw, Jonathan Martin Smith, Chuang-fei Li, Pavel Maslovskiy and Simon Murray were considered the key management of the Group. During the six months ended 30 June 2012, except for Pavel Maslovskiy, who has reduced his involvement in the Group's management decision, thus no longer considered as the key management of the Group, all other key management personnel continue in office. The remuneration of key management personnel is set out below in aggregate.

	Six months ended 30 June	
	2012	2011
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Short-term benefits	2,415	1,274
Post-employment benefits	123	110
Share-based payments	<u>1,987</u>	<u>2,045</u>
	<u>4,525</u>	<u>3,429</u>

Short-term benefits in the first half of 2012 included a bonus payment to the executive management team. No such bonus was paid in the first half of 2011. The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

22. CONTINGENT LIABILITIES

There is no significant contingent liability as at 30 June 2012 apart from those disclosed in the Group's annual financial statements for the year ended 31 December 2011.

23. EVENTS AFTER THE REPORTING PERIOD**(a) Acquisition of Bolshoi Seym Deposit**

On 9 April 2012, the Group, through its wholly-owned subsidiary, Brasenose Services Limited ("Brasenose"), concluded an agreement to acquire from LLC Intergeo Managing Company ("Intergeo") the remaining 51% interests in LLC Uralmining ("Uralmining") not previously owned by the Group. The agreement also provides for the assignment of indebtedness owing by Uralmining to the Company. Uralmining changed from an associate to a subsidiary of the Group thereof. Uralmining holds the exploration and mining licenses of Bolshoi Seym Deposit. The transaction was completed on 24 July 2012 and the consideration was satisfied through the issuance and allotment of 74,681,360 ordinary shares of the Company with a nominal value of HK\$0.01 each to Intergeo.

Further details of the transaction have been set out in the announcements of the Company made on 10 April 2012 and 25 July 2012. As at the date of these interim condensed consolidated financial statements authorised for issuance, the directors of the Company are still assessing the financial impact of the acquisition.

(b) Acquisition of Molybdenum Exploration Project

On 6 April 2012, the Group concluded an agreement to acquire from Sangritta Limited ("Sangritta") and Lania Consulting Limited ("Lania"), 50% equity interest plus one share stake in Caedmon Limited ("Caedmon"), hence, gaining control in Caedmon. In addition, the Group also acquired the related shareholder indebtedness and an option to acquire the remaining 50% equity interest minus one share stake in Caedmon ("Option") from Sangritta. The Group may exercise the Option any time over a two-year period commencing on the date of completion of the transaction.

Caedmon holds the exploration and mining licenses of Molybdenum Exploration Project.

The transaction was completed on 11 July 2012 and the total consideration were satisfied through the issuance and allotment of 54,491,029 and 2,861,912 ordinary shares of the Company with a nominal value of HK\$0.01 each to Sangritta and Lania, respectively. US\$180,000 and US\$320,000 would be payable to Sangritta for the grant of Option, and the shareholder indebtedness, respectively within six months of the completion of the transaction.

Further details of the transaction have been set out in the announcement of the Company made on 10 April 2012 and 12 July 2012. As at the date of these interim condensed consolidated financial statements authorised for issuance, the directors of the Company are still assessing the financial impact of the acquisition.

(c) Loan facility from Peter Hambro Mining Treasury UK Limited ("PHM")

In July 2012, the Group has obtained a US\$15,000,000 loan facility from PHM, a subsidiary of Petropavlovsk PLC. The loan facility bears interest at 10.30% per annum and is repayable by 31 December 2012. As at the date of these interim condensed consolidated financial statements authorised for issuance, the Group has drawdown US\$10,000,000 from the loan facility.

(d) Asian Pacific Bank Loan

In August 2012, the Group has obtained a US\$15,000,000 new loan facility from Asian Pacific Bank to replace the original US\$15,000,000 facility, which will expire on 9 October 2012. The loan facility bears interest at 11.00% per annum and is repayable in August 2013. As at the date of these interim condensed consolidated financial statements authorised for issuance, the Group has not yet drawdown any amount from the loan facility.

4 STATEMENT OF INDEBTEDNESS

Save as set out below in this section, as at the close of business on 31 December 2012, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

The Directors have confirmed that they are not aware of any material change in the Group's indebtedness and contingent liabilities from 31 December 2012 to the Latest Practicable Date.

Bank loans from Asian Pacific Bank

In August 2012, the Group entered into a US\$15,000,000 loan facility from Asia Pacific Bank. The loan bears interest at 11.00% per annum and is repayable in August 2013. As at 31 December 2012, the full facility amount of US\$15,000,000 has been drawn down by the Group.

In December 2012, the Group entered into a US\$10,000,000 loan facility from Asia Pacific Bank. The loan bears interest at 11.22% per annum and is repayable in December 2013. As at 31 December 2012, the Group has not drawn any amount from this loan facility.

Bank loan from ICBC

On 6 December 2010, "K&S", a wholly owned 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 the ICBC Facility Agreement pursuant to which ICBC will lend US\$340,000,000 (equivalent to HK\$2.64 billion) to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S Mine in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is repayable from 2014 and is fully repayable by 2022.

Petropavlovsk has agreed to guarantee the Group's obligations under the ICBC Facility Agreement. Petropavlovsk, the Company and "K&S" have entered into the Recourse Agreement setting out the terms on which Petropavlovsk has given the guarantee. No fee will be payable by the Company in respect of the provision of the guarantee by Petropavlovsk while Petropavlovsk remains the parent company of the Company. In the event that Petropavlovsk ceases to be the parent company of the Company, a fee established on normal commercial terms will be payable by the Company to Petropavlovsk in respect of the guarantee. No security will be granted by the Group to Petropavlovsk in respect of the guarantee. Pursuant to the Recourse Agreement, Petropavlovsk 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'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.

On 14 December 2011, the Group made the first drawdown under the ICBC facility and, as at 31 December 2012, approximately US\$119,437,000 has been drawn down with approximately US\$220,563,000 undrawn. The loan has an effective interest rate at 5.65% per annum.

Loan facility from Peter Hambro Mining Treasury UK Limited ("PHM")

In July 2012, the Group obtained a US\$15,000,000 loan facility from PHM, a subsidiary of Petropavlovsk. The loan facility bears interest at 10.30% per annum and is repayable by 30 April 2013. As at 31 December 2012, the Group has drawn down US\$10,000,000 from the loan facility.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility (other than information relating to General Nice, Minmetals Cheerglory and parties acting in concert with either of them apart from Petropavlovsk), includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than information relating to General Nice, Minmetals Cheerglory and parties acting in concert with either of them apart from Petropavlovsk) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than information relating to General Nice, Minmetals Cheerglory and parties acting in concert with either of them apart from Petropavlovsk) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by General Nice, Minmetals Cheerglory and parties acting in concert with either of them apart from Petropavlovsk) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of General Nice namely Mr Cai Sui Xin 蔡穗新, Ms Cai Suirong 蔡穗榕, Mr Tsoi Ming Chi 蔡明志 and Ms Chan Chuen Yi 陳存宜 jointly and severally accept full responsibility for the accuracy of the information in this circular (other than information relating to the Group, Minmetals Cheerglory and parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by the Company or the Directors or by Minmetals Cheerglory) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of Minmetals Cheerglory namely Mr Liu Qingchun 劉青春, Mr Zou Yunchang 鄒運昌 and Mr Gao Mingzheng 高明政 jointly and severally accept full responsibility for the accuracy of the information in this circular (other than information relating to the Group, General Nice and parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by the Company or the Directors or General Nice) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Shares	HK\$
<i>Authorised share capital</i>	
10,000,000,000 Shares	100,000,000
<i>Issued and fully paid up or credited as fully paid up</i>	
3,494,034,301 Shares	34,940,343.01
<i>Maximum new Shares to be issued pursuant to the Investors' Subscription Agreements</i>	
<u>1,962,500,000</u> Shares	<u>19,625,000</u>
<u><u>5,456,534,301</u></u> Shares	<u><u>54,565,343.01</u></u>

All of the Shares rank pari passu in all respects, including as capital, dividends and voting.

The Shares are listed on and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

There has been no alteration to the authorised share capital of the Company since the end of its last financial year, being 31 December 2012 and there has been no increase in the issued share capital of the Company since 31 December 2012 and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company does not have any options, warrants or convertible securities in issue other than the Caedmon Option which grants the Company the right to acquire the remaining shares in Caedmon Limited not already owned by the Company by way share exchange.

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company ("Model Code") were as follows:

Long positions in shares of the Company

Name of Director	Nature of Interest	No. of Shares in the Company	% of issued shares in the Company
George Jay Hambro	Contingent beneficial interest (note 1)	23,220,000	0.66
	Beneficial interest	352,000	0.01
Yury Makarov	Contingent beneficial interest (note 1)	20,317,500	0.58
	Beneficial interest	238,000	0.01
Raymond Kar Tung Woo	Contingent beneficial interest (note 1)	14,512,500	0.42
	Beneficial interest	120,000	0.00

Name of Director	Nature of Interest	No. of shares in Petropavlovsk	% of issued shares in Petropavlovsk
George Jay Hambro	Contingent beneficial interest	54,166	0.03 (note 2)
	Beneficial interest	53,846	0.03 (note 4)
Yury Makarov	Contingent beneficial interest	41,666	0.02 (Notes 2, 3)
	Beneficial interest	53,846	0.03 (note 4)

Long positions in shares of an associated corporation

Name of director	Name of associated corporation	Capacity and nature of interest	Number of shares
George Jay Hambro	Petropavlovsk	Contingent beneficial interest	54,166
Yury Makarov	Petropavlovsk	Contingent beneficial interest and beneficial interest	95,512

Mr George Jay Hambro is the son of Mr Peter Hambro, the Chairman of Petropavlovsk.

Notes:

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. Although the amounts above reflect a 100% allocation for the issue of shares under the LTIP for individual directors, the actual issue of shares will depend on meeting a series of performance conditions, and subject to a three-year bullet vesting period. The vesting of the LTIP is dependent on the satisfaction of performance conditions relating to operations, profitability, development and health, safety and environmental matters, and in case of certain employee, share price performance as well. These conditions are not set out in full due to the commercial nature of the targets and the creation of forecasts in so presenting but the Remuneration Committee believes them to be suitably challenging. In general, subject to meeting of a series of performance targets, such shares awards will only be vested three years after grant date. 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 30 June 2012, 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.

Save as disclosed above in this section, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executives of the Company, as at the Latest Practicable Date, Company 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 under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares in the Company (Note)	Approximate % of the Company's total issued share capital
Petropavlovsk PLC	Through a controlled corporation	2,205,900,000 (L)	63.13
Cayiron Limited*	Beneficial owner	2,205,900,000 (L)	63.13
BlackRock, Inc.	Beneficial owner/through a controlled corporation	221,479,336(L) 2,657,336(S)	6.34 0.08
BlackRock Global Funds — World Mining Fund	Beneficial owner	178,000,000(L)	5.29
General Enterprise Management Services Limited (“GEMS”)	Through a controlled corporation	215,568,000 (L)	6.17
ARF Investment Management Limited	Investment Manager	215,568,000 (L)	6.17
Asia Resources Fund Limited	Interest of a controlled corporation	215,568,000 (L)	6.17
Development Bank of Japan Inc.***	Through a controlled corporation	215,568,000 (L)	6.17
General Enterprise Management Services (International) Limited	Through a controlled corporation	215,568,000 (L)	6.17
Marbella Holdings Limited**	Beneficial owner	215,568,000 (L)	6.17

Note: “L” denotes long position and “S” denotes short position.

* 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 in this section, as at the Latest Practicable Date, the Company had not been notified by any persons (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 who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

Up to the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Company were prepared.

4. SHAREHOLDINGS AND DEALINGS IN SHARES

As at the Latest Practicable Date:

- (a) none of General Nice and Minmetals Cheerglory, their respective directors and parties acting in concert with any of them (other than Petropavlovsk) was interested in Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of the Shares. Petropavlovsk (which is considered to be acting in concert with General Nice) controls 2,205,900,000 Shares representing approximately 63.13% of the issued share capital of the Company but had no interest in convertible securities, warrants or options (or outstanding derivatives) in respect of the Shares;
- (b) none of General Nice and Minmetals Cheerglory, their respective directors and parties acting in concert with any of them has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company during the period commencing six months prior to the date of the Announcement and ending on the Latest Practicable Date;
- (c) none of General Nice and Minmetals Cheerglory, their respective directors and parties acting in concert with any of them has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the

relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or shares of General Nice and which might be material to the transactions contemplated under the Investors' Subscription Agreements or the Whitewash Waiver with any other persons;

- (d) none of General Nice and Minmetals Cheerglory, their respective directors and parties acting in concert with any of them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (e) neither the Company nor the Directors have any interest in shares or convertible securities, warrants or options (or outstanding derivatives) in respect of the shares of General Nice or Minmetals Cheerglory;
- (f) save as disclosed in section 3 of this appendix, none of the Directors have any interest in Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of the Shares. None of such persons have dealt for value in any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of the Shares during the period commencing six months preceding the Announcement and ending on the Latest Practicable Date;
- (g) neither the Company nor the Directors have borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (h) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company was owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders;
- (i) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code;
- (j) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company; and
- (k) the Executive Directors will not cast any vote in respect of their respective shareholdings at the EGM in relation to the EGM Resolutions as they are required to abstain from voting at the EGM in respect of their respective beneficial shareholdings in the Company.

Save for the entering into of the Investors' Subscription Agreements, none of General Nice, Minmetals Cheerglory, their respective directors or any party acting in concert with any of them (including Petropavlovsk) has dealt in the Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of the Shares during the period commencing six months preceding the Announcement and ending on the Latest Practicable Date.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding existing whereby any of the Subscription Shares will be transferred, charged or pledged to any other persons.

5. MARKET PRICES OF SHARES

The closing price of the Shares on the Stock Exchange on the Last Trading Day was HK\$1.42 each.

The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK\$1.23.

The table below shows the closing price of the Shares on the Stock Exchange at the end of each of the calendar months during the period commencing six months preceding the Announcement and ending on the Latest Practicable Date:

Date	Closing price of Shares (HK\$)
July 2012	0.68
August 2012	0.64
September 2012	0.50
October 2012	0.95
November 2012	0.88
December 2012	1.17
January 2013	1.10

During the period commencing six months preceding the Announcement and ending on the Latest Practicable Date, the highest closing price for the Shares was HK\$1.42 each on 16 January 2013 and the lowest closing price for the Shares was HK\$0.495 each on 26 September 2012.

6. OTHER INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors or the Independent Financial Adviser has any interest, direct or indirect, in any assets which have been, since 31 December 2011 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors was materially interested in any contract or arrangement entered into by the Company and which is significant in relation to the business of the Group;
- (c) there was no material contract entered into by General Nice or Minmetals Cheerglory in which any Director has a material personal interest.

7. COMPETING BUSINESS INTERESTS OF DIRECTORS

Except as described below in this section, 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. 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 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.

Since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up and up to the Latest Practicable Date, the following Directors (not being the independent non-executive directors) have interests in Petropavlovsk:

- (i) George Jay Hambro and Yury Makarov are shareholders of Petropavlovsk; and
- (ii) George Jay Hambro serves as a part-time consultant to Petropavlovsk.

8. LITIGATION

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 Limited, 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 Limited 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 joint winding-up petition against Lapwing Ltd and re-filed on the same day two separate claims in substantially similar form. After the two petitions were consolidated, the Group submitted on 2 June 2011 an application to have both claims dismissed on the grounds that the non-controlling shareholders had potentially available to them alternative remedies which they could have pursued and hence their claim for winding up Lapwing Ltd was too a disproportionate and drastic remedy. The Court accepted the Group's application on 26 April 2012 and accordingly dismissed both petitions on the above basis. The petitioners have appealed this decision and the parties are awaiting for a hearing date on the merits of the appeal. The petitioners have also applied to amend the grounds of appeal, which the Appeal court would have to dispose of first. The quantum of the claim cannot be identified at this point.

Save as disclosed above in this section, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the members of the Group after the date of two years preceding the date of the Announcement and up to and including the Latest Practicable Date and which are or may be material:

- (a) the Caedmon Agreement entered into on 6 April 2012 by the Company, Sangritta Limited and Lania Consulting Limited to acquire from Sangritta Limited and Lania Consulting Limited, a controlling 50% plus one share stake in Caedmon Limited in consideration for the issue and allotment of 57,352,941 Shares with a nominal value of HK\$0.01 each;
- (b) the agreement entered into on 6 April 2012 by the Company and Sangritta Limited under which Sangritta Limited has granted an option in favour of the Company for cash consideration of US\$180,000 to acquire the remaining shares in Caedmon Limited it does not already own;
- (c) the subscription agreement entered into on 9 April 2012 by the Company and Intergeo Management Limited (as amended by way of letter dated 20 July 2012) in relation to the issue and allotment of 74,681,360 Shares with a nominal value of HK\$0.01 each in consideration for the assignment by Intergeo Management Limited to the Company of certain indebtedness pursuant to the assignment agreement referred to in paragraph (e) below;
- (d) the sale and purchase agreement entered into on 24 July 2012 by the Company's wholly-owned subsidiary, Brasenose Services Limited, and LLC Intergeo Managing Company in relation to the acquisition by Brasenose Services Limited of the remaining 51% it does not already own in LLC Uralmining (the company which holds the exploration and mining licences for Bolshoi seym) from LLC Intergeo Managing Company in consideration for the issue of a promissory note by Brasenose Services Limited in favour of LLC Intergeo Managing Company for the amount of US\$571,410.92;
- (e) the assignment agreement entered into on 24 July 2012 by the Company, Intergeo Management Limited and LLC Uralmining in relation to the assignment by Intergeo Management Limited to the Company of indebtedness owing to Intergeo Management Limited totalling approximately US\$11.5 million;
- (f) the General Nice Subscription Agreement;
- (g) the Minmetals Cheerglory Subscription Agreement;
- (h) the Offtake Framework Agreement; and
- (i) the Seaborne Offtake Agreement.

10. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date, save as disclosed in paragraphs “(d) Side Letter with General Nice” and “(e) Shareholders’ Agreement” of the section headed “6. Effect of the Share Issue Transaction on Petropavlovsk” in the “Letter from the Board” in this circular:

- (a) there was no agreement, arrangement or understanding existed between any Director and any other person which is conditional on or dependent upon the outcome of the Share Issue Transaction and the Whitewash Waiver or otherwise connected therewith; and
- (b) there is no agreement, arrangement or understanding (including any compensation arrangement) which exists between General Nice, Minmetals Cheerglory or any person acting in concert with any of them and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Share Issue Transaction or the Whitewash Waiver.

There are no benefits to be given to any Director as compensation for loss of office or otherwise in connection with the Share Issue Transaction or the Whitewash Waiver.

11. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation), nor has any of the Directors entered into any service contract with any member of the Group or associated companies which are in force and are fixed term contracts and which have more than 12 months to run irrespective of the notice period or which are continuous contracts with a notice period of 12 months or more, or which has been entered into or amended within six months prior to 17 January 2013, being the date of the Announcement.

12. QUALIFICATION AND CONSENT

The following are the qualifications of the expert who has given an opinion or advice on the information contained in this circular:

Name	Qualifications
Somerley Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

As at the Latest Practicable Date, Somerley Limited did not have any beneficial interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and none had any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear herein.

13. MATERIAL CHANGE

Since 1 January 2012, the Group has continued to work on the development of its K&S Project, which is scheduled to commence production in 2014. This has involved continuing capital expenditure under the Engineering, Procurement and Construction Contract with China National Electric Equipment Corporation and a further drawdown of finance under the ICBC Facility Agreement as described in the paragraph headed “4. Statement of Indebtedness” in Appendix I above. Meanwhile, production of the Group’s Kuranakh project exceeded the Group’s targets and the ilmenite circuit was upgraded.

Due to the weaker iron ore prices during 2012 and expenditure relating to the development of the K&S Project, the Group recorded a loss of approximately US\$19.8 million during the six months ended 30 June 2012 as disclosed in the interim report of the Group for the six months ended 30 June 2012. Save as disclosed above in this section, the Directors confirm that there were no material changes in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

14. MISCELLANEOUS

- (a) The registered address of the Company is at 6H, 9 Queen’s Road Central, Central District, Hong Kong.
- (b) The registered address of General Nice is at Flat 2409-2411, Wayson Commercial Building, 28 Connaught Road West, Hong Kong.
- (c) The registered address of Minmetals Cheerglory is at 11th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.
- (d) The registered address of Petropavlovsk is 11 Grosvenor Place, Belgravia, London, United Kingdom.
- (e) The company secretary of the Company is Raymond Kar Tung Woo, member of both the Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

- (f) The qualified accountant of the Company is Deloitte Touche Tohmatsu.
- (g) The Hong Kong Share registrars of the Company is Tricor Investor Services Limited.
- (h) As at the Latest Practicable Date, the directors of General Nice are Mr Cai Sui Xin 蔡穗新, Ms Cai Suirong 蔡穗榕, Mr Tsoi Ming Chi 蔡明志 and Ms Chan Chuen Yi 陳存宜.
- (i) As at the Latest Practicable Date, the directors of Minmetals Cheerglory are Mr Liu Qingchun 劉青春, Mr Zou Yunchang 鄒運昌 and Mr Gao Mingzheng 高明政.
- (j) As at the Latest Practicable Date, the directors of Petropavlovsk are Mr Peter Hambro, Mr Sergey Ermolenko, Mr Andrey Maruta, Dr Alya Samokhvalova, Mr Martin Smith, Dr Graham Birch, Sir Malcolm Field, Field Marshal the Lord Guthrie of Craigiebank, Sir Roderic Lyne, Mr Charles McVeigh III, Dr David Humphreys and Ms Rachel English.
- (k) As at the Latest Practicable Date, General Nice, Minmetals Cheerglory and parties acting in concert with any of them have not received any irrevocable commitment from any Shareholders to vote in favour of the EGM Resolutions.
- (l) All references to times in this circular refer to Hong Kong times.
- (m) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Day at the offices of Norton Rose Hong Kong at 38/F, Jardine House, 1 Connaught Place, Central, Hong Kong and will also be available on the websites of the Company at www.ircgroup.com.hk and the SFC at www.sfc.hk from the date of this circular up to and including the date of the EGM:

- (a) memorandum and articles of association of the Company;
- (b) memorandum and articles of association of General Nice;
- (c) the annual reports of the Group for the two years ended 31 December 2010 and 2011 and the interim report for the six months ended 30 June 2012;
- (d) the letter of consent referred to in the paragraph “12. Qualification and Consent” in this appendix;
- (e) a copy of each material contract referred to in the paragraph “9. Material Contracts” in this appendix;
- (f) the letter from the Board the text of which is set out on pages 12 to 49 of this circular;

- (g) the letter from the Independent Board Committee the text of which is set out on pages 50 and 51 of this circular; and
- (h) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 52 to 106 of this circular.

This circular (in both English and Chinese versions) (“Circular”) has been posted on the Company’s website at <http://www.ircgroup.com.hk>.

Shareholders may at any time choose to change their choice of language of the Company’s corporate communication to be despatched in the future (“Corporate Communication”) by notice in writing to the Company’s Hong Kong Share registrars, Tricor Investor Services Limited. Corporate Communication includes any document to be given or issued by or on behalf of the Company for Company Shareholders information or action, including but not limited to, annual reports, summary financial reports (where applicable), interim reports, summary interim reports (where applicable), notices of meetings, listing documents, circulars and proxy forms.

Shareholders who have chosen to receive Corporate Communication in either English or Chinese will receive both English and Chinese versions of this Circular since both languages are bound together into one booklet.

NOTICE OF EXTRAORDINARY GENERAL MEETING



IRC Limited 鐵江現貨有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock code: 1029)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at Regus Business Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 11 March 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

- 1 “**THAT** conditional upon passing of resolution 2 below:
 - (a) (i) the conditional agreement dated 17 January 2013 entered into between the Company as issuer and General Nice Development Limited as subscriber (the “General Nice Subscription Agreement”) in relation to the subscription of up to 1,715,200,000 new shares of HK\$0.01 each (the “Share(s)”) in the share capital of the Company (the “General Nice Subscription Share(s)”) at the subscription price of HK\$0.94 per General Nice Subscription Share, a copy of which has been produced to the meeting marked “A” and initialled by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; (ii) subject to the fulfillment of the conditions set out in the General Nice Subscription Agreement, the allotment and issue of the General Nice Subscription Shares to General Nice pursuant to the General Nice Subscription Agreement be and is hereby approved; and (iii) the directors of the Company (the “Directors”) be and are hereby authorised to execute such all other documents, do all other acts and things and take such action as may in the opinion of the Directors be necessary, desirable or expedient to implement and give effect to the General Nice Subscription Agreement and any other transactions contemplated thereunder;
 - (b) (i) the conditional agreement dated 17 January 2013 entered into between the Company as issuer and Minmetals Cheerglory Limited as subscriber (the “Minmetals Cheerglory Subscription Agreement”) in relation to the subscription of 247,300,000 new Shares (the “Minmetals Cheerglory Subscription Share(s)”) at the subscription price of HK\$0.94 per Minmetals Cheerglory Subscription Share, a copy of which has been produced to the meeting marked “B” and initialled by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; (ii) subject to the fulfillment of the conditions set out in the Minmetals Cheerglory Subscription Agreement, the allotment and issue of the Minmetals Cheerglory Subscription Shares to Minmetals Cheerglory pursuant to the Minmetals Cheerglory Subscription Agreement be and is hereby approved; and (iii) the Directors be and are hereby authorised to execute such all other documents, do all other

NOTICE OF EXTRAORDINARY GENERAL MEETING

acts and things and take such action as may in the opinion of the Directors be necessary, desirable or expedient to implement and give effect to the Minmetals Cheerglory Subscription Agreement and any other transactions contemplated thereunder;

- (c) the waiver (the “Whitewash Waiver”) granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of the General Nice and any parties acting in concert with it (including Minmetals Cheerglory Limited), to make a mandatory general offer to shareholders of Company for all the issued shares of the Company not already owned or agreed to be acquired by them upon completion of the subscription of the General Nice Subscription Shares and the Minmetals Cheerglory Subscription Shares be and is hereby approved and that the Directors be and are generally and unconditionally authorised to prepare and execute all documents and to do all such other things as they consider necessary, expedient and appropriate to give effect to any matters relating to, or incidental to, the Whitewash Waiver; and
- (d) (i) the entering into of the framework offtake agreement (“Offtake Framework Agreement”) and the seaborne offtake agreement (“Seaborne Offtake Agreement”) both dated 17 January 2013 among the Company, General Nice and Minmetals Cheerglory, copy each of which has been produced to the meeting marked “C” and “D” respectively and initialled by the chairman of the meeting for the purpose of identification and the continuing connected transactions contemplated thereunder together with the associated proposed annual caps in respect of the aggregate volume of products to be sold under such transactions for the term of the Offtake Framework Agreement and Seaborne Offtake Agreement, be and are hereby approved, confirmed and ratified; and (ii) the Directors be and are hereby authorised to execute such all other documents, do all other acts and things and take such action as may in the opinion of the Directors be necessary, desirable or expedient to implement and give effect to the Offtake Framework Agreement and Seaborne Offtake Agreement, and any other transactions contemplated thereunder.”

2 “**THAT** conditional upon passing of resolution 1 above:

- (a) (i) the agreement of the fee, on a per annum basis, of no more than 1.75% of the principal amount outstanding under the US\$340,000,000 credit facility agreement entered into between, *inter alia*, Industrial and Commercial Bank of China Ltd (as facility agent), K&S (a wholly-owned subsidiary of the Company, as borrower) and Petropavlovsk plc (“Petropavlovsk”, as guarantor) (the “ICBC Facility”) to be payable by the Company to Petropavlovsk upon ceasing to be a subsidiary of Petropavlovsk (the “Guarantee Fee”) in accordance with the recourse agreement dated 13 December 2010 entered into between the Company and Petropavlovsk be hereby approved, confirmed and ratified and (ii) the Directors be and are hereby authorised to execute such all other documents, do all other acts and things and take such action as may in the opinion of

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the Directors be necessary, desirable or expedient to implement and give effect to the Guarantee Fee as a special deal under Note 4 to Rule 25 of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”); and

- (b) (i) the deed of indemnity dated 17 January 2013 entered into between General Nice and Petropavlovsk in respect of certain arrangements to, among other things, share Petropavlovsk’s liability as guarantor under the ICBC Facility in proportion to their respective shareholdings (“Deed of Indemnity”) be hereby approved, confirmed and ratified and (ii) the Directors be and are hereby authorised to execute such all other documents, do all other acts and things and take such action as may in the opinion of the Directors be necessary, desirable or expedient to implement and give effect to the Deed of Indemnity as a special deal under Note 5 to Rule 25 of Takeovers Code.”

By Order of the Board
IRC Limited
Jay Hambro
Executive Chairman

Hong Kong, 21 February 2013

Notes:

- (1) A form of proxy for use at the Meeting is enclosed.
- (2) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him in accordance with the articles of association of the Company. A proxy need not be a member of the Company.
- (3) A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the Meeting (or any adjournment thereof) should they so wish. If a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.
- (5) If there are joint registered holders of a share in the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the joint holders so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (6) The voting in respect of the approval of the resolutions will be conducted by way of a poll.