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IRC Limited

HONG KONG STOCK CODE: 1029

Annual Report 2012

2012 ANOTHER YEAR OF DELIVERY

During our second year as a Hong Kong company, we consolidated our reputation by continuing to deliver on our production and growth targets.

The year is exemplified by progress: our mine portfolio expanded and developed as we engineer our business for near-term growth.

Through volatile markets and challenging conditions, we remain true to our vision to provide shareholders with superior value by developing a Sino-Russian champion.

ABOUT US

We are a vertically integrated producer of industrial commodities. We explore, develop and operate mines in the Russian Far East and North-Eastern China. Then we beneficiate, transport and market our products for sale to local and international markets.

WHAT WE DO

We supply high quality industrial commodities that China and the world need for growth. Our principal product, iron ore, is made into steel, which is the backbone of China's economy due to ongoing urbanisation. We also produce ilmenite, the feedstock for titanium.

WHY WE ARE SUCCESSFUL

Our success is due to a unique combination of geology, geography and access to established infrastructure. We unlock the value from our large ore reserves using Russia's world-class mining skills, power, water and rail infrastructure. Benefiting from our advantageous location, we believe that we are a supplier of choice to customers in China and beyond.

CONTENTS

IRC, A TRACK RECORD OF DELIVERY

Since listing on the Hong Kong Exchange in 2010, IRC has consistently delivered on its production and growth promises, earning a reputation as a Hong Kong quoted mining company that can be trusted.

2010

- Kuranakh commissioned
- HKEx listing raised US$240m
- CNEEC US$400m EPC contract agreed
- US$340m ICBC facility agreed

2011

- Kuranakh reached full iron ore production capacity
- Maiden profit
- K&S optimisation study announced to double production
- First ICBC facility drawdown
- SRP first production

2012

- Kuranakh full ilmenite capacity
- Kuranakh segmental EBITDA of US$16.3 m
- Construction of Trans-Siberian Railway Bridge
- K&S electrical substation completed
- K&S foundation pouring commenced
- K&S steel construction commenced
- Garinskoye DSO study announced
- Ilmenite & Molybdenum acquisitions

PROGRESS IN 2012

The Kuranakh Mine celebrated its second anniversary by exceeding production targets, delivering a segmental EBITDA of US$16.3 million. Construction at our larger K&S Mine advanced to plan, and at Garinskoye, a scoping study was completed for a low-cost, high-margin mining operation. IRC also expanded its exploration portfolio, acquiring full control of the Bolshoi Seym ilmenite deposit and control over new molybdenum assets.

GROWTH PLANS FOR 2013 & BEYOND

In early 2013 IRC announced a US$238 million subscription for new shares by General Nice and Minmetals Cheerglory. With funding in place for significant near-term production growth, IRC is well placed to deliver on its plans for the future. IRC has ambitious production and construction targets for 2013 and is confident of achieving a quadrupling of total production capacity in 2014.

2013

- General Nice and Minmetals Subscription
- K&S Beneficiation Plant construction and fitting
- K&S Mine and infrastructure work completing

2014

- K&S commissioning
- K&S first production

2015 & beyond

- K&S Phase II to double production
- Garinskoye production
- Bolshoi Seym development
- Amur River Bridge

Reducing Risk as We Prepare for Growth

Jay Hambro
IRC Executive Chairman

Dear Shareholder,

I would like to welcome you to the 2012 Annual Report and share another year of excellent progress at IRC. We have established our reputation as a leading mining and growth company in Hong Kong, despite the most challenging of circumstances, as we continue to deliver on our promises and engineer our business for further near-term growth in the coming the year.

LONG TERM STRATEGY

Your Board of Directors believe that a consistent strategy will result in sustainable returns. This mantra is truer in mining than perhaps any other industrial sector because time horizons from exploration to first production and earnings are that much longer. The risks are balanced however with greater rewards, and this is why it is pleasing that after a significant investment phase, we are now so near to realising a quadrupling in production with the addition of the world-class K&S Mine to complement our smaller Kuranakh Mine.

DELIVERING ON OUR PROMISES

Despite the volatility and challenges of 2012, during our second year as a Hong Kong quoted company, IRC has continued to deliver on its promises. I can report that once again at the Kuranakh Mine, we have met our production targets, and in the case of iron ore, we have once again exceeded our targets, this year by 21%, facilitating a 15% reduction in unit production costs, generating a segmental EBITDA of US$16.3 million. At the K&S Mine, construction activities remain on track for completion in the first half of 2014.

We remain true to our commitment to generate superior shareholder value by building a Sino-Russian champion in industrial commodities. This is a strategy that we believe in and we have worked hard in 2012 to deliver as we engineer our business for considerable growth in the near term.

ESTABLISHING A TRUSTED REPUTATION FOR A MINING COMPANY

Our achievements since listing are becoming recognised. I believe that IRC is creating a strong brand in Hong Kong as a mining company that can be trusted, a company that is strong and has the wherewithal to deliver on its future promises. I recognise that our business is a different investment for many Hong Kong retail investors, first because there are not many mining companies quoted on the Hong Kong Exchange, and second because much of our growth and earnings potential is premised on the future. Whilst Hong Kong investors have typically focussed on more mature consumer and property sectors, I am confident that in 2013 they will start to take note of IRC.

In this report, we have attempted to explain our business plan clearly. This year we have included an expanded Health, Safety & Environment section which I believe is unmatched in quality and transparency for a Hong Kong mining company.

FOUR FOLD INCREASE IN ANNUAL PRODUCTION

First production at K&S is now a year away. Following the efforts of IRC and our contractors in 2012, the project has been considerably de-risked. I am confident that the quadrupling of production that we are so near to achieving and the confidence that the market places in our ability to deliver, will encourage the market to sit up and take notice of IRC as a premium investment opportunity for 2013 and beyond.

IRON ORE MARKET IN FLUX

Our global head quarters in Hong Kong provides us with a superior insight into the Chinese domestic iron ore and steel markets, which are the largest in the world. Much as I advocated last year, despite the negative media commentary in early 2012, China has demonstrated that in a global economic downturn, it can successfully manage a soft-landing. This is reflected in the growth of iron ore imports and domestic steel production over 2012 and into 2013. Social stability is the biggest driver in China. Stability requires mobility, migration and urbanisation, the policy basis of new industrial infrastructure and real estate demand.

The longer-term trends for iron ore demand in China are positive. In 2012 iron ore restocking and destocking has been the principal driver of prices rather than any real change in demand. I suggest investors focus on this fact and the longer-term trends, rather than follow the short-term paralysis of the markets. This is of course truer in mining as a long term business.

As China transforms its economy to a high value added growth model, steel is as important as ever. In light of the difficulties to bring on new iron ore supply internally and via the seaborne market, the demand outlook is positive.

Nevertheless, as is clear from the last year, the market for iron ore is not solely driven by demand dynamics and we miners should not forget this. IRC feels justified in building its world-class assets that benefit from building and operating cost advantages from their unique geology and geography. This means that come what may, the IRC projects should deliver strong value for shareholders.

Iron ore is a common element, comprising approximately five percent of the earth's crust. With this in mind, IRC is building projects near to the key Chinese market using established infrastructure. Reviewing the iron ore world, I recommend some of our peers follow this value driven approach to expansion. Those attempting to grow for growths sake risk destroying shareholder value and supply overhang concerns.

That said, the challenges of bringing on new projects are all too real and I still believe in the iron ore price mantra "stronger for longer". However, the price of iron ore is at risk of weakening if the world is flooded with product that relies on freight cost weakness for its own profitability or the generosity of the buoyant stock markets to fund billions of dollars of infrastructure whose cost is hidden in depreciation, amortisation and non-cash items.

STRENGTHENED WITH NEW PARTNERS

At the start of the new year, we announced a transaction to bolster our business with the introduction of General Nice and Minmetals Cheerglory as strategic investors. Their deep experience and skills in trading iron ore in mainland China will facilitate our expanded product offering from K&S and provide greater offtake and cash flow security for our business as our earnings grow. Their subscription for our shares is a strong endorsement for IRC and fulfills our target to become a Sino-Russian champion. I take this opportunity to formally welcome them to our business and look forward to building a mutually beneficial relationship with them.

THANK YOU

I would like to thank and congratulate the IRC team and our contractors for their tremendous energy and hard work. Also, I wish to thank you, our shareholders, for your ongoing support in IRC. Our long construction phase will soon be completed and your patience and confidence will be rewarded.

OUTLOOK

I close my letter this year on a positive note. The outlook for 2013 and beyond is good for IRC. We have another year of hard work ahead of us as and no doubt we will face challenges as we shift our focus to completing the K&S Mine. It is a year of significant change as we engineer our business forward to a fourfold increase in production, that I trust will garner the interest of the Hong Kong investment community.

George Jay Hambro
Executive Chairman, IRC Limited

CEO'S STATEMENT

Dear Shareholder,

Reflecting on the past year, it is clear that 2012 was a watershed year for IRC. We advanced our business on all fronts from exploration through to production. As usual, the year was also full of challenges. Sometimes it can be hard to appreciate how much progress we have made whilst dealing with the day-to-day issues that can arise. Looking back, I am proud of the significant and real progress that our team has achieved.

DELIVERING ON TARGETS

The Kuranakh operation is relatively isolated and climatic conditions can be harsh. In the face of such conditions, I was delighted the operation was awarded the ISO 14001:2004 certification for its environmental management programme in April, the first such endorsement for an iron ore operation in the Russia.

In July 2012, Kuranakh celebrated its two year production anniversary. I was fortunate to spend considerable time on site last year working with our technology team to help design and implement upgrades in the ilmenite circuit. Together we tailored solutions that resulted in the doubling of ilmenite output.

As the year progressed, it became clear that not only would we deliver on our ilmenite targets but also on our core iron ore production. At the end of the year, we had beaten our revised guidance and nameplate capacity. I am confident that our 2013 production targets will be achieved, and following many visits to our customers, there is strong demand for our products.

ENGINEERING GROWTH

As the production profile matures at Kuranakh, we are focusing on completing the construction at K&S. We made solid progress during 2012 as we steadily worked our way through a complex set of deliverables. During the mid-way phase, our progress seemed negligible. However, towards the end of the year with the processing plant foundation cemented and the steel structure starting to rise, the sheer scale of K&S became apparent. From a construction point of view 2013 is the landmark year for IRC as we equip and test the processing plant at K&S, preparing for commercial production in the first half of 2014.

The most common question that I am asked is if we will finish the K&S operation on time. I am confident that we will and anticipate we will start cold commissioning and trial production by the early months of 2014 and commercial production towards the end of the first half. This would be a commendable achievement for a project the size of K&S. As with other projects of this nature, there is always a risk of increase in capital costs. Indications are that, depending on the final choices for equipment that we use in the processing plant, the budget could be exceeded by approximately 10%–15%. Funds are in place to cover this and, whilst it appears disappointing, the amounts are below industry capex increases and mainly relate to the installation of superior equipment that will deliver higher efficiencies over the life of the operation. With these factors in mind, I believe that even a 15% increase in the capital cost is fair.

As the winter thaws, we are preparing to build the largest new iron ore processing plant in Russia. We are well prepared and we expect the results of our hard work to be felt by our shareholders in the near-future. We have an exciting year ahead at K&S.

ENHANCING PRODUCTIVITY

Iron ore prices during 2012 were volatile. The global economy continued to stall and China was dealing with lower growth levels. The speed of the downward correction in iron ore prices caught us by surprise.

With commodity prices below the cost of production for several months, the negative margins that we endured at Kuranakh caused us to rethink our cost base for the short and long-term. Our finance and operational teams worked together to revise our business models. As the mine profile matured, we were able to recognise where costs could be saved to ensure the long term viability of the operation. Many initiatives were investigated; from improving face availability in the pits through the production cycle and how we load concentrate into the rail wagons. In total over 50 such initiatives were approved and implemented and these have started to provide cost benefits, although we don't expect to see the results until the end of 2013. Regrettably, the need to improve margins also meant redundancies and compulsory holidays at both our operations and administrative centres. Although difficult, these decisions are necessary. We cannot be shy when times are tough. As a result of these actions, I believe that our business is now on a stronger footing and will improve further still throughout the coming years.

TEAMWORK

During 2012, IRC made significant progress with the assets in our portfolio. This success is a testament to the extraordinary effort of our people in the Russian Far East, Moscow and Hong Kong. I would like to take this opportunity to thank them for an excellent year of progress.

YURY MAKAROV
Chief Executive Office, IRC Limited

CFO'S STATEMENT

Dear Shareholder,

Measuring the financial performance of a company in development is not straightforward. Therefore, I want to explain why IRC is in a strong financial position and will soon be generating significant cashflows, yet for 2012, reported a loss.

PROFIT AND LOSS ACCOUNT

Let us first look at the accounts and key issues for 2012. The Group reported revenue of US$139.7 million a 14% increase as compared to 2011. This is derived primarily from iron ore sales from the Kuranakh Mine. Production increases helped to offset lower prices of iron ore concentrate in 2012.

In line with higher production, total costs also increased and it is pleasing to note that the Kuranakh Mine reported a segmental EBITDA of US$16.3 million. Overall, unit costs decreased due to higher production volumes, notably ilmenite. Efforts have been made to reduce our cash costs, in particular rail freight which should fall in 2013 following long negotiations. Furthermore, we have introduced wider cost-cutting programmes including a reduction in staffing levels. This is reflected in lower general administrative costs, reducing to US$26.2 million in 2012 from US$26.6 million in 2011, despite the business growing in scale.

Like many others in the resources sector, we have been required to impair certain assets. In the first half, an impairment charge of US$6.1 million was recorded, relating to the Jiatai Titanium Joint Venture. In the second half, we also took the prudent decision to impair the Karier Ushuminskiy coal project by US$21.0 million. These charges are non-cash items and conclude all potential impairments for the group at this point in time.

Factoring the one-off impairments, net financing charges and tax, the group reported a loss of US$53.2 million for the year, compared to the marginal US$1 million profit realised last year.

Whilst the Kuranakh Mine did generate a segmental EBITDA of US$16.3 million, it was not enough to offset the full corporate costs. With the K&S Mine in development, the operation requires a corporate services complement and infrastructure similar in size and cost to when the mine will be fully up and running. Consequently, even though Kuranakh has the potential to report a better performance for 2013 due to currently higher commodity prices, full production rates and initiatives to lower costs, there it is still the likelihood that it will not generate enough income to cover the Group total corporate costs in 2013. Consequently, the Group may not be able to generate a meaningful profit until production commences at K&S in 2014.

CAPITAL STRUCTURE

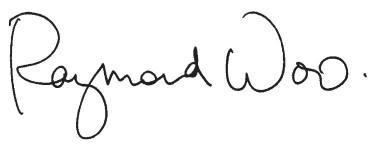
At the end of the year, we reported cash balances of US$24.0 million. In addition, we have a US$340 million project financing facility with ICBC for the development of the K&S Processing Plant, which at the end of 2012 was US$119.4 million drawn. Consequently, the gearing ratio remained relatively low at 12.2%.

The simplest option to cover any additional spending at K&S was always to enter into an offtake arrangement. However, with the announcement of the proposed General Nice and Minmetals Cheerglory transaction on 17 January 2013, we went much further. Under the terms of the proposed transaction, General Nice and Minmetals Cheerglory will subscribe US$238 million worth of new shares in IRC in addition to offtake arrangements for our iron ore, including products from K&S and Garinskoye. This cash will significantly bolster the balance sheet and provide short and long-term security for all shareholders. The transaction goes further however, as it aligns IRC's position as a leading iron ore developer in the Russian Far East with the largest private and state owned Chinese steel raw materials traders in China. As such, the transaction is a blueprint for Sino-Russian trade engagement.

SHAREHOLDING STRUCTURE

In July 2012, we completed two acquisitions to widen our exploration potential in complementary molybdenum and ilmenite resources. These two transactions were paid for with shares and resulted in the enlarged number of ordinary shares in IRC at 3,494 million. Following the two stage General Nice and Minmetals Cheerglory transaction, this will result in the issue of a further 1,962 million new shares, equal to 35.96% of the enlarged equity of IRC. The relative shareholdings of Petropavlovsk will reduce to 40.43%, though they will remain the largest shareholder. General Nice and Minmetals Cheerglory will hold 31.43% and 4.53% respectively. This provides IRC with a balance of the leading Far East Russian mining company and Chinese metals traders as significant shareholders.

Overall, we are once again pleased with our performance in 2012. We enter the Year of the Snake from a strong financial position with a business that enjoys a solid shareholder base, cash, access to funding and poised for significant earnings growth when the K&S operation delivers first production next year.



Raymond Woo
Chief Financial Officer, IRC Limited

KEY PERFORMANCE INDICATORS

Key Performance	Context	2012 Development	2012 Performance

Safety

Context: Our vision is a culture of zero harm. We are committed to the safety of our employees and contractors by adhering to the strictest safety policies and standards.

2012 Development: Initiatives continued during the year including ongoing extensive health, safety and basic first-aid training for all operational staff plus all contractors and K&S.

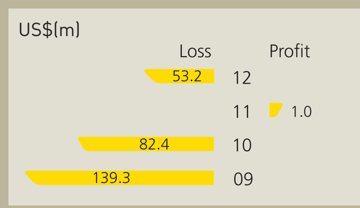
2012 Performance: Safety

Profitability

Context: Profitability at IRC should be seen in the full context: the development of new mining operations will increase future growth, therefore profitability is not wholly appropriate to our KPIs this year.

2012 Development: Kuranakh reported a segmental EBITDA of US$16.3 million the full year, as production continued to ramp up and prices for iron ore were volatile and at recent historic lows. The Group as a whole reported a loss, in line with guidance and analyst forecasts.

2012 Performance: Profitability



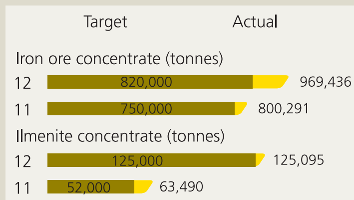
Production

Context: We are targeting production growth by developing and expanding our portfolio of mines in a conservative manner whilst extracting value throughout the production chain.

2012 Development: A strong year at Kuranakh resulted in production exceeding targets for the second consecutive year.

The mine life at Kuranakh was also extended following positive exploration work.

2012 Performance: Production



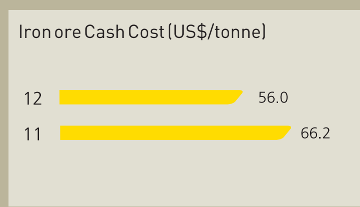
Efficiency

Context: Productivity measures are a fairer indication of efficiency than pure production growth. We rate our growth against cost, consumable inputs and waste, such as energy, water and emissions.

2012 Development: Cash costs fell 15%. As Kuranakh only achieved full production capacity of ilmenite during the year, costs do not reflect their optimum potential yet.

Initiatives have also been initiated to further reduce mining, processing, transport and administrative costs.

2012 Performance: Efficiency

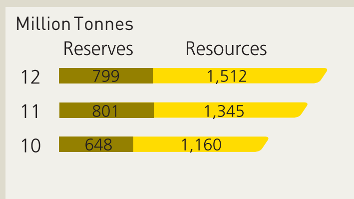


Exploration & Development

Context: Our exploration programmes aim to add value through the discovery of new resources and increasing and confirming mineable reserves.

2012 Development: Following the doubling of resources at Sutara in 2011, work focussed on converting resources into reserves. At Garinskoye, a DSO-style opportunity was proposed and new exploration commenced for ilmenite and molybdenum resources.

2012 Performance: Exploration



HSE & Community

Context: HSE is measured by adhering to legislation and best practice in the communities and environment where we operate, also extending to our customers and stakeholders.

2012 Development: HSE efforts increased, and continue to support the business and its wider objectives. Our efforts were rewarded during 2012 with ISO 14001:2004 certification, the first such accreditation for an iron ore producer in the Far East of Russia.

2012 Performance: Full statistical details on all HSE parameters are available in the HSE & Community section.

KEY PERFORMANCE INDICATORS

	2011 Comparison	Future Opportunities
Regrettably, 1 fatality occurred during 2012 involving an independent contractor at Kuranakh. The Group LTIFR per 1,000,000 hours reduced to 1.8. At K&S no lost time injuries were reported. At Kuranakh this year, only 6 lost time injuries were reported, resulting in a reduction in the LTIFR for 2012 to 2.55, compared to 3.6 in 2011.	Group Total Recordable Injury Frequency Rate per 1,000,000 hours worked was 3.61 for 2011. At K&S no lost time injuries were recorded, whereas at Kuranakh the rate was 5.54.	IRC will continue to set high safety standards and a target of zero harm across its operations. As operations ramp up at K&S, education programmes for employees and contractors will intensify.
The Kuranakh Mine reported a segmental EBITDA of US$16.3 million. The Group reported a net loss of US$53.2 million in 2012.	The Group reported a small maiden profit of US$1.0 million in 2011.	With improvements in production and efficiencies underway, profitability for 2013 is expected to improve relative to production volumes and commodity prices. Cash flows will be boosted significantly in 2014 with the introduction of the K&S Mine.
In 2012, Kuranakh increased production by 21% to 969,436 tonnes of iron ore concentrate compared to a target of 820,000 tonnes and for ilmenite by 97% to 125,095 tonnes of ilmenite concentrate compared to a target of 125,000 tonnes.	In 2011, Kuranakh produced 800,291 tonnes of iron ore concentrate compared to a target of 750,000 tonnes and 63,490 tonnes of ilmenite concentrate compared to a target of 52,000 tonnes.	In 2013 Kuranakh's target is 900,000 tonnes of iron ore and 160,000 tonnes of ilmenite concentrate. First trial production (not commercial) is anticipated from K&S at the end of 2013 or the beginning of 2014.
The average cash cost per tonne of iron ore was US$56.0 per tonne compared to US$66.2 per tonne in 2011. Rail transport costs for iron ore concentrate, from Kuranakh to Suifenhe averaged US$46.4 per tonne in 2012 compared to US$43.7 per tonne in 2011.	As production continued to ramp-up, operating costs at Kuranakh do not reflective its full potential. For 2011, the average cash cost per tonne of iron ore was US$66.2 per tonne.	With full ilmenite production capacity achieved at the end of 2012, costs in 2013 are expected to optimise as efficiency measures implemented begin to show results, notwithstanding market-related costs such as fuel, steel and rail and Ruble Dollar exposure.
Group resources increased 12% over 2012 to 1,512 million tonnes from 1,345 million tonnes. Group reserves total 799 million tonnes a marginal decrease from 801 million tonnes.	Group resources increased 16% over 2011 from 1,160 million tonnes to 1,345 million tonnes. Group reserves increased 24% to 801 million tonnes from 648 million tonnes.	Reserves at Garinskoye and Sutara (K&S Phase II) will be developed to a final bankable feasibility study. Exploration will continue across other properties, notably brownfield iron ore sites, and greenfield ilmenite and molybdenum sites.
Consumption of energy and water, and number of employees all fell relative to production. Production of pollutants also reduced at Kuranakh relative to production, though increased at K&S in line with construction activities.	Efforts focused on work for ISO 14001:2004 certification. Pollution levels were in line with increased activity levels notably at K&S.	The Group will strive to reduce energy consumption thereby reducing emissions, water usage and waste. Furthermore ISO certification will be extended to include exploration and infrastructure assets.

BOARD OF DIRECTORS

The Board of Directors is composed of seven directors whose expertise covers a broad range of industries, geographies and skills. The Board formally meets four times a year. Numerous additional sub-committee meetings and information events are also periodically held, including site visits to IRC's mining and processing operations.

The strategic leadership of IRC is the responsibility of a unitary board, comprising the Executive Chairman, two Executive Directors, one Non-Executive Director and three independent Non-Executive Directors.

Jay Hambro **Yury Makarov** **Raymond Woo** **Daniel Rochfort Bradshaw** **Jonathan Martin Smith** **Chuang-fei Li** **Simon Murray**

EXECUTIVE DIRECTORS

Jay Hambro

Executive Chairman

Mr Jay Hambro, 38, is the Executive Chairman of IRC. He began his career as a metals and mining project financier at NM Rothschild and then as an investment banker at HSBC. In 2002 he joined what is now the Petropavlovsk Group and was subsequently appointed CEO of Aricom plc. Following the acquisition of Aricom by Petropavlovsk in 2009, he became the CIO there, a role he relinquished in 2010 to become Executive Chairman of IRC.

Mr Hambro is a Fellow of the Institute of Materials, Minerals and Mining and an Independent Non-Executive Director of Winsway Coking Coal Holdings Limited. He holds a Bachelor of Arts in Business Management.

Yury Makarov

Chief Executive Officer

Mr Yury Makarov, 38, is the Chief Executive Officer of IRC. He is also the Chairman of the Operations Committee. He began his career at NT Computers as an engineer. In 2002 he joined Aricom as COO and moved to Petropavlovsk as the Group Head of Operations of the industrial commodities business before taking up his new role at IRC in 2010.

Mr Makarov had served as a Commercial Director of NT Computers in Moscow with responsibility for sales, service and support. Mr Makarov is a qualified systems engineer with a degree in avionics design and production from the Moscow State Aircraft Technology Institute.

Raymond Woo

Chief Financial Officer & Company Secretary

Mr Woo, 43, is the Chief Financial Officer and the Company Secretary of IRC. Mr Woo is responsible for the financial management of IRC in Russia, China and Hong Kong.

Mr Woo began his career as an accountant at Arthur Andersen where he qualified. Subsequently, he was employed as an investment banker at ING, CITIC Securities and Credit Suisse. Mr Woo holds a Bachelor of Commerce and is a member of both the Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He is an Independent Non-Executive Director of Yuanda China Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Daniel Rochfort Bradshaw

Mr Daniel Bradshaw, 66, is the Senior Non-Executive Director, and Chairman of the Health, Safety and Environment Committee. As a Hong Kong lawyer with a specialist shipping practice, he brings considerable legal and logistics experience, having worked for most of his career at Mayer Brown JSM as a solicitor, and currently as a consultant.

Mr Bradshaw holds an LLB and LLM in Law and is a registered solicitor. He is an independent non-executive director of Euronav N.V., and an Independent Non-Executive Director of Pacific Basin Shipping Limited, a Director of the Kadoorie Farm and Botanic Garden and a member of the Executive Council of the Hong Kong World Wide Fund for Nature.

Jonathan Eric Martin Smith

Mr Jonathan Martin Smith, 54, is an Independent Non-Executive Director and Chairman of the Remuneration Committee.

Mr Martin Smith founded Smith's Corporate Advisory, which was sold to Westhouse Holdings Ltd, a UK stockbroker, in 2010, where he is now Head of Mining. He brings industry and capital markets experience to the Board. Prior to establishing his own firm, Mr Martin Smith worked at UBS, Credit Suisse and Williams de Broë.

Mr Martin Smith is designated by the UK FSA as an "approved person". He is a graduate from the Royal Military Academy Sandhurst where he served as an officer until 1982.

Chuang-fei Li

Mr Chuang-fei Li, 65, is a Non-Executive Director and Chairman of the Audit Committee.

Mr Li worked for Bank of China in London as the Deputy General Manager and the Chief Lending Officer. He was in charge of investment and corporate banking, treasury and capital markets, financial institutions coverage, structure finance, aircraft and shipping finance, syndications, retail banking and auditing. He was instrumental in the establishment of Bank of China International, the first Chinese owned investment banking operation.

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

NON-EXECUTIVE DIRECTOR

Simon Murray

CBE, Chevalier de la Légion d'honneur

Mr Murray, 72, is a Non-Executive Director of IRC. Mr Murray brings considerable Hong Kong and Asia based experience to the Board, from a career spanning Jardine Matheson, his own company Davenham Investments, Hutchison Whampoa as the Group Managing Director, Executive Chairman of Deutsche Bank Group for the Asia Pacific and his current position as Chairman of GEMS Limited.

He is also Chairman of Glencore International, a Director of Cheung Kong (Holdings) Ltd., Orient Overseas Int'l Ltd., Wing Tai Properties, Greenheart Group Ltd., which are all listed companies in Hong Kong.

EMERITUS DIRECTOR

Senator Dr Pavel Maslovskiy

Senator Dr Pavel Maslovskiy, 56, is the Co-Founder of Petropavlovsk plc. In this capacity, Senator Dr Maslovskiy has extensive experience in the operational management of mining and processing operations in precious and non-precious metals.

Prior to embarking on his business career, Senator Dr Maslovskiy graduated from and became a professor at, the Moscow Aircraft Technology Institute, specialising in engineering applications of the theory of plasticity and teaching metallurgy and plasticity. Senator Dr Maslovskiy was appointed as Senator and Member of the Federation Council of Russia (the Upper House of the Russian Parliament) in December 2011.

EXECUTIVE COMMITTEE

Day-to-day management of the group's affairs is vested with the executive committee, which is composed of five members from IRC senior management in Hong Kong and Russia. The committee's work is supported by department heads. The committee meets on a regular basis by video conference to discuss the operational and financial activities of the group. The committee reports to the Board of Directors on a monthly basis.

Jay Hambro
Executive Chairman

Yury Makarov
Chief Executive Officer

Raymond Woo
Chief Financial Officer & Company Secretary

Nicholas Bias
Head of Communications

Danila Kotlyarov
Deputy Chief Executive Officer

KURANAKH

Ownership: IRC 100%

Location

56˚ 41'35"(N)
170˚ 26'30"(E)

Description

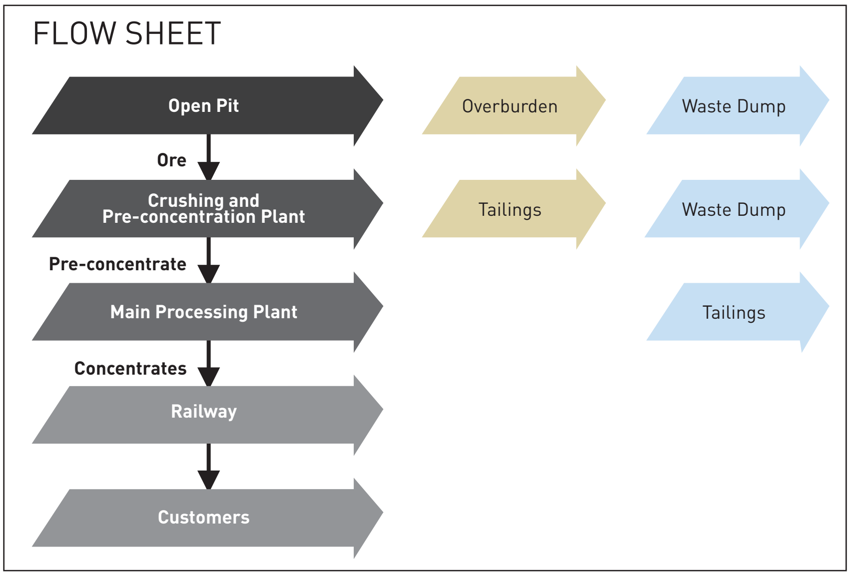
The Kuranakh Mine is located in the Amur Region of the Russian Far East. The operation is located near the town of Olekma, a principal stop on the BAM Railway.

Overview

Kuranakh is IRC's first producing mine, this year celebrating its second anniversary and for the second year in a row, beating production targets. Unit operating costs fell 15%, resulting in a segmental EBITDA of US$16.3 million.

The operation covers 85km^2 and comprises the Kuranakh and Saikta open pit mines; an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a 62.5% iron (Fe) content and ilmenite concentrate with a 48% titanium dioxide content (TiO2). Concentrates are directly loaded onto railcar wagons for transportation via the BAM and Trans Siberian Railways to customers in Russia, China and internationally via the Russian Pacific sea ports.

Concentrate	Quality	2010 tonnes	2011 tonnes	**2012 tonnes**	Target	2013 Target tonnes
Iron Ore	62.5% Fe	149,100	800,291	**969,436**	Exceeded ✓	900,000
Ilmenite	48% TiO2	2,500	63,490	**125,095**	Exceeded ✓	160,000



PRODUCTION

During 2012, production comfortably exceeded targets for the second consecutive year. RoM tonnes totalled 3.5 million tonnes, considerably above plan and an approximate 30% increase compared to 2011.

Production of iron ore concentrate, with a 62.5% Fe content was 969,436 tonnes, ahead of a target of 820,000 tonnes and a 21% increase compared to 2011.

Production of by-product ilmenite concentrate with a 48% grade increased 97% compared to 2011 to 125,095 tonnes, in line with the target of 125,000 tonnes.

SAFETY

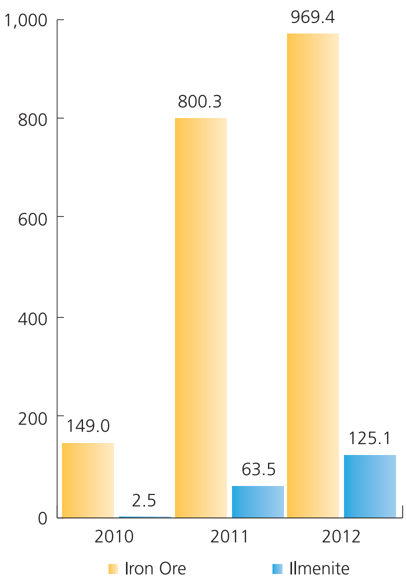
The Kuranakh Mine reported an improved LTIFR per 1,000,000 hours worked in 2012, decreasing to 2.55 from 5.54 in 2011. Tragically, mistakes were made and one independent contractor lost his life at Kuranakh during 2012. The individual was a truck driver working for one of IRC's transport service provider and the loss of life is deeply regretted. The enhancement of existing safety practices and the implementation of optimised safety strategies are ongoing as IRC strengthens its resolve and commitment to a culture of zero harm.

MINING

Mining activities continued to accelerate during 2012. During the year, the Kuranakh Pit was brought into production to complement the existing Saikta Pit. This provides additional flexibility and a small improvement in stripping ratios. During the year, a total 4.2 million m^3 of overburden was removed, an increase of 31% compared to 2011. In total, 3.5 million tonnes of ore were removed, an increase of approximately 30% compared to 2011.

KURANAKH PRODUCTION

Tonnes (000)



CRUSHING AND SCREENING PLANT

The on-site Crushing and Screening Plant handled the additional tonnages from mining operations well. During the year, the plant processed a 15% increase to 3.2 million tonnes of ore. Production increased to 1.8 million tonnes at a enhanced grade of 48.7%.

OLEKMA PROCESSING PLANT

The Olekma Processing Plant also ramped up capacity in-line with mining activities. During the year, the plant processed 1.7 million tonnes at a grade of 46.4% Fe. Production totalled 969,434 tonnes of iron ore concentrate at a grade of 62.5% Fe ahead of target and 125,095 tonnes of ilmenite at a grade of 48% TiO2 just ahead of targets.

At the end of the year, stockpiles totalled 514,737 tonnes, enough to temporality reduce winter mining operations.

FINANCIAL PERFORMANCE

During 2012 Kuranakh generated revenues of US$128.0 million, compared to US$110.4 million in 2011. Higher production offset lower average prices for iron ore yet the mine still reported a segmental EBITDA of US$16.3 million. Cash costs for the year averaged US$56.0 per tonne as compared to US$66.2 in 2011, including an increase in ilmenite sales as a credit due to higher prices and volumes. With a focus in 2012 on realising full production capacity, the emphasis during 2013 will shift to optimising costs across the operation. Transportation costs for Kuranakh iron ore concentrates to Suifenhe on the Chinese-Russian border remained high, averaging US$46.4 per tonne during 2012. It is difficult to effect transportation costs, however several initiatives are underway that could potentially generate some savings.

The table below summarises the key cash cost components of iron ore concentrate on a per ton basis:

2012	US$/t
Mining	31.1
Processing	18.7
Transportation to plant	8.0
Production overheads	10.8
Site administration and others	12.6
Contribution from sales of ilmenite concentrate* and others	(25.2)
Total	56.0

* *net of tariff and other railway charges for ilmenite*

SUSTAINABLE BENEFITS

Kuranakh is Russia's first vertically-integrated titanotmagnetite processing and production plant. Although enjoying good access to infrastructure, the operation is located in a remote part of the Russian Far East and consequently has bought a much welcomed boost to the local economy. During 2012, an average of 1,250 people were employed at the operation.

2013 TARGETS

During 2011, Kuranakh achieved full production capacity for iron ore, followed in 2012 with full production capacity for ilmenite. The target for iron ore concentrate for 2013 is increased to 900,000 tonnes at a 62.5% Fe grade content from 820,000 in 2012. The target for ilmenite is increased to 160,000 tonnes, a substantial increase compared to 125,000 during 2012.

It is anticipated that production increases should help improve unit cost.

K&S

Ownership: IRC
100%

Location

48˚ 59'04"(N)

131˚ 25'10"(E)

The K&S Mine is located in the Jewish Autonomous Region (EAO) of the Russian Far East. The operation is 4 kilometres west of the town of Izvestkovaya, approximately 130 km west by federal highway from the regional capital Birobidzhan, and 300 km west of Khabarovsk, the principal city of the Russian Far East.

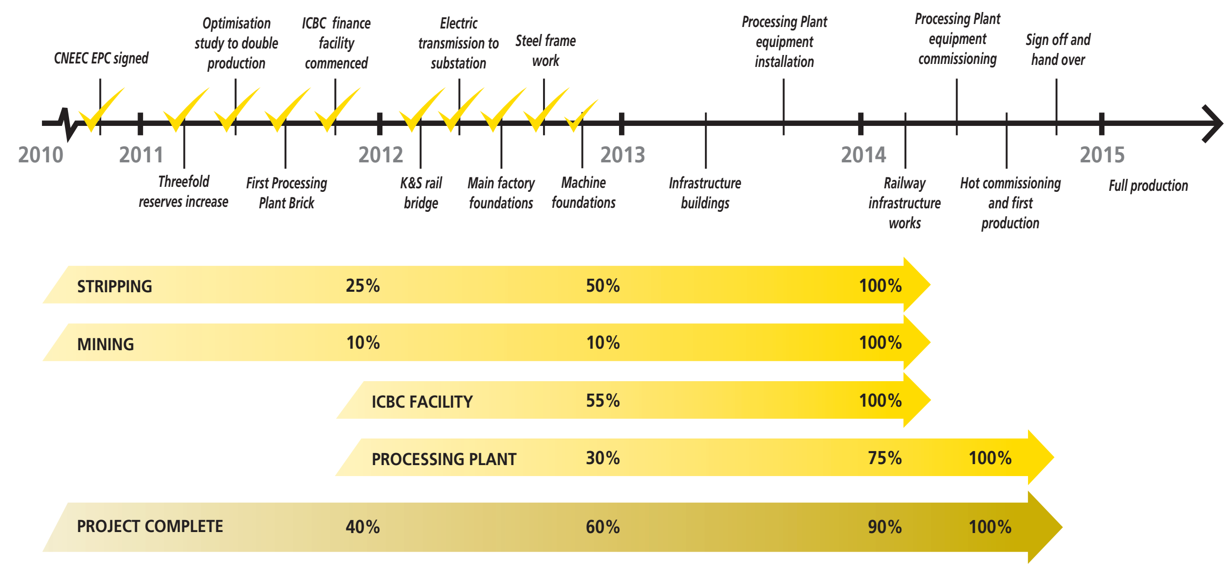
Overview

The K&S Mine is under advanced construction and will be IRC's second mining operation. An approximate 3.2 million tonnes a year project at Phase I, K&S is much larger in scale than the producing Kuranakh Mine.

Phase 1 of K&S is advancing towards completion, with the first production scheduled during the first half of 2014. The operation is targeting an annual production capacity of 3.2 million tonnes of high-grade iron ore.

A Phase 2 expansion, to 6.3 million tonnes of high-grade iron ore production is under consideration, with a decision, finance depending, targeted in 2013.

K&S Milestones



Estimated simplified project construction schedule

SAFETY

The K&S Mine reported an excellent safety performance for 2012. The LTIFR rate per 1,000,000 hours worked was 0.00. This is an exceptional performance, notably because it is the third year in a row that K&S has achieved this accolade.

MINING

The operation covers nearly 50 km^2 and comprises the twin deposits of Kimkan (the "K") and Sutara (the "S"). The Kimkan deposit comprises two key ore zones — Central and West, of which the former is currently being mined by open-pit methods, with ore being stockpiled for processing. At Phase I full production, it is anticipated the deposits will be mined in a sequential manner, producing on average 10 million RoM tonnes per annum at an average grade of 35% Fe.

During 2012, good progress was made with mine development. In line with expectations, over 7 million m^3 of overburden has been removed. This is more than half the required 12.2 million m^3 required. In line with plan, minimal ore was mined as the work programme is to fully expose the ore bodies first by removal of overburden. Efforts in 2013 will be specifically aimed at the mining of the now exposed ore bodies and the 3 million tonnes required ahead of the operation start-up.

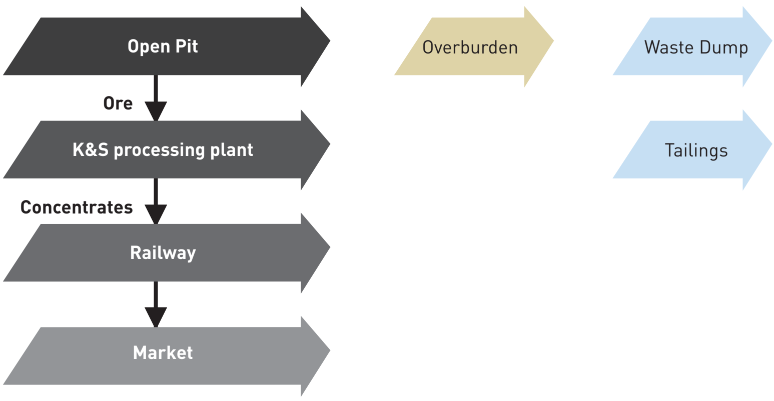
Mining rates will accelerate during 2013 ahead of the plant commissioning to manage costs. This will ensure that sufficient ore is available for plant processing during the commissioning phase.

PROCESSING

The Processing Plant is well situated between the two deposits. Construction began in 2010 and is on track for completion in mid-2014. Plant feed of 10 million RoM tonnes will be processed to produce 3.2 million tonnes of iron ore concentrate with a superior 65% Fe grade. The plant has been designed to have a maximum throughput capacity of 20 million RoM tonnes, 100% above the initial required capacity to allow for expansion and treatment of alternative ore feeds. There is also the possibility to further extend capacity to treat pre-concentrate from Garinskoye and Kostenga.

The Processing Plant is a turnkey project. It provides for delivery of a strict volume and quality of material over a 30-month period; due for completion in June 2014. It is funded through a project finance facility provided by ICBC and is being constructed by CNEEC with supervision from IRC. Work in 2013 will focus on the delivery, installation and cold commissioning of equipment, before hot commissioning in 2014.

FLOW SHEET



INFRASTRUCTURE AND LOGISTICS

K&S is superbly situated close to regional cities and the Far Eastern Russian capital, providing an ample workforce with the requisite skills and experience to build and operate a large-scale mining and processing operation. The Trans-Siberian Railway passes within one kilometer of the operation, direct access to which was completed during 2012 via a bridge which spurs directly into the Processing Plant. The railway provides a stable and efficient route to market for K&S concentrate, and conversely, a means to deliver equipment and consumables to the site. Furthermore, the recently upgraded principle east-west federal highway passes close to the mine site.

In addition to transport access, K&S also enjoys excellent power and water availability. During 2012, the on-site electrical transmission sub-station was completed ready for connection to the federal grid. On-site boreholes provide the required water needs for full production.

PRODUCTION TARGETS

During 2014, the mine will ramp up to full capacity of 10 million tonnes with a grade of 35% Fe. This will be processed to produce 3.2 million tonnes of iron ore concentrate with a grade of 65% Fe. The first production is scheduled for the first half of 2014.

PHASE II EXPANSION

An optimisation study has been completed for the expansion of K&S. It demonstrates the potential to nearly double production from 3.2 to 6.1 million tonnes per annum by accelerating production from the Sutara deposit. The estimated capital investment is approximately US$400 million, suggesting an industry-leading capital intensity and operating costs 10% lower than Phase I due to economies of scale. A decision on this expansion is anticipated during 2013.

Garinskoye

Ownership: IRC 99.7%

Location

52° 35'00"(N)

129° 65'30"(E)

The Garinskoye Project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans Siberian Railways.

Overview

Garinskoye is an advanced large-scale exploration project. Including the Garinskoye Flanks, it is the largest exploration project in the IRC portfolio in terms of Russian category resources. Adjacent to the project, IRC has exploration licences for ground covering over 3,500km^2.

The project is located between the Trans Siberian and BAM Railways. It has been announced that the Russian Government will provide a rail connection which will run alongside the deposit, connecting it to either the BAM or Trans Siberian Railways, or both, before 2019.

There are two possibilities open to develop Garinskoye: a direct shipment ore operation producing an annual 2.1 million tonnes, or a larger, rail dependent open pit operation, producing 4.6 million tonnes.

SUMMARY OF PRINCIPAL MINERAL RESOURCES AT GARINSKOYE*

Project	Resource Category	Mineral Resources (Mt)	Fe (%) total
Garinskoye	Indicated	219.9	32.0%
	Inferred	155.9	29.3%
	Total	375.8	30.9%

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

The original conceptual design for Garinskoye was a large-scale open-pit operation with on-site crushing, screening and material upgrading. A pre-concentrate product would then be transported along a railway, connecting to the Trans Siberian Railway to K&S where the beneficiation plant would be expanded to handle Garinskoye material for final beneficiation. A second option, which is currently favoured is to commence development sooner with a direct shipment ore-style (DSO) operation that would transport material by road rather than rail to the Trans Siberian Railway for immediate sale, thereby generating value sooner. It is likely that the DSO option will commence first to be followed later by the larger open-pit operation when the railway connection is available.

EARLY EXPLORATION

The original exploration carried out on Garinskoye in the 1950s identified 54 ore bodies with thicknesses ranging between 1.6–49m and strike lengths ranging between 60–1,500m. Mineralisation was determined to reach to a depth of 500m and it was identified that all of the ore bodies dipped steeply at 70–80° with a north-easterly strike. Although three types of ore were identified (magnetite, magnetite-haematite, and magnetic pyrrhotite), only the magnetite was considered to have industrial significance.

EXPLORATION DURING 2012

Exploration activities at Garinskoye progressed well during the year. Work focussed on delineating ore bodies suitable for DSO operations.

At the end of 2012, all of the planned confirmation drilling had been completed at the Garinskoye Deposit and Garinskoye Flanks. Furthermore, prospecting and evaluation surveys and confirmation of existing magnetic anomalies have been updated and completed at the Garinskoye Flanks Deposit.

DSO STYLE OPERATION

Investigation of the geological data undertaken during the summer exploration seasons determined that selective mining of high-grade ore zones totaling 32 million tonnes with a grade of 53% is suitable for process upgrading as iron ore fines with a grade of approximately 60% for direct sale.

The study proposes for the combined production of 2.1 million tonnes per annum of high-grade ore and 8.5 million tonnes per annum of lower-grade ore for stockpiling and later processing. The average stripping ratio for both production streams is a low 1:1.3 m^3 per tonne. The life-of-mine for the DSO is estimated at 14 years.

The proposed processing methodology is relatively simple: ore feed at a grade of 53% passes through primary crushing, followed by a secondary crushing, screening and dry magnetic separation, Fe production of a 60% grade pre-concentrate that can be sold directly to customers in China.

In advance of the construction of the direct rail link, the option for the quickest start-up and lowest capital expenditure is to establish a trucking route of only 80 km to the wharf in Chagoyan and then ship by barges along the Zeya River to China. In winter the route would be to pontoon bridge over the Zeya River, then truck the product 130 km along an established route to Shimanovsk for loading onto rail wagons for transport to China or the Russian Pacific Sea Ports.

MINING AND PROCESSING

The original plan to mine the Garinskoye deposit using conventional open-pit truck and shovel mining methods is still under consideration, either as a subsequent plan to the DSO opportunity or instead of the DSO altogether.

The mined ore from the open pit would be trucked to a crushing and dry magnetic separation plant located close to the pit. As magnetite is the predominant source of iron at Garinskoye, it could be concentrated using the same magnetic separation process as at the K&S Mine. This should result in an initial production of standard iron ore fines averaging approximately 65% iron which could then be developed into a number of premium products including standard pellets, direct reduced iron or pig iron.

INFRASTRUCTURE

Although the site is served by some existing infrastructure, a number of major items will need to be built, including accommodation, administrative buildings and a heating plant. There is a federal power line passing approximately 50 km north of the deposit. At Garinskoye, coal could be used for heating purposes as there are sufficient coal producers in the region.

PROJECT REVIEW AND COMPLEMENTARY PROJECTS

Exploration Projects

Our exploration programmes aim to add value through the discovery of new resources and increasing and confirming mineable reserves.

K&S AND KOSTENGINSKOYE

Exploration work is complete at K&S given that all necessary activities were completed in 2012 and mining has commenced. The nearby Sovkhozny and Maisky ore zones will be further explored in the near-term and at the Kostenginskoye (Kostenga) Deposit, the review of data is ongoing. Kostenga represents a potential ore feed extension for K&S.

GARINSKOYE AND FLANKS

At Garinskoye, IRC's largest exploration area, work focussed on the DSO scoping study and reserve confirmation, whilst at the adjacent Garinskoye Flanks area geologists continue to focus on increasing overall reserves.

BOLSHOI SEYM & MOLYBDENUM

Following the acquisition of the remaining shares in Bolshoi Seym ilmenite deposit in July 2012, IRC increased its shareholding from 49% to 100%. Consequently exploration work will be accelerated on the Deposit. In July 2012, the Company completed the acquisition of a controlling stake in a portfolio of a Molybdenum exploration projects in the Amir Region of the Russian Far East. The acquisition is a low cost entry into a new project with significant exploration upside that provides complementary diversification in steel raw material commodities.

Infrastructure Projects

IRC continues to support Russian and PRC initiatives to construct a railway bridge over the Amur River border between Russia and China at Tongjiang, close to its K&S operation. The Group also continues to consider its participation in the development of a sea port in Sovetskaya Gavan on the Russian Pacific coast. These are key infrastructure projects that could further benefit IRCs logistics advantages delivery to China, and the wider economic development of the Russian Far East in general.

BRIDGE

The project to build a railway bridge across the Amur/Heilongjiang River between Nizhneleninskoye and Tongjiang advanced during 2012, largely due to the lobbying efforts of IRC.

IRC continues to assist Russian Railways to develop funding and toll mechanisms. Work is also ongoing with the Russian and Chinese authorities to facilitate the ongoing development of the bridge.

The design for the bridge, spanning 2,209 meters, of which 309 meters will be on Russian territory and 1,900 meters PRC territory, has been completed. The bridge could potentially provide a significant saving in transport costs between Russia and the PRC for the Group and significant benefits to the wider Russian and Chinese communities. Work continues on approvals and funding proposals.

PORT

The Group continued its participation and lobbying for the development of a port in the Special Economic Zone of Sovetskaya Gavan. A number of options continue to be assessed, notably a bulk-only or bulk and container terminal. Additional capacity at Sovetskaya Gavan would address constraints at the established Vladivostok and Nakhodka ports, and provide some flexibility as a more northerly access route to the Sea of Japan and Pacific.

Giproruda

LOCATION

St Petersburg, Russia, with regional and international offices.

OVERVIEW

Giproruda is a technical mining research and consultancy institute with operations in Russia and Asia. It is 70.3% owned by IRC. Giproruda's work includes the design, coordination, construction and commissioning of quarries and mines for mining clients, particularly those located in challenging geological and climatic conditions, especially in Russia. Giproruda has been associated with the Kuranakh Mine and K&S Mines.

Business remained flat in 2012 with revenue dropped slightly by 5% as compared to 2011 primarily due to decrease in billing to one of our major customers.

SRP

LOCATION

Shuangyashan, Heilongjiang, North-Eastern China

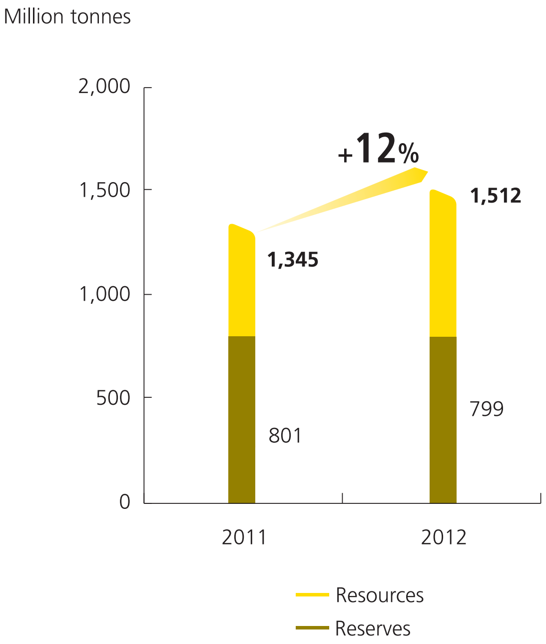
OVERVIEW

The Steel Slag Reprocessing Plant (SRP) is a Sino-Russian partnership, being a joint venture between IRC (46% ownership) and its largest iron ore customer in Heilongjiang in North-Eastern China. The plant is located adjacent to the customer's operations and processes steel slag, a by-product from our customer's operations. The SRP is reliant on concentrate from Kuranakh and thus is a long-term offtaker. The annual production capacity is targeted at 5,000 tonnes of vanadium pentoxide. The Plant's first production was achieved in November 2011 and the operation continued to ramp up during 2012.

Recovery and production improvements continued throughout 2012, as the Plant ramped up to near full capacity. As stable production output is realised an improvement in production efficiencies and production costs per tonne of the final product is targeted.

During the year, the joint venture sold more than 1,900 tonnes of its product to a number of customers in the PRC. Vanadium pentoxide is widely used in steel industry for production of alloys as well as in production of lithium batteries.

MINERAL RESOURCE AND RESERVE STATEMENT



EXPLORATION SUMMARY

IRC geologists aim to explore prospective areas, confirm historical exploration results and increase existing mineable reserves, thereby mitigating risks during mining operations and reducing mining and processing costs. The data obtained during exploration helps develop and optimise business concepts and mine models.

EXPLORATION HIGHLIGHTS

The total Group resources, at the end of December 2012 were 1,512 million tonnes (a 12% increment compared to 2011), comprising 1,049 million tonnes in the Measured and Indicated category and 463 million tonnes in the Inferred category.

The Group proven and probable reserves at the end of December 2012 were 799 million tonnes.

GROUP RESOURCE AND RESERVE SUMMARY

All figures are prepared in accordance with the Guidelines of JORC (2004) and/or N143-101 as at December 2012.

			Resources				
Project	**Deposit**	**Category**	**Tonnage Mt**	**Grade %, Fe (total)**	**Fe Mt**	**Grade %, TiO2**	**TiO2 Mt**
Kuranakh	Kuranakh	Indicated	13	30.2%	3.9	9.3%	1.2
		Inferred	5	31.3%	1.7	9.9%	0.5
	Saikta	Indicated	21	31.7%	6.6	9.7%	2.0
	Total	Indicated	34	31.2%	10.5	9.5%	3.2
		Inferred	5	31.7%	1.7	9.7%	0.5
K&S	Kimkan-Center	Indicated	98	33.2%	32.4		
		Inferred	27	32.7%	8.7		
	Kimkan-West	Indicated	53	33.3%	17.8		
		Inferred	54	33.5%	18.0		
	Sutara	Measured	196	32.5%	63.5		
		Indicated	231	32.2%	74.4		
		Inferred	66	31.0%	20.4		
	Maisky	Indicated	15	32.0%	4.8		
		Inferred	21	31.9%	6.6		
	Sovkhozniy	Inferred	4	30.2%	1.3		
	Total	Measured and Indicated	593	32.5%	192.9		
		Inferred	171	32.2%	55.1		
Garinskoye	Garinskoye	Indicated	220	32.0%	70.4		
		Inferred	156	29.3%	45.7		
	Total	Indicated and Inferred	376	30.9%	116.1		
Bolshoi Seym	Bolshoi Seym	Indicated	202	17.4%	35.2	7.6%	15.3
		Inferred	131	16.5%	21.6	7.5%	9.8
	Total	Indicated and Inferred	333	17.1%	56.9	7.5%	25.1
	Total Resources	Total Measured and Indicated	1,049				
		Total Inferred	463				
		Total Measured, Indicated and Inferred	**1,512**				

MINERAL RESOURCE AND RESERVE STATEMENT (Continued)

THE GROUP PROVEN AND PROBABLE RESERVES SUMMARY

Project	Deposit		Tonnage (Mt)	Grade %, Fe (total)	Fe (total), (Mt)
Kuranakh	Kuranakh		13.0	30.0%	3.9
	Saikta		19.8	31.6%	6.3
K&S	Kimkan Center		95.1	33.1%	31.5
	Kimkan West		50.1	33.4%	16.7
	Sutara		409.7	32.4%	132.7
Garinskoye	Garinskoye		212	36.0%	76.3
		Total	799.7	33.4%	267.4

KURANAKH

Kuranakh is a medium size titanomagnetite and ilmenite deposit, located in Tynda district of the Amur region in the Russian Far East. Between 2004 and 2006 geological exploration and confirmation works were conducted at the deposit. Currently two ore zones have been allocated for mining: Zone 1, called Saikta and Zone 3 called Kuranakh.

During 2012, open pit mining continued at the Saikta Deposit and started at the Kuranakh Deposit. A total 1,861,364 tonnes of ore was removed from the Saikta Pit and 1,688,367 tonnes from the Kuranakh Pit. As of 31 December 2012, the updated mineral resources were 20.8 million tonnes for Saikta (Indicated) and 18.5 million tonnes of ore (Indicated and Inferred) for Kuranakh.

Resources of Kuranakh Deposit (Ore Zones 1 and 3)

Saikta Mineral Resources* (WAI January 2012)			
Resource Classification	Ore Resources (Mt)	Fe_{Total} (%)	TiO2 (%)
Indicated	20.8	31.7%	9.7%

Kuranakh Mineral Resources* (WAI January 2012)			
Resource Classification	Ore Resources (Mt)	Fe_{Total} (%)	TiO2 (%)
Indicated	13.0	30.2%	9.3%
Inferred	5.5	31.3%	9.9%

* In accordance with the Guidelines of the JORC Code (2004) — 17% Fe cut-off grade

MINERAL RESOURCE AND RESERVE STATEMENT (Continued)

Kuranakh and Saikta Ore Reserves

Kuranakh Ore Reserves* (WAI 01 February 2011)	Tonnage (Mt)	Fe (%)	Fe (Mt)
Proven	—	—	—
Probable	13.0	29.9%	3.9
Total	13.0	29.9%	3.9

Saikta Ore Reserves* (WAI 01 January 2011)	Tonnage (Mt)	Fe (%)	Fe (Mt)
Proven	—	—	—
Probable	19.8	31.6%	6.3
Total	19.8	31.6%	6.3

K&S

Kimkan and Sutara (K&S) is a large magnetite project located in the Obluchenskoye District of the EAO in the Russian Far East. The project consists of two principal deposits — Kimkan with 25% of reserves and Sutara with 75% of reserves. The Kimkan Deposit consists of four areas: Kimkan Center, Kimkan West, Sovkhozny and Maisky. The total resource of the K&S Project, is 764 million tonnes with an average Fe grade of 32.4%.

To date all of the necessary exploration activities as well as confirmation drilling have been completed. The deposit is fully prepared for mining operations.

The current mining plan is that Kimkan Center and Kimkan West will be mined first. The Sutara Deposit will be mined simultaneously with Kimkan starting in the third year of operations at Kimkan. The total proven and probable reserve as of 31 December 2012 is 555 million tonnes with an average Fe grade of 32.6%, ensuring the life of mine in excess of 30 years at a rate of 10 million tonnes per annum.

K&S Mineral Resources

	Resources	Ore (Mt)	Fe grade (%)	Fe (Mt)
Kimkan	Measured & Indicated	166.2	33.1%	55.0
	Inferred	105.7	32.8%	34.7
Sutara	Measured & Indicated	426.6	32.3%	137.9
	Inferred	65.5	31.0%	20.4
Total	Measured & Indicated	592.8	32.5%	192.9
	Inferred	171.2	32.2%	55.1

* Kimkan Fe cut-off grade — 17%, Sutara Fe cut-off grade — 18%.

K&S Proven and Probable Reserves

Ore Zone	Proven and Probable Reserves Ore (Mt)	Fe grade (%)	Fe (Mt)
Kimkan Center	95.1	33.1%	32
Kimkan West	50.1	33.4%	17
Sutara	409.7	32.4%	133
Total	554.9	32.6%	181

GARINSKOYE

Exploration at Garinskoye focused on the confirmation of existing resources and the identification of high grade Fe zones in a scoping study for a direct shipment ore (DSO) style operation.

The Garinskoye Deposit is one of the few large iron ore deposits in the Russian Far East which has been explored and studied extensively during the Soviet era. The Garinskoye Deposit is situated in the Mazanovsky Administrative District, in the Amur Region and lies approximately 300km from the regional capital of Blagoveschensk.

The deposit was first discovered in 1949 through an aeromagnetic anomaly. Between 1950 and 1958, detailed exploration was carried out including pits, trenches, shafts and underground development, together with drill holes.

The current geological exploration works have been conducted at Garinskoye since 2007. The final stage of the field works was completed in August 2011.

Investigation of the geological data undertaken during the summer 2011 exploration season has determined that selective mining of high-grade ore zones totaling 32 million tonnes with a grade of 53% is suitable for process upgrading as iron ore fines with a grade of more than 60% for direct sale to customers in North-Eastern China where there are a number of customers wishing to acquire this product.

A mining operation has been proposed for 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. The average stripping ratio for both production streams is a low 1:1.3 m^3 per tonne. The life-of-mine for the DSO is estimated at 14 years, however, the life-of-mine for the more traditional non-DSO style operation is significantly longer.

As of 31 December 2012 (yet estimated in 2008) the resources of Garinskoye Deposit totaled 220 million tonnes of ore in measured and indicated category and 156 million tonnes in the inferred category. The average grade of Fe is 32%. Proven and Probable reserves of Garinskoye Deposit are 212 million tonnes with the average grade of Fe 36%.

MINERAL RESOURCE AND RESERVE STATEMENT (Continued)

The Orlovsko-Sokhatinskaya Area

The Orlovsko-Sokhatinskaya area, surrounding the Garinskoye Deposit is located in the Mazanovskiy District of the Amur Region. The Orlovsko-Sokhatinskaya license covers an area of 3,530 km^2. The area contains a number of iron ore deposits that are in the preliminary stages of exploration. The license covers both exploration and extraction.

In the Orlovskaya area, the Lebedikhinskoye Deposit consists of seven beds and lenses of magnetite which range from 1.5 to 20 metres thick and extend 50 metres to 360 metres along strike. The Imchikanskoye Deposit consists of magnetite ore bodies 2-8 metres thick which extend 230 to 500 metres along strike. The Kamenushinskoye Deposit is a mix of pyrite, magnetite and hematite ore in eleven ore bodies 2 to 12 metres thick with a strike length of 100–800 metres.

It should be noted that the external control of the exploration work is being performed by independent consultants Wardell Armstrong International (WAI) who visited the Garinskoye site in May 2011 and provided recommendations on the planned volumes of exploration works. WAI has also indicated the high level of work organisation and quality of exploration works that were conducted in accordance with best practice methods.

KOSTENGINSKOYE

The Kostenginskoye Deposit is located 18km south of the Sutara Deposit. It has a similar structure to the Sutara Deposit. Almost all deposits are concentrated in one orebody which is 5,700 metres long and intersection changes from 11 to 50 metres (with an average 36 metres) and an average iron content of 31.7%.

Exploration between 2008 and 2012 concentrated on the southern portion of the Deposit in the range of 12–80 exploration offset. At the end of 2011, nearly 50% of samples had been analysed and preliminary results of the exploration so far suggest that the core intersection has no significant changes. The average content of the samples is 28% to 30% iron with content of the magnetic iron at 17% to 19%.

BOLSHOI SEYM

Bolshoi Seym is located in Tynda district of the Amur region, 40km from the Kuranakh Deposit. At Bolshoi Seym, the license covers an area of 26km^2. Potentially economic mineralisation at Bolshoi Seym comprises massive ilmenite and magneite. Massive mineralisation comprises 90% to 99% (by volume) of ilmenomagneite, magneite and ilmenite. The Bolshoi Seym mineralisation was initially discovered during the apatite-ilmenite ore exploration programme conducted in 1979–1982 by Kalarskaya GRP, a subsidiary of the state company Dalgeologiya.

Systematic exploration of the Bolshoi Seym Deposit was conducted between 2007 and 2009 by Vostokgeologia. A total of 170 diamond drill holes have been drilled in all zones totaling 39,277 metres of which 158 were exploration holes, 3 were grade control holes, 5 were technological holes, and 4 were hydrogeological holes. In addition to the drilling, 17 trenches have been excavated over a linear distance of 7,893 metres.

A mineral resource estimate of the Bolshoi Seym Deposit was prepared by Micon in compliance with the CIM (Canadian Institute of Mining, Metallurgy and Petroleum) valuation standards. The estimate utilised geological and assay data from diamond drilling and trenching completed by Vostokgeologia in 2007–2009.

In 2012, IRC increased its ownership of the Bolshoi Seym Deposit from 49% to 100%.

Overview of Bolshoi Seym Exploration Area

MARKETS & COMMUNICATIONS

COMMODITY PRODUCTS

IRC currently produces both an iron ore and ilmentite concentrate from the Kuranakh Mine. The iron ore is produced and sold on DAP basis (the International Chamber of Commerce term meaning "Delivery at Place"), as a concentrate with a 62.5% Fe grade. The ore at Kuranakh is titano-magnetite and therefore the operation also produces an ilmenite concentrate with a grade of 48%. Ilmenite is a feedstock for TiO2. IRC sells ilmenite to a wide customer base on a FOB (meaning "free on board") basis.

In 2014 IRC will start selling iron concentrate with a 65% Fe grade from the large K&S Mine. The subscription and marketing agreements with General Nice and Minmetals Cheerglory included take-or-pay offtake arrangements for K&S production by land or seaborne markets (at the discretion of IRC). This concentrate is high-quality and management believes that it deserves a premium price due to the quality and the logistical advantages of supplying from the Far East of Russia for customers in the North East of China.

IRON ORE SUPPLY AND DEMAND

2012 was an extremely volatile year for iron ore. Market commentators attributed this to supply and demand. However, it was the destocking and restocking cycles in China and in particular the market's reaction to these cycles (price premium and discounts) that was the primary driver of price volatility, not any actual volatility in underlying supply and demand fundamentals.

Global iron ore production is estimated to have grown for the fourth consecutive year. New supply from Australia helped to offset a fall in production in India, a pattern that is expected to continue in the near-term. Chinese imports are forecast to have grown by 8% to 745 million tonnes in 2012, further increasing China's dominance in global seaborne iron ore trading. A shut down of iron ore production due to low prices in China in mid-2013 is difficult to reverse and challenges due to geological, political, finance and logistical constraints will limit growth potential going forward.

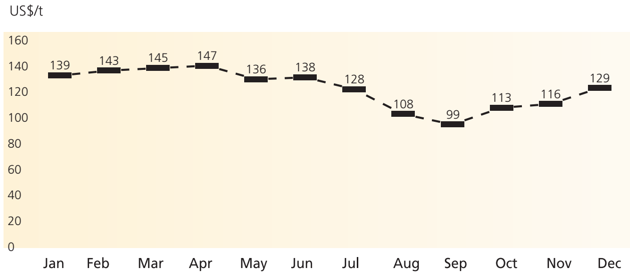
The final months of 2012 and the first quarter of 2013 saw tremendous restocking, not only the traditionally pre-Chinese New Year rally, but also in the weeks following as port and supply chain inventories fell and supply constraints continued, exacerbated by weather issues limiting seaborne trade.

IRON ORE PRICE

The iron ore price during 2012 was one of the most volatile in history.

Over the last three years, the convention of quarterly pricing for iron ore has been replaced by quarterly, monthly and increasingly, spot pricing. This has resulted in increased price volatility.

IRON ORE PRICE CHART 2012



IRC receives a monthly price for its Kuranakh iron ore; a full China CFR price, less a small discount due to some residual titanium content. IRC's products, however, remain attractive to customers because of the surety and consistency of supply. In 2014, the K&S Mine will come on stream, delivering high-grade and low-impurity concentrate. It is anticipated that this superior product could earn a premium due to its quality and the logistical advantages of supplying customers in the North East of China from the Far East of Russia.

ILMENITE

The Kuranakh operation also produces ilmenite concentrate with a 48% titanium dioxide (TiO2) content. Due to its brightness and high refractive index, titanium dioxide is the most commonly used white pigment. It is used in a range of applications, most notably paints and papers.

The Kuranakh product quality is held in high regard because of its consistency and low impurity levels. The product is sold on the domestic and international markets in two tonne bags, an innovative approach that provides a diverse customer base.

Demand during 2012 was strong. Following a technology upgrade in 2012, production capacity has been expanded and the outlook for 2013 is positive.

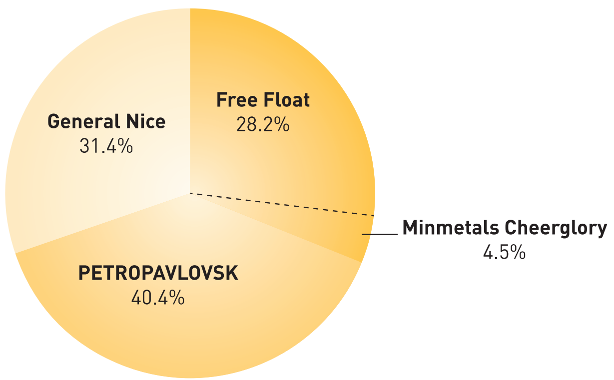
COMMUNICATIONS

IRC dedicates considerable effort to ensuring transparent communication without prejudice to all its audiences. Through an in-house communications team in Hong Kong and Moscow, the objectives are to provide as effective and complete a picture as commercially possible in a timely and cost effective a manner. In 2012, the team has been recognised for its success, winning several prestigious awards.

SHAREHOLDER BASE

During the year efforts were been made to diversify the shareholder base by shareholder type and geography. Petropavlovsk plc remains the key shareholder, with approximately 63% of all shares, a decrease from 66% last year due to the issue of new shares for the Bolshoi Seym Ilmenite and Molybdenum Exploration Portfolio transactions. Following completion of the General Nice and Minmetals Cheerglory subscription, this will reduce to 40.4%, with General Nice holding 31.4% and Minmetals Cheerglory 4.5%. The balance of shares is held by institutional funds, many of whom are long-term value investors and private investors.

IRC Shareholding Following General Nice Minmetals Cheerglory Subscription



SHARE PRICE PERFORMANCE

The price opened the year at HK$1.06 and closed the year at HK$1.17, with an average share price over the year of HK$0.95. This performance is fair given the ongoing turmoil and volatility suffered in global capital markets and for commodities, notably iron ore.

Efforts to improve liquidity were successful in the latter half of the year, with a noticeable improvement in trading volumes.

ACTIVITIES

Communications activities stepped up during the year. IRC held a record number of meetings with equity analysts, shareholders and potential investors and the Hong Kong media. The number of analysts covering IRC has increased from three to twelve. An active programme for 2013 is planned as IRC aims to reach a wider audience. This is backed up by the ongoing use of electronic communications, such as the the launch of a new website and the increasing use of social media platforms.

AWARDS

In 2012 IRC won several awards for its communications activities, including a prestigious third place ranking from Institutional Investor for investor relations in Asia. The 2011 Annual Report was awarded gold in the mining sector by Galaxy and an Honours in the Mercury Awards. Also a titanium award was earned for corporate governance and social responsibility in the Asset Asian Awards.

HK$	2012	2011
Shares on Issue (31 December)	3.5 billion	3.4 billion
Share Price High	1.55	2.52
Share Price Low	0.50	0.91
Share Price Average	0.95	1.57
Opening Share Price (1 January)	1.06	1.40
Closing Share Price (31 December)	1.17	1.06
Market Capitalisation (31 December)	4.1 billion	3.6 billion

CONTACT

IRC welcomes communication with shareholders by letter, email, telephone, or the internet.

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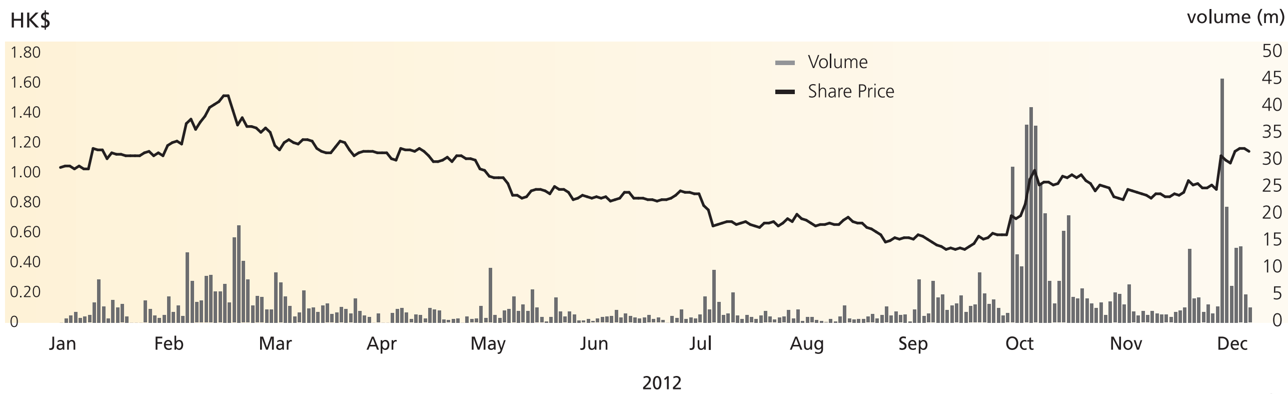


HEALTH SAFETY ENVIRONMENT COMMUNITY

INTRODUCTION

IRC takes its Health and Safety, Environmental and Community responsibilities seriously. They are a core consideration at every stage of our business, not just the day-to-day mining and processing operations but also through all our functions from exploration to logistics and administration. This includes the communities where we operate and through our involvement in charitable works, the wider communities of the Amur and EAO Regions of the Russian Far East.

In 2012 our efforts were recognised and awarded when we became the first and only iron ore company in the Far East, as well as the first mining company in the Jewish Autonomous and Amur regions certified for compliance with ISO 14001:2004.

HSEC policies and strategies originate with the Health, Safety and Environment Committee of the Board of Directors. Implementation is overseen by the Executive Committee and designated specialist HSEC teams in Moscow, Birobidzhan and at each operating site.

Finally, together with Petropavlovsk, we are the largest fiscal contributor to the local economy in the Amur Region. This is repeated in the neighbouring EAO with the construction of the K&S Mine, the largest single new investment in the region's history.

HEALTH & SAFETY REPORT

IRC operates a variety of industrial projects, including mines and processing plants in some harsh climatic conditions in the Russian Far East. Mining operations are open pit and heavily mechanised, a positive contrast compared to labour intensive underground mining.

The Company endeavours to operate to the highest of international best practice standards where possible and reasonable, in many cases proudly exceeding these levels.

- Conforming to Russian regulations for health and safety.
- Extensive health, safety and basic first aid training is provided on an ongoing basis for all operational staff.
- Internal audits of health and safety-related equipment are regularly conducted.
- External reviews are regularly undertaken to ensure that management and safety teams learn from any mistakes made and implement solutions to prevent the likelihood of similar incidents re-occurring.
- Health and safety briefings are held for visitors prior to arriving on site.

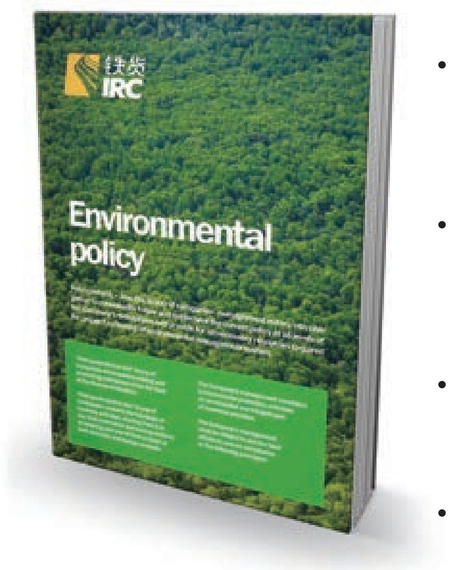
4-Year Safety Statistics* 2009–2012

	2009		2010		2011		2012	
	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR
Kuranakh	7	11.1	4	4.6	12	5.54	6	2.55
K&S	—	—	0	0.00	0	0.00	0	0.00
Other projects	—	—	—	—	—	—	0	0.00
Group	7	8.5	4	3.2	12	3.61	6	1.77

* Russian Standard Scale

THE ENVIRONMENT

IRC applies international best practices where possible and reasonable in its environmental protection activities. The Board Sub-Committee considers environmental management by assessing policy, strategy, implementation, targets and measurement for water, air, noise and waste pollution.



The Company's core health, safety and environmental and community activities meet and sometimes exceed legislation, international agreements and procedures of environmental protection and sustainability. These include:

- The Federal Law as of January 10th, 2002. FL No 7 "Concerning Environmental Protection".
- The Federal Law as of June 24th, 1998. FL No 89 "Concerning Production and Consumption Waste".
- The Federal Law as of May 4th, 1999. FL No 96 "Concerning Protection of Atmospheric Air".
- The Water Code of the Russian Federation as of June 3rd, 2006. FL No 74.
- The Federal Law as of February 21st, 1992. FL No 2395-1 "Subsoil Law".
- Urban Development Code of the Russian Federation as of December 29th, 2004. FL No 190.
- Federal Law of July 21st, 1997. FL No 116 "Concerning industrial safety of hazardous production facilities".
- The Federal Law as of March 30th, 1999. FL No 52 "Concerning the sanitary-epidemiological welfare of the population".
- The Federal Law as of March 14th, 1995. FL No 33 "Concerning specially protected natural territories".
- The Federal Law as of April 24th, 1995. FL No 52 "Concerning wild animals".
- The Federal Law as of December 20th, 2004. FL No 166 "On Fisheries and Conservation of Aquatic Biological Resources".
- Hygienic standards GN 2.1.6.1338-03 "Maximum permissible concentration (MPC) of pollution in the populated areas".
- Hygienic standards GN 2.1.6.2309-07 "approximately safe impact levels of pollutants in the populated areas".
- Hygienic standards GN 2.2.5.1313-03 "Maximum permissible concentration (MPC) of harmful substances in the air of the operating region".
- Hygienic standards GN 2.1.5.1315-03 "Maximum permissible concentration (MPC) of chemical substances in the ambient waters of household, portable, cultural and general water use facilities.

In addition, the Company attempts to minimise adverse effects on the environment by:

- Constantly improving IRC's environmental and ecological management system.
- Comprehensive assessment of current and planned activities and how they influence on the environment and native population through research, analysis and implementation of various programmes.
- To use leading scientific know-how and technologies to reduce influence on the environment and decrease the use of natural resources, materials and energy when implementing new projects.
- Implementing measures to preserve and support biodiversity including measures to protect critical habitats and improve natural habitats of animals and plants.
- Encourage suppliers and contractors to secure ecologic safety and constantly improve the quality of the environment where IRC operates.
- Communicate the Company's ecologic strategy and related activities to the public, arrange public discussions and consider stakeholder opinions, including native populations from the project inception.
- Supporting native communities where IRC operates to preserve their way of life and promote their sustainability.
- Provide ecological education for all employees and encourage participation in the ecologic management system.

Yury Makarov, IRC Chief Executive Receiving ISO Certificate from Leonid Dvorkin, Director General of AFNOR Russia

ISO Certificate

ISO 14001:2004 CERTIFICATION

In 2010 IRC started an environmental management system, with the aim of attaining international standard ISO 14001:2004 for its principal mining and processing complexes. The system continued implementation in 2012 and was recognised in April when it was awarded full certification.

IRC became the first iron ore company in the Far East, and the first mining company in the EAO and Amur regions to fully implement an ISO recognised environmental management system. The system includes the Kuranakh, K&S, Rubicon Bridge Project and Ushumunsky Karier coal operation. Work is underway to include the Garinskoye, Kostenginskoye and Sovgavan Port Projects under the system and it is anticipated that this will be completed by the end of 2015.

The integrated system of environmental management covers all the company's principal activities, namely: exploration, mining of titanomagnetite iron ores and commonly occurring mineral resources, production of both titanomagnetite and ilmenite concentrates, civil and industrial construction works.

The functioning of an environmental management system allows IRC to minimise environmental risks and gradually reduce its environmental impact by fostering an environmental culture across the group and optimising its business practices in an environmental manner. Environmental management procedures are developed and implemented in full range in compliance with the international standard ISO 14001:2004. All operational personnel have received work place training to the international ISO 14001:2004 standards. In addition, procedures are extended to all contractors employed at the company's operations. Management regularly reviews the integrated environmental management system to develop solutions to improve environmental protection and sustainable development. An electronic version of the certificates is available in the list of certified companies on AFNOR certified agency website www.afnor.org in the section Certification—E-certificates section inputting the access code: 430 711 331 566.

ENVIRONMENTAL MONITORING, CONTROL AND MEASURING

Environmental control is carried out on a regular basis. IRC provides a full range of environmental research within its project licence areas. Objectives for environmental monitoring, control and baseline studies include: air emissions, sources of hazardous substances, sources of pollutant discharge, surface water and groundwater, watercourse sediments, soil cover, radiation, aquatic biological resources of the watercourse and terrestrial fauna.

Control of emission sources and discharge of pollutants to the environment, as well as the monitoring of process parameters and energy usage is tested on a regular basis.

Ecological monitoring as well as industrial environmental monitoring is performed in accordance with Russian legislation and international guidelines.

Only accredited laboratories and advanced research organisations with the appropriate licenses are contracted to undertake environmental industrial monitoring.

Monitoring of natural water streams in the area surrounding Kuranakh, including sewage waste control is being undertaken by an IRC owned certified laboratory based on more than 20 specific indicators.

Central Laboratory at Kuranakh

At K&S, the following advanced research organisations have been contracted to undertake environmental monitoring:

- Environmental monitoring: The Federal State Unitary Enterprise "Dalgeofizika" (FSUE "Dalgeofizika")
- Air pollution and atmospheric air condition monitoring: GU "KHABAROVSK CHEM-RSMC" State Institution "Khabarovsk Center for Hydrometeorology and Environmental Monitoring with the functions of the Regional Specialized Meteorological Center of the World Weather Watch".
- Background environmental conditions and aquatic biological resources monitoring: The Federal State Unitary Enterprise "Pacific Scientific and Research Fishing Center" ("Scientific industrial enterprise "Ecosystem").
- Wild fauna monitoring: All-Russian Research Institute of Hunting and Animal Breeding under the Russian Academy of Agricultural Sciences.
- Quality of surface waters, sediments, soil and air pollution and control of emission sources: Centre of Laboratory Analysis and Technical Metrology in the EAO.
- Surface, subsurface and portable water quality: The Hygienic and Epidemiological Centre in the EAO.
- Environmental plant cover impact assessment: Federal State Budgetary Institution of Science, the Institute of Complex Analysis of Regional Problems, The Far East Branch of the Russian Academy of Science (FEB RAS) to monitor the state of vegetation on Kimkano-Sutarskoye GOK site. The above mentioned Institute has previously completed.

At the Garinskoye and Orlovsko-Sohatinskoye Projects, The Scientific Industrial Enterprise Conservation Center has been contracted to assess environmental background and monitoring.

ENVIRONMENTAL TESTING

During 2012 IRC completed over 4,000 chemical and radiation sample test as part of background pollution level evaluation and environmental monitoring.

Approximately 50,000 analyses of various environmental components and 12,500 analyses of wastewater and industrial discharges were completed as part of the engineering and environmental surveys conducted for the period 2004–2012.

Volume of Environmental Monitoring Testing 2004–2012

	Atmospheric	Surface Water	Subsurface Water	Bottom Sediments	Soil Cover
2004	112	584	—	1,878	6,058
2005	60	176	—	176	2,992
2006	100	1,127	—	827	250
2007	1,052	1,252	—	619	106
2008	2,108	1,944	162	653	2,022
2009	2,024	1,263	—	707	144
2010	1,666	2,014	78	346	134
2011	912	4,953	349	2,531	1,561
2012	1,210	2,142	179	267	232
TOTAL	**9,244**	**15,455**	**768**	**8,004**	**13,499**

Volume of Industrial Ecological Testing (Sewage Waters and Industrial Emissions)

Year	Waste Water	Industrial Waste
2010	3,136	74
2011	4,197	228
2012	4,832	419
TOTAL	**12,165**	**721**

ENVIRONMENTAL PERFORMANCE — LAND USE & RECLAMATION

At the Kuranakh Mine there are four soil types: namely goltsy altitudinal raw soils, taiga brown altitudinal soils, humus brown-taiga altitudinal soils and altitudinal brown taiga peaty gley soils. This contrasts to the K&S Mine where there are broadly four soil types: brown forest, coarse humus, medium loamy, heavy stony soils; brown forest, podzolized, medium loamy, heavy stony soils; meadow-grey, heavy loamy or more rarely medium loamy soils; and black bog soils, peaty-gley and peaty soils.

In 2012, the total amount of land used by IRC was approximately 3,634 hectares, 875 hectares more than 2011 mainly due to the construction of new facilities at K&S.

It is important to note that any land that is disturbed will be restored to its previous state through various engineering and biological solutions. Land reclamation work is carried out in accordance to environmental regulations and respects the natural surroundings of sites. The major component of reclamation work is the removal and preservation of fertile topsoil that will ultimately be restored to the site. The total volume of fertile soil stored in dumps at the end of 2012 amounted to 1.35 million m^3, 0.1 million m^3 more than at the end of 2011.

ENERGY CONSUMPTION & CONSERVATION

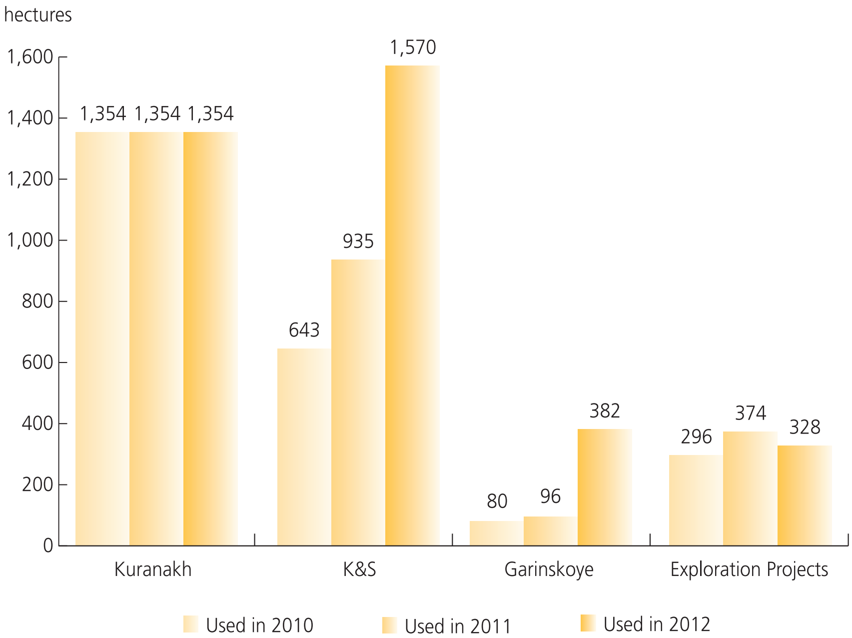
Operating in harsh climatic conditions, energy conservation and efficiency is a key area of concern for IRC. In 2012, the installation of ruberoid roofing and the expansion of glass roof lighting at the K&S repair shop resulted in optimum heating and energy conservation, saving approximately 400 kWh of energy. At Kuranakh the installation of a solar water heater system is being tested against traditional energy sources, notably coal. Plans are in place to reduce coal consumption in the boiler house for water heating. Taking climatic conditions in the Amur Region into account, a combined solar-coal unit could provide 50–100 kwt/hour of heat energy for 1 m^2 sq. per summer day, by heating water up to 45–60 °C.

During 2012, consumption of coal increased to 10,582 tons due to increased activities at K&S.

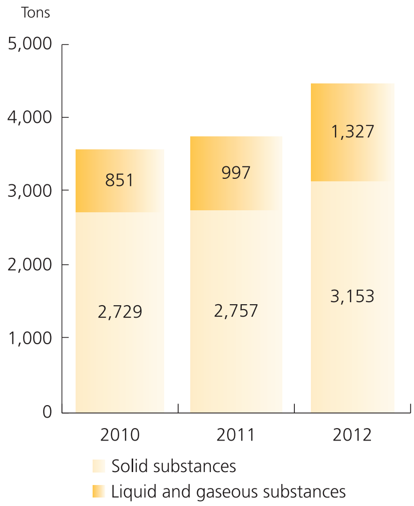
AIR POLLUTANTS AND EMISSIONS

Emission of pollutants into the air from stationary sources in 2012 was 4,480 tonnes, an increase of 726 tons compared to 2011. This increase is attributed to the acceleration in construction activities at the K&S Mine, notably mining, beneficiation plant, camps, boiler house and general site access.

IRC land use structure in 2010–2012



Emissions of pollutants into the air from stationary sources in 2010–2012



All IRC sites with stationary sources of emissions have approved maximum permissible emissions levels, for which they have received relevant government permits. IRC has no recorded incident of having ever exceeded these limits since operations began. Pollutant emissions of solid substances from stationary sources has been reduced in 2012 through the installation and upgrading of dust collecting systems.

It is worth noting that the hazardous pollutants emission allowances have been issued in 2012 for the Kuranakh Processing Plant and the K&S rotation camp boiler house, fuel-supply point and mining complex.

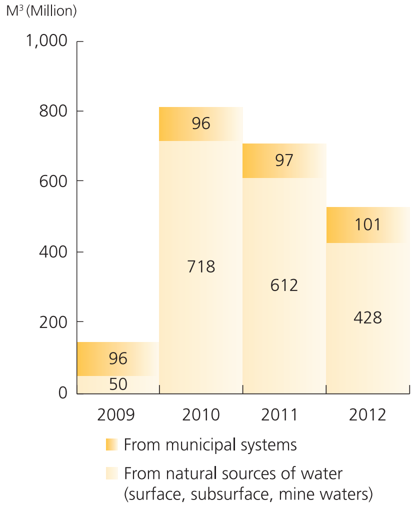
The following measures are in place to prevent and reduce atmospheric air pollution and emissions:

- Dust suppression schedules through watering have been developed at Kuranakh and K&S. Monitoring to optimise these processes is ongoing.
- Monitoring and maintenance of pollution control equipment in compliance with approved instructions.
- Installation of portable filtration aggregates (EMK-1600c/SP) in the Birobidzhan maintenance shop.
- At the Kuranakh mine, engineers developed proposals for the reconstruction of cleaning and dust collection systems in the crushing and screening units. Cyclones are equipped with covered containers for dust collection, avoiding secondary dust pollution of the atmospheric air.

WATER CONSUMPTION AND RESOURCE CONSERVATION

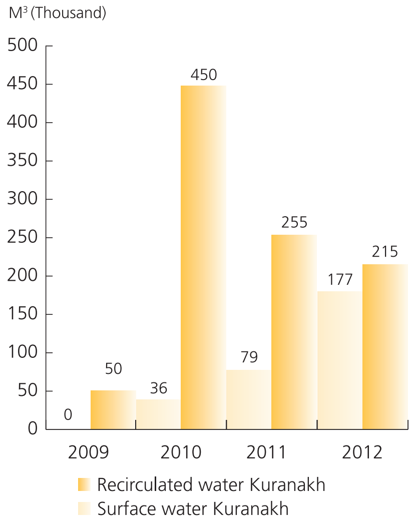
The volume of water consumption decreased by 184 million m^3 in 2012 compared to 2011 to a total 529 million m^3.

Water consumption at IRC plants in 2009–2012



The reduction of water consumption achieved over 2011 and 2012 is primarily due to the installation of the site flow meter "Vzlet"-ER" at the Kuranakh tailings facility. This meter records the volume of water taken from the Kuranakh River and is used for filling the tailings storage pond and for supplying the processing plant. The reduction of water consumption is also associated with the increase in the used water volume for production needs.

IRC water consumption structure, 2009–2012



SEWAGE

All IRC sites are equipped with wastewater treatment plants to reduce the impact on both surface and ground water. Water treatment plants "Biodisk-350" and "Biodisk-100" were put into operation at Kuranakh in 2009–2010. Domestic waste-water from the processing plant at Kuranakh is discharged into tailings dams and re-used. Septic tanks are installed at all of IRC's sites to prevent environmental pollution from household waste water during construction and domestic waste water is transferred to specialised sewage treatment contractors.

PRODUCTION, ASSESSMENT AND DISPOSAL OF WASTE

IRC uses the internationally recognised five categories to classify hazardous waste:

- **Class V (practically non-hazardous wastes)** — more than 99.9% from all types of waste. These are all industrial wastes: overburden rocks, tailings of wet and dry magnetic separation, and also construction wastes, waste metal and the other types of waste.
- **Class IV (low-hazard waste)** — approximately 0.042% from all types of waste. This class of waste includes both solid and domestic waste.
- **Class III (moderately hazardous wastes)** — approximately $7x10^{-2}$% from all types of waste. This included oil contaminated wastes.
- **Class II (highly hazardous wastes)** — approximately $8x10^{-3}$% from all types of waste. This is used sulfuric battery acid and waste batteries.
- **Wastes of hazard class I (extremely hazardous waste)** — less than $4x10^{-6}$% from all types of wastes. e.g. mercury-filled lamps.

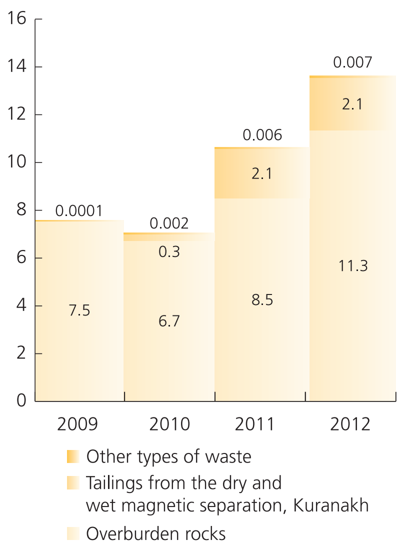
Staff training in hazardous waste management and labeling is ongoing. Efforts are made to ensure the universal labeling of hazardous materials according to international standards.

WASTE GENERATION

The total volume of waste generated in 2012 increased by 3.0 million tonnes to 13.5 million tonnes comprising:

- Approximately 84% overburden waste from mining.
- Approximately 16% tailings from dry and wet magnetic separation.
- 0.12% of waste — formed by other types of waste.

The volume of wastes generated by IRC Group of companies' enterprises in 2009–2012.



WASTE MANAGEMENT

Most of the waste produced at IRC sites is overburden and tailings of dry and wet magnetic separation (99.88%). This is stored in purpose-built storage facilities and tailing dams. Much of this may be stored for future use, particularly in landfill and construction. Overburden and tailings from dry-magnetic separation are mainly used for road construction, whereas ash is used as both an anti-icing agent and as an additive to concrete mixtures.

The structure of waste management at IRC Group of companies enterprises, 2009–2012.

Waste management processes are under constant monitoring and optimisation. All the company's operations are currently developing and approving projects pertaining to waste generation standards and limits.

BIODIVERSITY CONSERVATION

IRC projects do not directly affect specially protected natural areas, however, in some cases the projects are developed in territories within the habitats of protected species of animals and plants. Consequently, the Company conducts, monitors and reports the state of animal and plant life and aquatic bio resources. This practice was extended to K&S in 2012.

INTERACTION WITH LOCAL STAKEHOLDERS

IRC takes seriously the impact of its activities on society, not least because it is a significant local employer and almost all employees live near its operations. IRC has an established and structured programme for the involvement of local stakeholders in its activities, aimed at forming a constructive dialogue with local community members. In addition to well-publicised reporting and complaints mechanisms, IRC conducts regular public meetings in the areas in which it operates to assess the impact of the company's work and to establish how best it may contribute to the fabric of local society.

The following corporate programmes, plans and standards have been developed by the Company as part of cooperation arrangements with the stakeholders:

- The company standards 4.4.3 "Communication within the environmental management system" applies to all group companies and contractors included in the integrated environmental management system.
- Corporate framework programme concerning involvement of stakeholders as prepared by Petropavlovsk plc in 2009.
- Kuranakh Mine Stakeholder Involvement Plan prepared by IRC in 2009.

The names of the stakeholders and communication channels have been defined across the Group according to the corporate programmes. In addition, collecting mechanisms have been implemented to organise communication channels with both staff and local populations that reside near the Company's activities. This approach is taken because IRC believes that a constructive dialogue with the public ensure the right ecological and socially oriented decisions are implemented at the right time during the life of a project.

In addition, public hearings and consultations provide an opportunity for all stakeholders to express their desires or concerns related to project implementation within the frames of direct dialogue and to encourage various points of interest, including ecological issues. The company's managers and educated experts participate in the public hearings and discussions that are conducted on a regular basis.

In 2012, 23 people participated in the public hearing at the nearby settlement of Izvestkovoya discussing the waste management facilities of the K&S Stage I Project.

One of our environmental obligations is to support indigenous populations to preserve their life-style and contribute to sustainable development. IRC has established various connections with indigenous people, living and practising traditional industries in the vicinity of company operations. One such group is the Evenk people, living in the settlement of Ust-Nyukzha, near the Kuranakh Mine.

IRC is funding a celebration of traditional Evenk's holidays, providing financial aid to both the village school and kindergarten, financing trips to Evenk cultural conferences, holding meetings on indigenous issues and promoting the preservation and development of Amur Region indigenous traditions. Good relations have also been established with the Association of Indigenous Minorities of the North of Amur Region.

In 2010 the Company jointly with the Evenks people developed a plan of action aimed at developing the indigenous population of Ust-Nyukzha and the village community. This five point plan is focused on the development of traditional Evenks industries and on the preservation of cultural traditions.

Traditional Evenki Festival "Reindeer-breeder's Day", Ust- Nyukzha village

Description	Programs
1. Development of traditional industries	Purchasing of equipment required for the development of traditional industries (deer breeding, market hunting and collection of non-wood forest resources). The provision of financing is based on the decision of all ancestral communes.
2. Development of non-governmental organisations, protection of the rights of indigenous people	Purchasing of equipment to promote traditional Evenks industries and cultural traditions, for example, financing transportation to indigenous conferences
3. Traditional festivals, education, sports and leisure activities	Arranging cultural events (such as Bakaldyn, a Reindeer-breeder's Day), the development of young people (including support of Evenks band "Gudyay Dunne" and "Club of the Cheerful") and the purchasing of books for village & school libraries, including Evenki's language books and sports equipment for village club and school, financing of early childhood education including the Olenyonok Kindergarten.
4. Support of disadvantaged population	Financial support to students from disadvantaged families for educational and medical purposes.
5. Development of village infrastructure	Financing the development, design and documentation for Ust-Nyukzha's underground water supply.

It is estimated that from 2004 to 2012, approximately RUB2.4 million has been contributed towards Evenks related activities, the majority of which has been spent on financial contributions towards traditional festivals, education, sports and leisure activities.

The IRC funded book "Endangered Plants of the Amur River Region"

ENVIRONMENTAL AWARENESS

IRC regularly holds environmental education events for employees. For example in 2011 IRC held an event targeted at the preservation of animal life in EAO. This event was well received by the local population. It was led by fellows of the Far Eastern Branch of the Russian Academy of Agricultural Science and the Russian National Institute of Hunting and Animal Farming. In 2011 the Company took part in the preparation of a book "Endangered Plants of the Amur River Region", which was printed in 2012 and handed out to libraries and schools for free. The Company sees this publication as the first in the series of books dedicated to the endangered species of flora and fauna of the EAO and the Amur Region. In April 2011 a first ever conference on business participation in environmental initiatives took place in the EAO thanks to the sponsorship of the Company. The IRC initiated conference and fair brought entrepreneurs, government officials, scientists and the wider community together and ended on a high note with the planting of the indigenous lotus of Komarov *(Nelumbo nucifera)* which is listed as an endangered EAO and a Russian species. In the future the IRC endeavours to sustain, support and organise such projects to improve the ecology of the Russian Far East.

The book "Endangered Plants of the Amur River Region" is the result of cooperation between the IRC, scientists and industrial business experts including the International Committee on Applied Research in Population (ICARP) and the Far Eastern Branch of the Russian Academy of Science. The work on the book has been conducted over the course of several years and includes the results of scientific findings and expeditions made by ICARP scientists, thematic photos, publications and drawings covering 47 endangered plants. 200 copies of the book have been donated to EAO educational institutions, libraries, and museums.

ENVIRONMENTAL INDICATORS

As part of its HSEC activities, IRC prepares a quarterly report on sustainable development. The table below summarises the key environmental indicators.

Key IRC environmental indicators 2010–2012

Performance Indices	Units	2010	2011	2012
Land use and biological diversity				
Lands used under licence				
Total	ha	2,373.4	2,758.5	3,633.6
Land areas removed from forest classification for the purposes of industry:	ha	659.9	385.1	875.1
Reclaimed land for the reporting period				
Used potentially fertile rock	m^3	0	843	1,123
Preservation of fertile topsoil				
Moved to storage facility	m^3	553,400	585,200	101,400
Total fertile topsoil stored at the end of the reported period	m^3	669,000	1,252,957	1,354,357
Sapling plantations				
Total	ha	156.3	0	0

Full Environmental Statistics 2010–2012

Performance Indices	Units	2010	2011	2012
Atmospheric emissions and atmospheric air quality				
Mass of hazardous pollutants emitted				
Total	t	3,373	3,741.9	4,480
Solid substances	t	2,974	2,756.9	3,153
Liquid and gaseous substances	t	399	997	1,327
Mass of greenhouse gases emission (carbon dioxide)				
From gasoline	t	339.8	790.4	566.6
From diesel fuel	t	9,001.7	25,649.6	15,154.4
From kerosene	t	0.4	1.02	0.11
From coal	t	11,436	18,492	21,309
Total	t	20,778	44,933	37,030
Rate of authorised release of hazardous pollutants				
Rate of authorised release of solids	%	104.3	96.7	93.8
Rate of authorised release of liquid and gaseous substances	%	24	70.7	97.4
Mass of hazards screened/removed from emissions using the gas cleaning method				
Total screenings	t	2,956	2,956	3,036
Screened (entrapped) solid substance	t	2,657	2,657	2,510
Screened (entrapped) liquid and gaseous substances	t	299	299	526
Water management and water conservation				
Water intake				
Total	m^3	813,820	709,370	529,150
From natural sources of water (surface, subsurface)	m^3	717,620	611,970	427,750
From municipal systems	m^3	96,200	97,400	101,400
Water disposal				
Total	m^3	220,100	153,211	181,194
To natural water bodies and soil	m^3	182,200	145,302	177,122
To existing municipal sewage systems	m^3	1,600	7,909	4,072
Volume of reused water				
Total	m^3	36,300	78,497	177,000
Mass of release of pollutants contained in waste waters				
Total	t	82	77	23.8
Nitrogen (total)	t	0.1	1.4	0.9
Phosphorus (total)	t	0.04	0.2	1.3
Anionic surface-active agents	t	0	0.02	0.06
Suspended substances	t	80	83	21
Oil products	t	1.3	1.0	0.1
Total ferrum	t	0.3	0.4	0.2
Manganese	t	0.02	0.01	0.004
Cadmium	t	0	0	0
Chrome	t	0	0	0
Nickel	t	0	0.0002	0
Hydrargyrum	t	0	0	0
Lead	t	0	0	0
Zinc	t	0.03	0.008	0.001
Copper	t	0.02	0.002	0.004

Full Environmental Statistics 2010–2012

Performance Indices	Units	2010	2011	2012
Hazard management				
Explosive substances				
Total	t	2,621	5,013	4,686
Igdanit	t	1,672	1,807.7	1,611
Ammonium nitrate	t	1,496	1,638	1,520
Diesel fuel	t	51	170	90
Grammonite 79/21	t	0	0	0
Ammonite 6ЖВ	t	30	1	20
Sorbitan Monooleate (emulsolite)	t	919	539.7	177
Lubricating materials				
Lubricating materials (oils)	l	141,559	206,683	230,950
Lubricating materials (grease)	t	11	17	20
Waste management				
Formed wastes				
Total	t	6,977,656	17,257,750.15	13,520,909
Industrial waste related to the engineering process:	t	6,975,787	17,252,112	13,513,604
Overburden rocks	t	6,715,690	15,188,563	11,338,633
Wet tailings	t	41,712	595,803	676,469
Dry tailings	t	218,385	1,467,746	1,498,502
Waste management				
Disposed of at the plant	t	32	18	16
Reused at the plant	t	1,366,711	2,115	2,533
Buried at plant landfill	t	5,609,514	10,556,118	13,513,606
Transferred to contractors	t	1,399	3,500	4,754
Energy saving				
Use of energy sources				
Coil	t	6,761	9,603.7	10,582
Diesel fuel	l	4,557,953	13,436,312	18,082,445
Benzene	l	21,049	302,138	234,758
Kerosene	l	151	0	55

PARTICIPATION WITH PETROPAVLOVSK

Both IRC and Petropavlovsk operate in similar geographies and industries, therefore IRC has chosen to focus its regional social engagement activities with the Petropavlovsk Foundation for Social Investment. The Foundation is an established platform and therefore IRC is able to maximise its activities through this forum.

The Foundation, established in 2010, aims to contribute, encourage and stimulate the sustainable socio-economic and cultural development in the Russian Far East. This involves the responsible promotion of social investment to improve the quality of life of local inhabitants and ensure that the Russian Far East is an attractive area to live and work and encourage investment in the region.

The strategy of the Foundation is to fund and encourage activities around education, child development, culture and sport and encourage investment through its cooperation with local research and development institutions.

EDUCATION

The Foundation provides textbooks, furniture and basic infrastructure for schools, libraries and cultural centres across the region. In Birobidzhan, the closest city to the K&S Mine a specific project to supply facilities for disabled children has been completed.

CHILD DEVELOPMENT

The child development programmes aim to improve the quality of life of children in the Russian Far East with a particular focus on children from underprivileged backgrounds or with medical conditions which affect their quality of life. This recently included support for a centre in Birobidzhan for young children aged 11 to 13 from challenging backgrounds.

CULTURE

Various cultural programmes promote cultural activities and develop cultural awareness in the Russian Far East. Such programmes include organising and supporting cultural events or festivals, supporting local cultural institutions and promoting cultural services, including the publication and distribution of books. There is a special focus around activities which are either unique to, or promote the culture and heritage of the Russian Far East.

SPORT

The Foundation runs programmes to promote health and fitness and develops local sports organisations to promote physical activity. Programmes include sponsoring local athletes or sports teams and assisting in the organisation of local sporting events.

ENHANCING QUALITY OF LIFE

Improving the quality of life for some of the most disadvantaged groups in the Amur region is a key priority for the Foundation. This involves working with municipal and local authorities and charities to strengthen healthcare and other services, whilst providing and upgrading housing stock. The Foundation also works on local environmental projects and provides financial aid to individuals in need.

DEVELOPING THE RUSSIAN FAR EAST

The Foundation runs programmes aimed at increasing the economic potential of the region by supporting local design teams, research institutions or institutions engaged in activities specific to the Russian Far East.

FEEDBACK AND COMMENTS

We welcome comments on our HSEC policies, activities and reporting. Please contact Marina Rekhviashvili, Senior Specialist HSEC at our Moscow office:

IRC 21/3
Stanislavskogo Street
Moscow 109004
Russia
109004

THE ORIENTAL WHITE STORK *Ciconia Boyciana*

Listed as endangered on the International Union for Conservation of Nature Red List of Threatened Species and also by the Convention on International Trade in Endangered Species of Wild Fauna and Flora, IRC is putting considerable effort into preserving the habitat of the Oriental White Stork. There are currently fewer than 3,000 oriental white storks in the world with less than ninety in the EAO. The special scientific exploration of the nesting areas of Oriental White Storks was carried out for the first time in 2011. Funded by IRC, leading specialists are investigating nestlings of Oriental White Storks in this area. Their methodology is supported by a number of state, scientific, non-governmental organisations, the National Institute for Environmental studies, the storks reintroduction center "Storks' home", Japan and the Korean National Institute for Environmental studies. Primary results showed the good health of nestlings and a satisfactory food supply in the territory. The expedition was made possible due to the support of the IRC.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board of IRC is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. The Group believes that conducting its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders.

The Company has adopted the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Code") and Corporate Governance Code (effective from 1 April 2012) (the "Revised Code") as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board as a whole is responsible for performing the corporate governance duties. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Code and the Revised Code, and make appropriate changes if considered necessary.

BOARD OF DIRECTORS

The Board of Directors (the "Board") of the Company provides leadership and supervises the overall direction of the Group's businesses. The Board comprises of seven Directors:

Executive Directors	3
George Jay Hambro *(Chairman)*	
Yury Makarov *(Chief Executive Officer)*	
Raymond Kar Tung Woo	
Non-Executive Director	1
Simon Murray, *CBE, Chevalier de la Légion d'Honneur*	
Independent Non-Executive Directors	3
Daniel Rochfort Bradshaw	
Jonathan Eric Martin Smith	
Chuang-fei Li	
	7

The roles of chairman and chief executive are separate and are performed by different individuals.

Three of our directors — approximately 43% of our board — are Independent Non-Executive Directors. The number of Independent Non-Executive Directors meets the requirements under Rule 3.10(A) of the Listing Rules. Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

The Independent Non-Executive Directors are appointed for a specific term and are subject to retirement by rotation. No Independent Non-Executive Director has served the Company for more than nine years.

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

The Board believes that the balance between Executive and Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Non-Executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and committee meetings bring independent judgement and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

The Group provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group, together with its legal counsel, continuously update Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, the Company organised two formal training sessions conducted by Norton Rose Hong Kong for the directors of the Company. The training sessions covered topics including the new Corporate Governance Code, the disclosure of price sensitive information and establishment of an internal control system. All Directors attended both sessions.

A summary of training received by the directors since 1 April 2012 up to 31 December 2012 is as follows:

Directors	Type of training
Executive Directors	
George Jay Hambro *(Chairman)*	A,B
Yury Makarov *(Chief Executive Officer)*	A,B
Raymond Kar Tung Woo	A,B
Non-executive Director	
Simon Murray, *CBE, Chevalier de la Légion d'Honneur*	A,B
Independent Non-executive Directors	
Daniel Rochfort Bradshaw	A,B
Jonathan Eric Martin Smith	A,B
Chuang-fei Li	A,B

Notes:

A: attending briefing sessions and/or seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

The Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided in a timely manner. For the year ended 31 December 2012, the Chairman of the Company held meetings with the Non-Executive Directors (including the Independent Non-Executive Directors) without the presence of the Executive Directors.

The day-to-day management and operation of the Group are delegated to the Executive Committee ("EC"), which comprises of the three Executive Directors and other senior management members of the Group. The EC is the principal management decision making body on all day-to-day operations and business affairs of the Group. The EC operates under guidelines and delegated authorities from the Board and meets on a regular basis.

The Board held seven meetings in 2012 and the attendance of individual Directors is set out in the table on page 42.

AUDIT COMMITTEE

The Audit Committee consists of the three Independent Non-Executive Directors — C.F. Li (Chairman), D.R. Bradshaw and J.E. Martin Smith. The principal duties of the Committee include the review and supervision of the Group's financial reporting system and internal control procedures. During 2012, the Audit Committee reviewed the 2012 interim and annual reports and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence and reported to the Board. The terms of reference for the Audit Committee are maintained on the websites of the Company and HKEx.

The Committee met 3 times in 2012 and the attendance of individual Directors is set out in the table on page 42.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by J.E Martin Smith and its other members are C.F. Li and D.R. Bradshaw, all of whom are independent non-executive directors. The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management.

The Remuneration Committee meets regularly and reviews the structure of remuneration for executive directors on an ongoing basis and has the responsibility for the determination, within agreed terms of reference, of specific remuneration packages for executive directors and other members of the Executive Committee, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and any compensation payments. The Remuneration Committee commits to bringing independent thought and scrutiny to the development and review process of the Group with regards to remuneration.

The Company's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value creation. The policy for 2012 and so far as practicable, for subsequent years, will be framed around the following principles:

- remuneration arrangements will be designed to support the Company's business strategy and to align it with the interests of the Company's shareholders;

- total reward levels will be set at appropriate levels to reflect the competitive global market in which the Company operates, with the intention of positioning such levels within the a peer group of global mining companies;

- a high proportion of the remuneration should be 'at risk', with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take into account future changes in the business environment and in remuneration practices. Consequently, the remuneration policy and the Remuneration Committee's terms of reference for subsequent years will be reviewed annually in the light of matters such as changes to corporate governance best practice or changes to accounting standards or business practices among peer group mining companies. This will help to ensure that the policy continues to provide the Company with a competitive reward strategy. In doing so, the Remuneration Committee will take into account the relevant Hong Kong Listing Rules, the guidance of independent consultants and best-practice on the design of performance-related remuneration.

The terms of reference for the Remuneration Committee are maintained on the websites of the Company and HKEx.

The Remuneration Committee is satisfied that the Company's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which the Company operates.

The Committee held 3 meetings in 2012 and the attendance of individual Directors is set out in the table on page 42.

NOMINATION COMMITTEE

The Nomination Committee was established by the Board on 20 February 2012 and is chaired by an Executive Director, G. J. Hambro. Its other members are D.R. Bradshaw and J.E. Martin Smith, both are Independent Non-Executive Directors. The Committee meets at least once a year.

The Nomination Committee is responsible for formulating policy and making recommendations to the Board on nominations, appointment of Directors and Board succession. The Committee develops selection procedures for candidates, and will consider different criteria including appropriate professional knowledge and industry experience, as well as consult external recruitment professionals when required. The Committee also reviews the size, structure and composition of the Board and assesses the independence of the Independent Non-Executive Directors. The Committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at the Company's expense if necessary. The terms of reference for the Nomination Committee are maintained on the websites of the Company and HKEx.

During 2012, the Committee met once and the attendance of individual Directors is set out in the table on page 42.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environmental Committee consists of three Independent Non-Executive Directors — D.R. Bradshaw (Chairman), J.E. Martin Smith and C.F. Li, and is responsible for evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations and for ensuring compliance with health, safety and environmental regulatory requirements. The Committee also assesses the performance of the Group with regards to the impact of health, safety, environmental and community relations, decisions and actions.

The Committee provides the Board with regular updates to assist in overseeing matters relating to enhancing the Company's global reputation of responsible corporate stewardship, conscientious corporate social responsibility and product sustainability. In doing so, professional advice may be sought if considered necessary. The Committee also has the authority to invite key members of operational management to meetings to discuss the performance of the Group.

During 2012, the Committee held 3 meetings and the attendance of individual Directors is set out in the table below.

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

The number of meetings the Board, Audit and Remuneration Committees scheduled during 2012 are shown below together with attendance details:

Directors	Meetings attended/held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee
Executive Directors					
G. J. Hambro, Chairman	7/7			1/1	
Y.V. Makarov, Chief Executive Officer	7/7				
R.K.T. Woo, Chief Financial Officer	7/7				
Non-Executive Director					
S. Murray, *CBE, Chevalier de la Légion d'honneur*	7/7				
Independent Non-Executive Directors					
D.R. Bradshaw, Senior Independent Non-Executive Director	7/7	3/3	3/3	1/1	3/3
J.E. Martin Smith	7/7	3/3	3/3	1/1	3/3
C.F. Li	7/7	3/3	3/3		3/3

DIVIDEND POLICY

When setting the dividend, the Board looks at a range of factors, including the macro environment, the current balance sheet, future investment plans and capital requirements. The Company typically considers paying annual dividends on the basis of its results for the previous year.

After the K&S mine commences operation, it is expected that the Company would adopt a dividend policy which aims to provide for a regular and sizeable dividend flow to its shareholders, whilst allowing the Company to maintain the financial flexibility to take advantage of attractive investment opportunities in the future.

AUDITORS' INDEPENDENCE

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of the Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work) at a meeting of the Committee.

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

Fees paid to the external auditor are disclosed in note 10 to the consolidated financial statements.

SHAREHOLDER RELATIONS

The Board established a shareholders' communication policy setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communications with the shareholders are timely, transparent, accurate and open. Information would be communicated to the shareholders mainly through the Company's corporate communications (such as quarterly trading updates, interim and annual reports, announcements and circulars), annual general meetings ("AGM") and other general meetings, as well as disclosure on the website of the Company.

Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides shareholders with corporate information, such as principal business activities and major projects, the development of corporate governance and the corporate social responsibilities of the Group. For efficient communication with shareholders and in the interest of environmental protection, arrangements were made to allow shareholders to elect to receive corporate communications of the Company by electronic means through the Company's website.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

The Company's AGM allows the Directors to meet and communicate with shareholders. The Company ensures that shareholders' views are communicated to the Board. The chairman of the AGM proposes separate resolutions for each issue to be considered.

AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the Articles of

Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website on the day of the AGM.

Shareholders holding not less than 1/20 of paid up capital of the Company can convene an extraordinary general meeting by requisition, by stating the objectives of the meeting and depositing the signed requisition at the registered office of the Company. The procedures for shareholders to propose a person for election as a director can be found at the Company's website.

COMPLIANCE WITH CODE, REVISED CODE AND MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the year and they have confirmed their full compliance with the required standard set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

For the year ended 31 December 2012, the Company has complied with the Code and the Revised Code save that (i) the Non-Executive Director, Mr. Simon Murray and an Independent Non-Executive Director, Mr. Jonathan Martin Smith, were unable to attend the annual general meeting of the Company held on 16 April 2012 (the "2012 AGM") as provided for in code provision A.6.7 as they had overseas engagements and (ii) although in compliance with Company's articles of association and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), the notice for the 2012 AGM was not sent to shareholders at least 20 clear business days before the meeting as provided for in code provision E.1.3 due to the late publication of the circular in relation to the meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

On behalf of the Board

George Jay Hambro
Chairman

Hong Kong, 12 March 2013

DIRECTORS' REPORT

The Directors present their Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in Hong Kong on 4 June 2010 under the Hong Kong Companies Ordinance. The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the production and development of industrial commodities products.

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2012 is set out in note 46 to the consolidated financial statements.

RESULTS

The results of the Group are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 58 to 59 and in the accompanying notes to the consolidated financial statements. A discussion and analysis of the Group's performance during the year is set out in the Results of Operations section on page 53 of this annual report.

DIVIDEND

The Board of Directors does not recommend the distribution of a dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 21 to the consolidated financial statements.

SHARE CAPITAL

On 11 July 2012, the Company issued and allotted 57,352,941 ordinary shares at an issue price of HK$1.36 per share to acquire 50.1% interest in Caedmon Limited.

On 24 July 2012, the Company issued and allotted 74,681,360 ordinary shares at an issue price of HK$1.1956 per share to acquire the remaining 51% interest the Group did not own in LLC Uralmining.

The ordinary shares issued rank pari passu in all respects with the existing issued shares.

Save as described above, there were no changes in the share capital of the Company in 2012. Particulars of the changes in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

RESERVES

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

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

George Jay Hambro
Yury Makarov
Raymond Kar Tung Woo

Non-Executive Director:

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

Independent Non-Executive Directors:

Daniel Rochfort Bradshaw
Jonathan Eric Martin Smith
Chuang-fei Li

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS

As at 31 December 2012, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities

Transactions by Directors as set out in Appendix 10 of the Listing Rules and adopted by the Company (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company
George Jay Hambro	Contingent beneficial interest[1]	23,220,000	0.66%
	Beneficial interest	352,000	0.01%
Yury Makarov	Contingent beneficial interest[1]	20,317,500	0.58%
	Beneficial interest	238,000	0.01%
Raymond Kar Tung Woo	Contingent beneficial interest[1]	14,512,500	0.42%
	Beneficial interest	120,000	0.00%

Name of director	Nature of interest	Number of shares in Petropavlovsk plc ("Petropavlovsk")	Percentage of issued shares in Petropavlovsk
George Jay Hambro	Contingent beneficial interest	54,166	0.03%[2]
Yury Makarov	Contingent beneficial interest	41,666	0.02%[2,3]
	Beneficial interest	53,846	0.03%[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 plc.

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 31 December 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Petropavlovsk is the ultimate holding company of the Company. 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 of Hong Kong Limited or until Petropavlovsk controls less than 50% of the issued share capital of the Company.

The directors confirm that the company was in compliance with the terms of the Deed during the year ended 31 December 2012.

During the year and up to the date of this report, George Jay Hambro and Yury Makarov are shareholders of Petropavlovsk and are therefore considered to have interests in Petropavlovsk.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2012.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 31 December 2012, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of shareholder	**Capacity**	**Number of shares 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	221,502,794 (L) 2,680,794 (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

Name of shareholder	Capacity	Number of shares in the Company (Note)	Approximate % of the Company's total issued share capital
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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 31 December 2012, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

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

	Continuing connected transactions	Connected Persons	Cap for 2012 US$'000	Actual amount for 2012 US$'000
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	381
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	42,000	714
C	Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	787
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	229
E	Aircraft Agreement	Millennium Implementation Limited	1,000	—
F	Banking Arrangements	OJSC Asian-Pacific Bank	30,000	8,294
G	Apatit Services Agreements	OJSC Apatit	5,000	17

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

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

A. Shared Services Agreement

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

On 21 December 2012, the Shared Services Agreement was renewed for a further term of three years commencing from 1 January 2013 and ending on 31 December 2015. Apart from changes made to update the effective period of renewal, all other terms and conditions of the Shared Services Agreement remain the same.

The annual cap under the Renewed Shared Services Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is US$2,035,000 respectively, which is the same annual cap for the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 under the Shared Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's planned operations over the next three years, with a buffer to provide flexibility for any increase in shared services required by the Group or any increase in the base cost of providing such services.

B. Technical Services Agreement

On 29 September 2010, the Group and Petropavlovsk entered into a technical services agreement (the "Technical Services Agreement") for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk's provision of technical services to the Group. The technical services comprise: (i) construction services; (ii) engineering & design services and (iii) exploration & geological services. The technical services were recharged on a "cost plus 10% markup" basis.

On 21 December 2012, the Technical Services Agreement was renewed for a further term of three years commencing from 1 January 2013 and ending on 31 December 2015. Apart from changes made to update the effective period of renewal and the annual caps (as described below), all other terms and conditions of the Technical Services Agreement remain the same.

The annual cap under the Renewed Technical Services Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is US$6,000,000 respectively, which is substantially less than the annual caps for the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 under the Technical Services Agreement. The reduction in the annual cap amounts under the Renewed Technical Services Agreement has been determined based on historical transaction figures and the Group's planned operations over the next three years, which include the provision by CNEEC of the Group's construction and engineering services for the K&S Project under the CNEEC EPC Contract. The annual cap amounts, however, also include a buffer amount to provide flexibility for any increases in the technical services required by the Group or any increase in the base cost of providing such services and so as to minimise any interruption to the Group's operations.

C. Helicopter Lease Agreement

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

The Helicopter Lease Agreement will expire on 8 October 2013. On 16 January 2013, the Helicopter Lease Agreement was renewed for a further term of three years commencing from 1 January 2013 and ending on 31 December 2015. Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Lease Agreement remain the same.

The annual cap under the Renewed Helicopter Lease Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is US$1,000,000 respectively, which is the same annual cap for the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 under the Helicopter Lease Agreement. The annual cap amounts have been determined based on historical transaction figures and MC Petropavlovsk's expected demand for helicopter services for the next three years, as advised to the Company by MC Petropavlovsk.

D. Helicopter Services Agreement

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

The Helicopter Services Agreement will expire on 8 October 2013. On 16 January 2013, the Helicopter Services Agreement was renewed for a further term of three years commencing from 1 January 2013 and ending on 31 December 2015. Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Services Agreement remain the same.

The annual cap under the Renewed Helicopter Services Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is US$2,000,000 respectively, which is the same annual cap for the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 under the Helicopter Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's expected requirements for helicopter services over the next three years, having regard to the Group's planned activities in areas that are only accessible by helicopter.

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

E. Aircraft Agreement

On 29 September 2010, the Company and Millennium Implementation Limited entered into an agreement (the "Aircraft Agreement") under which the Group uses an aircraft owned by Millennium Implementation Limited. Millennium Implementation Limited is a company associated with Dr Maslovskiy, who is deemed to be a connected person of the Company. The arrangement assists directors and employees of the Group to visit the locations of the Group's major operations quickly. The Company agrees to reimburse Millennium Implementation Limited for the use of the aircraft and the reimbursement is calculated based on a fixed hourly charge, which includes fixed cost and variable cost components. The hourly charge is multiplied by the number of hours flown.

The Aircraft Agreement will expire on 8 October 2013. On 27 December 2012, the Aircraft Agreement was renewed for a further term of three years commencing from 1 January 2013 and ending on 31 December 2015. Apart from changes made to update the effective period of renewal, all other terms and conditions of the Aircraft Agreement remain the same.

The annual cap under the Renewed Aircraft Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is US$1,000,000 respectively, which is the same annual cap for the three years ended 31 December 2010, 31 December 2011 and 31 December 2012 under the Aircraft Agreement. The proposed annual cap amounts have been determined based on historical transaction figures and the Group's planned activities and operations over the next three years, with a buffer to provide flexibility for any increase in use of the aircraft by the Group.

F. Banking Arrangements

The Group has an agreement with OJSC Asian-Pacific Bank ("Asian-Pacific Bank") to maintain bank deposits on commercial terms ("Banking Arrangements"). Dr. Pavel Maslovskiy, who is deemed to be a connected person of the Company, and Mr. Peter Hambro, the father of a Director of the Company, each holds a 25% interest in the company, V.M.H.Y. Holdings Limited, a 98% shareholder of the Russian company PPFIN Holding, which in turn holds a 67.6% interest in Asian-Pacific Bank. The interests of Dr. Maslovskiy and Mr. Hambro are aggregated under Listing Rule 14A.11, with the result that Asian-Pacific Bank is a connected person of the Company. Accordingly, the Banking Arrangements are classified as a continuing connected transaction for the purposes of the Listing Rules. The current Banking Arrangements has an annual cap of US$30,000,000 per year.

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

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

Second, Asian-Pacific Bank is located in Blagoveshchensk in the Amur Region. It is one of the most established banks in the Amur Region, and accordingly it is familiar with the area in which the Group's operations are located. The Directors believe that maintaining a rolling deposit with Asian-Pacific Bank of an amount up to the annual cap of US$30,000,000 will enable the Group to meet its anticipated day to day working capital requirements and to procure supplies and capital expenditure from vendors located in the Russian Far East, while also earning a competitive deposit rate, which is in the best interests of the Group.

G. Apatit Services Agreements

JSC PhosAgro ("PhosAgro") holds a 25% interest in Giproruda, a subsidiary of the Company. Accordingly, PhosAgro is a connected person of the Company. Apatit, a subsidiary of PhosAgro, is also a connected person of the Company because it is an associate of PhosAgro for the purposes of Chapter 14A. Apatit procures mine design services from Giproruda in respect of its mining operations located in the west of Russia ("Apatit Services Agreements"). The Apatit Services Agreements are continuing connected transactions for the purposes of the Listing Rules. Giproruda provides the services on similar terms to those it would provide to a third party, and the services are typical of the services it provides to other third parties. The current Apatit Services Agreements has an annual cap of US$5,000,000 per year.

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

— in the ordinary and usual course of business of the Company;

— on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from, as appropriate, independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance

Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31 December 2012 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the respective caps.

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

One-off Connected Transaction

LLC KS GOK, a wholly owned subsidiary of the Company, disposed certain mining equipment to LLC Albynskiy Rudnik pursuant to a Sale and Purchase Agreement dated 11 January 2012. LLC Albynskiy Rudnik is a subsidiary of Petropavlovsk and therefore is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules.

The disposal of the mining equipment was completed in January 2012. The consideration for the disposal of the mining equipment was a cash payment by LLC Albynskiy Rudnik to the Group of approximately US$5,300,000. The consideration was arrived at after arm's length negotiations between the Group and LLC Albynskiy Rudnik, taking into account various factors, including the international and local market values of similar equipment in a similar condition, and the costs involved in ordering new equipment for the Group as replacement. The original acquisition cost of the mining equipment, which was acquired in 2011, amounted to approximately US$4,200,000.

The above connected transactions are also reported in Note 45 of the consolidated financial statements of this Annual Report as Related Party Transactions.

EMOLUMENT POLICY

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 11 to the consolidated financial statements. The emolument policy of the employees of the Group is set up by the Remuneration and/or Executive Committees on the basis of their merit, qualifications and competence.

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

A key element of senior management remuneration is the Long Term Incentive Plan ("LTIP"). The LTIP is designed to align the interests of management with those of shareholders, and to incentivise performance. Please refer to the paragraph "Remuneration Committee" in Corporate Governance Report on page 40 and Note 1 under "Long positions in shares of the company" on page 45 for more details.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for 97% of the total revenue for the year. The largest of them accounted for 75% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 50% of the Group's total purchases for the year. The largest supplier represented 18% of the Group's total purchases for the year.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

GUARANTEE

The Group obtained a banking facility of US$340,000,000 which is guaranteed by Petropavlovsk, the controlling shareholder of the Company. The banking facility agreement contains certain covenants on Petropavlovsk, the details of which are set out in note 45 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 39 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

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

REVIEW BY THE AUDIT COMMITTEE

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

On behalf of the Board

George Jay Hambro
Chairman

12 March 2013

RESULTS OF OPERATIONS

The following table sets out the consolidated income statement for IRC for the year ended 31 December 2011 and 2012.

	2012 US$'000	2011 US$'000
Revenue		
Iron Ore Concentrate	109,953	110,388
Ilmenite	18,513	—
Engineering Services	11,221	11,820
Total Revenue	139,687	122,208
Site operating expenses and service costs	(137,612)	(104,677)
Central administration expenses	(26,197)	(26,597)
Impairment charges	(27,051)	—
	(51,173)	(9,066)
Share of results of joint venture and associate	(2,523)	(428)
Net operating loss	(53,696)	(9,494)
Other gains and losses and other expenses	2,619	12,593
Financial (expenses) income, net	(1,798)	161
(Loss) profit before taxation	(52,875)	3,260
Taxation expense	(168)	(1,684)
(Loss) profit for the year	(53,043)	1,576
Non-controlling interests	(189)	(575)
(Loss) profit for the year attributable to owners of the Company	(53,232)	1,001

REVENUE

Iron ore concentrate

Volume of iron ore sold in 2012 increased by 27% from 770,088 tonnes in 2011 to 980,543 tonnes in 2012. However, revenue decreased by US$0.4 million to US$110.0 million in 2012 as compared to US$110.4 million in 2011. This was primarily due to the softening of the iron ore price in 2012 which offset the increase in Sales Volume. The average selling price of iron ore dropped by approximately 22% from US$143 per ton in 2011 to US$112 per ton in 2012. Nevertheless, iron ore prices continued to strengthen in the first couple of months in 2013.

Ilmenite

Approximately 121,238 tonnes of ilmenite were sold in 2012 compared to 51,737 tonnes in 2011, representing a 134% increase. In the second half of 2012, it was determined that ilmenite, which had previously been classified as a by-product, had become a more significant product due to its increased contribution to revenue as a result of increased ilmenite prices and production volumes. As such, ilmenite sales in the second half of 2012 of US$18.5 million were recorded as a revenue item while previously, as a by-product it was treated as a credit to operating expenses.

Engineering service revenue

Engineering service revenues from our Giproruda, our small complementary mine design business, decreased by 5.1% from US$11.8 million to US$11.2 million reflecting a slight decreased billing of our consulting services.

OPERATING EXPENSES

Site operating expenses and service costs

In 2012, our production volume increased following the full ramp up for iron ore in 2011 and ilmenite in 2012 at the Kuranakh Processing Plant. In the second half of 2012, we began to recognise ilmenite as revenue as previously stated. Consequently, in line with increased volumes, site operating expenses and service costs, including staff costs, higher fuel and consumables cost, associated costs of marketing and railway tariffs, also increased concomitantly. Total site operating expenses and service costs for Kuranakh in 2012 amounted to US$122.0 million (2011: US$90.1 million), of which US$45.5 million was railway tariffs and related transportation costs (2011: US$33.7 million). During 2012, we produced 969,436 tonnes of iron ore concentrate to which we incurred US$54.4 million of production cash cost. For consistency, the table below shows ilmenite sales as a cash cost credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore (similar to first half of 2012). The table below details the key cash cost components:

	US$ million	US$/t
Mining	30.2	31.1
Processing	18.2	18.7
Transportation to plant	7.8	8.0
Production overheads	10.4	10.8
Site administration and others	12.2	12.6
Contribution from sales of ilmenite concentrate* and others	(24.4)	(25.2)
Total	54.4	56.0

* net of tariff and other railway charges for ilmenite

CENTRAL ADMINISTRATION EXPENSES

In the light of the challenging operating environment, additional attention was paid to maintaining and controlling costs. Despite the increase in production volume and developments in our mines and other projects, IRC's administrative expenses of US$26.2 million incurred in 2012 is 1.5% lower than that of 2011 of US$26.6 million.

IMPAIRMENT CHARGES

In 2012, we booked an impairment charge of US$27.1 million (2011: Nil) to write down the carrying values of two of our non-core projects.

We have reassessed the coal deposits associated with our K&S project during the year and concluded that this is of no commercial value due to the estimated high cost of production and the fact that we would not consider the coal project as an independent exploration project. Hence, we wrote off the full amount of US$21.0 million in 2012.

The provisional goodwill of US$6.1 million recognised in 2011 in respect of the acquisition of additional equity interest in the Jiatai Titanium joint venture was reallocated to land use right in 2012. The amount represented the carrying value of the land use right which was arrived at with reference to the market value of the land. By the end of June 2012, we were advised by the potential venture partner that they would not be able to proceed with the investment and we concluded that the most appropriate approach is to fully impair the land use right.

NET OPERATING LOSS

As a result of the above, our net operating loss in 2012 increased by US$44.2 million, to US$53.7 million, mainly resulted from the softening of iron ore prices in 2012 and the non-cash impairment charges relating to the Jiatai and coal projects.

OTHER GAINS AND LOSSES AND OTHER EXPENSES

This year, we recorded other gains of US$2.6 million primarily attributable to net foreign exchange gain of US$1.7 million. In 2011, we recorded other gains of US$12.6 million, primarily comprising a derecognition of a third party payable of US$7.5 million relating to acquisition of a technology know-how.

NET FINANCIAL (EXPENSE)/INCOME

In 2012, the Group reported a net financial expense of US$1.8 million, as compared to a net financial income of US$0.1 million over last year, mainly due to the drawdown of short term working capital facilities in 2012.

(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As a result of the above, we recorded a loss US$53.2 million attributable to the owners of the Company in 2012 (2011: profit of US$1.0 million).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position and capital expenditure

As at 31 December 2012, the carrying amount of the Group's cash and bank balances was approximately US$24.0 million (31 December 2011: US$39.2 million), of which US$6.0 million is under restricted cash deposit. This represents a decrease of US$15.2 million, of which the majority was spent on the mine development for the K&S project. It is anticipated that most of the future capital expenditure in 2013 for the development of the K&S project would be funded by the undrawn facility from ICBC loan amounting to approximately US$220.6 million.

EXPENDITURE INCURRED ON EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During 2012, US$255.9 million (2011: US$242.0 million) was incurred on exploration, development and mining production activities, details of which are set out below:

In millions of US Dollars	Operating expenses US$'M	Capital expenditure US$'M	For the year ended 31 December 2012 Total US$'M	For the year ended 31 December 2011 Total US$'M
Kuranakh	112.2	15.9	128.1	98.7
K&S	0.8	122.9	123.7	123.6
Other exploration projects	0.5	3.6	4.1	19.7
	113.5	**142.4**	**255.9**	**242.0**

BORROWINGS AND CHARGES

As of 31 December 2012, the Group had a gross borrowing of US$144.7 million (2011: US$22.0 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US$25.3 million is unsecured bank and inter-group borrowings repayable within one year while the remaining US$119.4 million represents long term borrowing drawn from the US$340 million ICBC loan facility which is guaranteed by Petropavlovsk. The Group has kept its borrowing costs at market level, with its weighted average interest rate at approximately 6.3% per annum. As at 31 December 2012, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, remained at a healthy level of 12.2% (31 December 2011: Nil%).

RISK OF EXCHANGE RATE FLUCTUATION

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

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2012, the Group employed a total of approximately 2,140 employees. The total staff costs excluding share based payments incurred were approximately US$55.2 million for 2012 (2011: US$46.2 million), representing general increase of salaries and overall increase of employees throughout the year. The emolument policy for the Group's employees is set up by the Executive Committee on the basis of their merit, qualifications and competence.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF IRC LIMITED
鐵江現貨有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 130, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

12 March 2013

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
Revenue	8	139,687	122,208
Operating expenses	9	(163,809)	(131,274)
Impairment charges	12	(27,051)	—
		(51,173)	(9,066)
Share of results of an associate	24	(185)	87
Share of results of joint ventures	25	(2,338)	(515)
Net operating loss		(53,696)	(9,494)
Other gains and losses and other expenses	13	2,619	12,593
Financial income	14	412	716
Financial expenses	15	(2,210)	(555)
(Loss) profit before taxation		(52,875)	3,260
Taxation expense	16	(168)	(1,684)
(Loss) profit for the year		(53,043)	1,576
(Loss) profit for the year attributable to:			
Owners of the Company		(53,232)	1,001
Non-controlling interests		189	575
		(53,043)	1,576
(Loss) earnings per share (US cents)	18		
Basic		(1.61)	0.03
Diluted		(1.61)	0.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 US$'000	2011 US$'000
(Loss) profit for the year	(53,043)	1,576
Other comprehensive income (expenses) for the year:		
Exchange differences on translation of foreign operations	1,158	(420)
Reclassification adjustment on translation difference upon acquisition of additional interest in Jiatai Titanium project	—	(882)
Total comprehensive (expenses) income for the year	(51,885)	274
Total comprehensive (expenses) income attributable to:		
Owners of the Company	(52,364)	(25)
Non-controlling interests	479	299
	(51,885)	274

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000 (restated)
NON-CURRENT ASSETS			
Exploration and evaluation assets	20	65,440	44,493
Property, plant and equipment	21	598,693	568,385
Land use right	23	—	6,061
Interest in an associate	24	—	703
Interests in joint ventures	25	4,887	7,086
Other non-current assets	26	171,479	98,360
Restricted bank deposit	35	6,000	6,000
		846,499	731,088
CURRENT ASSETS			
Inventories	27	42,966	41,301
Trade and other receivables	28	54,525	57,005
Time deposit	29	2,500	—
Cash and cash equivalents	31	15,536	33,188
		115,527	131,494
TOTAL ASSETS		962,026	862,582
CURRENT LIABILITIES			
Trade and other payables	32	(23,913)	(21,616)
Current income tax payable		(353)	(293)
Loan from a related party	33	(10,260)	—
Bank borrowings — due within one year	35	(15,000)	(15,000)
		(49,526)	(36,909)
NET CURRENT ASSETS		66,001	94,585
TOTAL ASSETS LESS CURRENT LIABILITIES		912,500	825,673
NON-CURRENT LIABILITIES			
Deferred tax liabilities	34	(1,868)	(2,160)
Provision for close down and restoration costs	36	(14,626)	(4,092)
Bank borrowings — due more than one year	35	(108,491)	(6,343)
		(124,985)	(12,595)
TOTAL LIABILITIES		(174,511)	(49,504)
NET ASSETS		787,515	813,078

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000 (restated)
CAPITAL AND RESERVES			
Share capital	37	4,500	4,330
Share premium		1,042,016	1,029,131
Treasury shares	38	(43,000)	(43,000)
Capital reserve		17,984	17,918
Reserves		42,770	35,209
Accumulated losses		(288,367)	(235,135)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		775,903	808,453
NON-CONTROLLING INTERESTS		11,612	4,625
TOTAL EQUITY		787,515	813,078

The consolidated financial statements on pages 58 to 130 were approved and authorised for issue by the Board of Directors on 12 March 2013 and are signed on its behalf by:

DIRECTOR

Raymond Woo.

DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	21	6	28
Investment in subsidiaries	22	1,016,772	1,007,358
		1,016,778	1,007,386
CURRENT ASSETS			
Prepayment	28	139	196
Amounts due from subsidiaries	30	600	20
Cash and cash equivalents	31	822	7,185
		1,561	7,401
TOTAL ASSETS		1,018,339	1,014,787
CURRENT LIABILITIES			
Amounts due to subsidiaries	30	(1,214)	(756)
Accruals and other payables	32	(2,937)	(2,212)
		(4,151)	(2,968)
NET CURRENT (LIABILITIES) ASSETS		(2,590)	4,433
NET ASSETS		1,014,188	1,011,819
CAPITAL AND RESERVES			
Share capital	37	4,500	4,330
Share premium		1,042,016	1,029,131
Capital reserve		592	526
Share-based payments reserve	41	14,578	7,885
Accumulated losses	39	(47,498)	(30,053)
TOTAL EQUITY		1,014,188	1,011,819

Raymond Woo.

DIRECTOR DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Total attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Capital reserve[c] US$'000	Treasury shares US$'000	Accumulated losses US$'000	Share-based payments reserve US$'000	Translation reserve US$'000	Other reserves[b] US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 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	–	–	–	–	–	–	(144)	–	(144)	(276)	(420)
Reclassification to profit or loss upon acquisition of additional interest in Jiatai Titanium project (note 44(a))	–	–	–	–	–	–	(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 (a)	–	–	700	–	–	–	–	–	700	–	700
Reversal of over-accrued listing-related expenses	–	663	–	–	–	–	–	–	663	–	663
Balance at 31 December 2011 and 1 January 2012	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 year	–	–	–	–	(53,232)	–	–	–	(53,232)	189	(53,043)
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	868	–	868	290	1,158
Total comprehensive (expenses) income for the year	–	–	–	–	(53,232)	–	868	–	(52,364)	479	(51,885)
Share-based payments	–	–	66	–	–	6,693	–	–	6,759	–	6,759
Issue of new shares for acquisition of subsidiaries (note 44)	170	12,885	–	–	–	–	–	–	13,055	–	13,055
Non-controlling interests arising on acquisition of subsidiaries (note 44)	–	–	–	–	–	–	–	–	–	6,508	6,508
Balance at 31 December 2012	4,500	1,042,016	17,984	(43,000)	(288,367)	25,686	(14,973)	32,057	775,903	11,612	787,515

(a) 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.

(b) 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").

(c) The amounts represent 1) reserve in relation to note (a) and 2) deemed contribution from ultimate holding company for share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of ultimate holding company.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
OPERATING ACTIVITIES			
Net cash from (used in) operations	40	3,047	(24,778)
Interest expenses paid		(3,328)	(140)
Income tax paid		(597)	(562)
NET CASH USED IN OPERATING ACTIVITIES		(878)	(25,480)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and exploration and evaluation assets		(142,612)	(158,554)
Acquisition of a subsidiaries, net of cash acquired	44	920	(2,185)
Contribution to share capital of an associate	24	—	(616)
Interest received		412	716
Restricted bank deposits placed	35	—	(6,000)
Time deposit placed	29	(2,500)	—
Proceeds on disposal of property, plant and equipment		5,706	324
NET CASH USED IN INVESTING ACTIVITIES		(138,074)	(166,315)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		151,229	21,958
Loan advanced from a related party		10,000	—
Insurance premium paid		—	(22,520)
Loan arrangement and commitment fees paid		(1,500)	(3,370)
Repayment of bank borrowings		(38,750)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		120,979	(3,932)
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(17,973)	(195,727)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		33,188	225,468
Effect of foreign exchange rate changes		321	3,447
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		15,536	33,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industry across the world. The main activities of the Group are in Russia and China and the Group predominantly serves the Russian and Chinese markets. The activities of the Company's principal subsidiaries are set out in note 46.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the 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 year and the Group's capital and other commitments (see note 21), against cash and cash equivalents maintained by the Group as at 31 December 2012. The directors of the Company have considered the expected cash proceeds for the Share Issue Transaction (as defined and disclosed in note 47) and 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.

3. ADJUSTMENTS TO PROVISIONAL AMOUNTS

The fair value assessment in respect of the acquisition of Jiatai Titanium Project (see note 44(a)) 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 US$'000 (originally stated)	Restatement US$'000	31 December 2011 and 1 January 2012 US$'000 (as restated)
Goodwill	6,061	(6,061)	—
Land use right	—	6,061	6,061
	6,061	—	6,061

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's and the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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 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. The Directors anticipated 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.

HK(IFRIC)-Int 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply HK(IFRIC)-Int 20 for the first time. However, HK(IFRIC)-Int 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The directors anticipate that the interpretation will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and are in progress to quantify the impact to the Group's consolidated financial statements.

5. 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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of 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 existing 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 recognise 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.

Business combinations

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 generally recognised in profit or loss as incurred.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

- deferred tax assets or liabilities, and assets or liabilities 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 share-based payment arrangements 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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 acquire (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.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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 transaction does not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The assets and liabilities acquired are recognised at cost allocated based on their relative fair value at date of purchase.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures

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 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' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

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

Investments in associates

An associate is an entity over which the Group 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 and 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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (i.e. the currency of the primary economic environment in which the entity operates, i.e. United States dollars) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 recognised 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 period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On 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.

Exploration and evaluation 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 exploration and evaluation assets for mining projects at the exploration stage.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation assets (Continued)

Exploration and evaluation expenditure and mineral rights acquired (Continued)

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 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 exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Property, plant and equipment

Non-mining assets

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

Capital construction in progress

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

Mine development costs and mining assets

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Deferred stripping costs

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

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

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

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

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

Depreciation

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

Mining assets which are plant and machineries acquired to undertake mining activities are depreciated on a straight-line basis based on estimated useful lives of 2 to 20 years. Other mining assets for which economic benefits from the asset are consumed in a pattern linked to the production level, are depreciated using a units of production method based on ore reserves, which in turn results in a depreciation charge proportional to the depletion of reserves.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation (Continued)

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

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

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

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

Impairment losses of tangible and intangible assets excluding goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual assets, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

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 immediately in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses of tangible and intangible assets excluding goodwill (see the accounting policy in respect of goodwill above) (Continued)

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 12.

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 costs of continuous rehabilitation are charged to profit or loss as incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or if appropriate, a shorter period to the net carrying amount on initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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, time 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.

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 by the Company are recorded at the proceeds received, net of direct issue costs.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire.

On derecognition of a financial asset in its entirely, 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Leasing

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

The Group as lessor

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

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and sales-related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Engineering contracts

Where 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 the reporting period. The stage of completion is measured by reference to estimates of work performed to date.

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

When 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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Taxation 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 before tax' 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 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. Deferred tax assets are generally recognised for all deductible differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured 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.

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. Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefit trust ("EBT")

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

Retirement benefit costs

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, management has made the following key assumptions concerning future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of assets and assessment of cash generating units

The Group reviews the carrying value of its exploration and evaluation assets, property, plant and equipment, 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.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Ore reserve estimates (Continued)

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

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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. Russian tax and currency control legislation is subject to varying interpretations. Fines and penalties for any errors and omissions could be significant. The directors of the Company 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.

7. SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires the Group to disclose reported segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into four operating segments, Mines in Production, Mines in Development, Engineering, and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. No operating segments identified by the Group's Executive Committee have been aggregated in arriving at the reportable segments of the Group. The Group has four reportable segments under HKFRS 8:

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region").
- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the K&S project, the Garinskoye project, the Bolshoi Seym project, the Molybdenum Exploration project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russian Far East region.
- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.
- Other segment ("Other") primarily includes the Jiatai Titanium project (as defined in note 25) for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interest in other joint venture arrangements for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 5. 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 and financial expenses.

Segment results represents the profit (loss) generated by each segment for the purpose of monitoring segment performance.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than central cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than deferred tax, loan from a related party and bank borrowings.

7. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2012

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	128,466	—	11,221	—	139,687
Segment revenue	128,466	—	11,221	—	139,687
Site operating expenses and service costs	(122,048)	(1,265)	(10,610)	(3,689)	(137,612)
Site operating expenses and service costs include:					
Depreciation and amortisation	(9,882)	(4,644)	(480)	(86)	(15,092)
Impairment charges	—	(20,990)	—	(6,061)	(27,051)
Share of results of joint ventures	—	—	—	(2,338)	(2,338)
Share of results of an associate	—	(185)	—	—	(185)
Segment profit (loss)	6,418	(22,440)	611	(12,088)	(27,499)
Central administrative expenses					(25,843)
Central depreciation and amortisation					(354)
Other gains and losses and other expenses					2,619
Financial income					412
Financial expenses					(2,210)
Loss before taxation					(52,875)
Other segment information					
Additions to non-current assets:					
Capital expenditure	17,202	54,426	229	108	71,965
Exploration and evaluation expenditure capitalised	—	1,369	—	—	1,369
Exploration and evaluation assets acquired on acquisition of subsidiaries	—	19,578	—	—	19,578
Segment assets	170,548	756,677	20,942	11,880	960,047
Central cash and cash equivalents					1,979
Consolidated assets					962,026
Segment liabilities	(12,764)	(16,126)	(1,745)	(8,257)	(38,892)
Bank borrowings					(123,491)
Loans payable to a related party					(10,260)
Deferred tax liabilities					(1,868)
Consolidated liabilities					(174,511)

7. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2011

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	110,388	—	11,820	—	122,208
Segment revenue	110,388	—	11,820	—	122,208
Site operating expenses and service costs	(90,141)	(887)	(9,440)	(4,209)	(104,677)
Site operating expenses and service costs include:					
Depreciation and amortisation	(7,241)	(3,041)	(529)	(92)	(10,903)
Share of results of joint ventures	—	—	—	(515)	(515)
Share of results of an associate	—	87	—	—	87
Segment profit (loss)	20,247	(800)	2,380	(4,724)	17,103
Central administrative expenses					(26,214)
Central depreciation and amortisation					(383)
Other gains and losses and other expenses					12,593
Financial income					716
Financial expenses					(555)
Profit before taxation					3,260
Other segment information					
Additions to non-current assets:					
Capital expenditure	12,331	74,896	345	352	87,924
Exploration and evaluation expenditure capitalised	—	12,960	—	—	12,960
Segment assets	156,896	648,848	21,300	20,750	847,794
Central cash and cash equivalents					14,788
Consolidated assets					862,582
Segment liabilities	(12,192)	(3,994)	(3,250)	(6,565)	(26,001)
Bank borrowings					(21,343)
Deferred tax liabilities					(2,160)
Consolidated liabilities					(49,504)

7. SEGMENT INFORMATION (Continued)

Revenue from major products and services

In July 2012, the Group determined that ilmenite, which had previously been classified as a by-product, should hence to be a major product due to the increasing importance of ilmenite to the group's operations, due notably to increasing revenues derived from the product along with continuing investments in ilmenite production capacity and the significantly increased price per ton compared to prior years. The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	2012 US$'000	2011 US$'000
Iron ore concentrate	109,953	110,388
Ilmenite	18,513	—
Engineering services	11,221	11,820
	139,687	122,208

Revenue by geographical location[a]

	2012 US$'000	2011 US$'000
Russia and the Commonwealth of Independent States ("CIS")	11,297	11,820
PRC	128,390	110,388
	139,687	122,208

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

Non-current assets by location of asset[b]

	2012 US$'000	2011 US$'000
Russia	834,033	717,295
PRC	5,489	7,765
Hong Kong	977	28
	840,499	725,088

(b) Excluding financial assets.

7. SEGMENT INFORMATION (Continued)

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and ilmenite and rendering engineering services to a number of individual third party customers during the years ended 31 December 2012 and 2011. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2012 sales were made to Heilongjiang Jianlong Steel Company Limited (US$104,684,000) and Ningbo Xinfu Titanium Dioxide Company Limited (US$17,341,000) attributable to the Mines in Production segment comprising 75% and 12% of the total revenue respectively. There were no other customers that contributed over 10% on the total revenue of the Group during the year ended 31 December 2012.

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.

8. REVENUE

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

	2012 US$'000	2011 US$'000
Revenue		
Sales of goods	128,466	110,388
Rendering of services	11,221	11,820
	139,687	122,208

9. OPERATING EXPENSES

	2012 US$'000	2011 US$'000
Operating expenses		
Site operating expenses and service costs[a]	137,612	104,677
Central administration expenses[b]	26,197	26,597
	163,809	131,274

9. OPERATING EXPENSES (Continued)

(a) Site operating expenses and service costs

	2012 US$'000	2011 US$'000
Staff costs	44,398	37,127
Fuel	15,782	12,614
Materials	21,004	16,846
Depreciation	15,092	10,903
Electricity	2,762	2,770
Royalties	2,262	1,218
Railway tariff	45,479	30,597
Movement in finished goods and work in progress	(14,739)	(8,142)
Engineering services cost	13,469	9,017
Professional fees*	543	767
Bank charges	487	332
Insurance	33	129
Office rent	1,067	791
Business travel expenses	683	1,110
Office costs	2,565	1,999
Mine development costs capitalised in property, plant and equipment	(24,711)	(20,974)
Allowance for (reversal of) allowance for bad debts**	654	(190)
Other expenses	10,782	7,763
	137,612	104,677

(b) Central administration expenses

	2012 US$'000	2011 US$'000
Staff costs	10,794	9,109
Depreciation	354	383
Professional fees*	3,499	2,967
Bank charges	53	78
Insurance	281	584
Office rent	1,802	1,750
Business travel expenses	1,435	2,757
Share-based payments	6,759	6,823
Office costs	779	674
Other expenses	1,092	2,404
Rental income less negligible outgoings	(651)	(932)
	26,197	26,597

* 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 was recognised in profit and loss for the year ended 31 December 2011, which represented certain recovery of a trade debtor at OJSC Giproruda.

10. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2012 US$'000	2011 US$'000
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group's consolidated financial statements	514	478
Non-audit fees		
Other services	133	125
Total	647	603

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The aggregate remuneration of employees (including directors) comprised:

	2012 US$'000	2011 US$'000
Wages and salaries	43,515	36,812
Social security and other benefits	11,404	9,185
Retirement benefit contribution	273	239
Share-based payments	6,759	6,823
	61,951	53,059

	2012 US$'000	2011 US$'000
Directors' Emoluments		
Emoluments for executive directors:		
— salaries and other benefits	2,895	1,815
— retirement benefit contribution	250	225
— share-based payments	4,066	4,125
Emoluments for non-executive directors:		
— directors' fees	536	623
	7,747	6,788

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

	Directors' fees US$'000	Salaries and other benefits US$'000	Performance bonus[a] US$'000	Retirement benefit contribution US$'000	Share-based payments[b] US$'000	Total US$'000
Year ended 31 December 2012						
Executive directors of the Company:						
George Jay Hambro	—	780[c]	353	98	1,615	2,846
Yury Makarov	—	694	313	87	1,417	2,511
Raymond Woo	—	520	235	65	1,034	1,854
Non-executive directors of the Company:						
Non independent non-executive directors						
Simon Murray	104	—	—	—	—	104
Independent non-executive directors						
Daniel Bradshaw	144	—	—	—	—	144
Jonathan Martin Smith	144	—	—	—	—	144
Chuang-fei Li	144	—	—	—	—	144
	536	1,994	901	250	4,066	7,747

	Directors' fees US$'000	Salaries and other benefits US$'000	Performance bonus[a] US$'000	Retirement benefit contribution US$'000	Share-based payments[b] US$'000	Total US$'000
Year ended 31 December 2011						
Executive directors of the Company:						
George Jay Hambro	—	705[c]	—	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:						
Non independent non-executive directors						
Simon Murray	102	—	—	—	—	102
Dr. Pavel Maslovskiy (resigned on 20 December 2011)	98	—	—	—	—	98
Independent non-executive directors						
Daniel Bradshaw	141	—	—	—	—	141
Jonathan Martin Smith	141	—	—	—	—	141
Chuang-fei Li	141	—	—	—	—	141
	623	1,815	—	225	4,125	6,788

(a) The performance bonus is determined by the remuneration committee having regard to the performance of individuals and the Group's performance.

(b) The share-based payments were recognised in accordance with the relevant accounting standards and for details, please refer to note 41.

(c) The amounts included in salaries and other benefits of US$115,000 (2011: nil) and retirement benefit contribution of US$14,000 (2011: nil) were paid to an independent service company providing management services that is consequently classed as an affiliated company to the employee.

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.

Mr. Yury Makarov is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEE'S EMOLUMENTS (Continued)

Five highest paid individuals

For the year ended 31 December 2012, the five highest paid individuals included three directors of the Company (2011: three directors of the Company). The emoluments of the remaining highest paid individuals for the years ended 31 December 2012 and 2011 are as follows:

	2012 US$'000	2011 US$'000
Employees		
— salaries and other benefits	564	641
— share-based payments	496	495
	1,060	1,136

Their emoluments were within the following bands:

	No. of Directors 2012	No. of Directors 2011
HK$3,500,001 to HK$4,000,000 (equivalent to approximately US$448,719 to US$512,820)	1	—
HK$4,000,001 to HK$4,500,000 (equivalent to approximately US$512,821 to US$576,923)	1	1
HK$4,500,001 to HK$5,000,000 (equivalent to approximately US$576,924 to US$641,025)	—	1
	2	2

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.

12. IMPAIRMENT CHARGES

In December 2012, the directors of the Company assessed that thermal coal deposits associated with K&S project does not have commercial value with the assistance of in-house geologists and the Group decided to suspend the development of such thermal coal deposits indefinitely. As a result, the directors concluded that the most appropriate course of action were to provide full impairment against the carrying values of the long-lived assets in relation to the thermal coal deposits of approximately US$20,990,000 (2011: nil), which is mainly included in mine development costs within property, plant and equipment.

12. IMPAIRMENT CHARGES (Continued)

At 31 December 2012 and 2011, the Company considered whether there were any indicators that further impairment or the need to reverse previously recognised impairment existed at Kuranakh project and K&S project, which is at the developing stage and is located in the Evreyskaya Avtonomnaya Oblast of the Russian Federation ("EAO Region"). Management concluded that neither further impairment charge nor reversal of impairment charge is required for Kuranakh project and K&S project.

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:

	2012	2011
Real discount rate post-tax	10.6% and 13.0%	10.6% and 8.0%
Real discount rate pre-tax	13.2% and 16.3%	13.2% and 10.0%
Average Russian inflation rate from the year-end to 2043	2.0%	2.0%
Average Russian Rouble: US dollar exchange rate from the year-end to 2043	32.0	33.0
Average titanomagnetite concentrate prices from the year-end to 2043	US$/tonne 115.0	US$/tonne 130.0
Average ilmenite prices from the year-end to 2023	US$/tonne 260.0	US$/tonne 208.1

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

In 2011, the Group has successfully acquired the remaining 35% interest in Jiatai Titanium project (as defined in note 25) from the joint venture partner and plan to proceed with the project while seeking a different joint venture partner. Please see note 44(a) for details. In June 2012, 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 major long-lived assets relating to such project included land use right over a piece of land, and 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 doubt. The directors of the Company concluded that the most appropriate course of action was to recognise a full impairment charge of US$6,061,000. This impairment charge was recognised in the consolidated income statement for the year ended 31 December 2012.

13. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	2012 US$'000	2011 US$'000
Net foreign exchange gain	1,676	700
Reversal of listing expenses[a]	—	3,198
Gain on acquisition of an additional interest in Jiatai Titanium project (note 44(a))		
— Provision 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]	—	7,500
Gain (loss) on disposal of property, plant and equipment	943	(115)
	2,619	12,593

(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 31 December 2011, the Group and the third party entered into a novation agreement pursuant to which the obligations owed to each other was 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.

14. FINANCIAL INCOME

	2012 US$'000	2011 US$'000
Interest income on cash and cash equivalents	296	706
Interest income on time deposits	105	—
Interest income on other loans and receivables	11	10
	412	716

15. FINANCIAL EXPENSES

	2012 US$'000	2011 US$'000
Interest expenses on bank borrowings:		
— wholly repayable within five years	1,537	264
— not wholly repayable within five years	2,475	—
Interest expenses on loan from a related party, wholly repayable within five years (note 33)	446	—
Less: Interest expenses capitalised	(2,475)	—
	1,983	264
Unwinding of discount on environmental obligation	227	291
	2,210	555

16. TAXATION EXPENSE

	2012 US$'000	2011 US$'000
Russia current tax	(580)	(465)
Cyprus current tax	(4)	13
UK current tax	—	(700)
PRC Enterprise Income Tax	—	(270)
Current tax expense	(584)	(1,422)
Deferred tax credit (expense) (note 34)	416	(262)
	(168)	(1,684)

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

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

UK corporation tax is calculated at 24.5% and 26.5% of the estimated assessable profit for the years ended 31 December 2012 and 2011 respectively.

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% for both years.

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

16. TAXATION EXPENSE (Continued)

The charge for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2012 US$'000	2011 US$'000
(Loss) profit before taxation	(52,875)	3,260
Tax at the Russian corporation tax rate of 20%[a] for both years	(10,575)	652
Effect of different tax rates of subsidiaries' operations in other jurisdictions	(3,716)	1,272
Tax effect of share of results of joint ventures	468	103
Tax effect of share of results of an associate	37	(17)
Tax effect of tax losses not recognised	14,208	8,905
Tax effect of expenses that are not deductible in determining taxable profit[b]	5,638	5,577
Tax effect of income that is not taxable in determining taxable profit	(5,439)	(12,813)
Tax effect of utilisation of previously not recognised deductible temporary differences	(453)	(1,972)
Others	—	(23)
Taxation expense for the year	168	1,684

(a) The Group's major operating subsidiaries are all located in Russian and subjected to Russian corporation tax. Accordingly, Russian corporation tax rate is applied for tax reconciliation purpose.

(b) Amount in 2012 mainly related to the impairment charges for the year (see note 12) and the amount in 2011 mainly related to the non-deductible professional fees.

17. DIVIDENDS

No dividend was paid or proposed during 2012 and 2011, nor has any dividend been proposed since the end of the reporting period.

18. LOSS/EARNINGS PER SHARE

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

(Loss) Profit

	2012 US$'000	2011 US$'000
(Loss)/earnings for the purposes of basic and diluted loss/earnings per ordinary share being (loss) profit attributable to owners of the Company	(53,232)	1,001

Number of shares

	2012 Number '000	2011 Number '000
Weighted average number of ordinary shares for the purpose of basic loss/earnings per ordinary share	3,305,821	3,245,900
Effect of dilutive potential ordinary shares:		
Shares awarded under Long-term Incentive Plan	—	33,046
Weighted average number of ordinary shares for the purpose of diluted loss/earnings per ordinary share	3,305,821	3,278,946

The computation of weighted average number of ordinary shares for the purposes of basic loss/earnings per ordinary share for the years ended 31 December 2012 and 2011 does not take into account the Company's 116,100,000 treasury shares.

The computation of diluted loss per share for the year ended 31 December 2012 does not take into account of the Company's outstanding shares awarded under Long-term Incentive Plan which would result in a decrease in loss per share.

19. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	2012 US$'000	2011 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	9,982	1,963

19. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as a lessee (Continued)

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:

	2012 US$'000	2011 US$'000
Within one year	6,684	9,693
In the second to fifth years inclusive	7,334	20,921
	14,018	30,614

Operating lease payments represent rentals payable by the Group for certain of its office properties and transport equipment. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

The Group as a lessor

The Group earned property rental income of approximately US$651,000 during the year ended 31 December 2012 (2011: US$932,000), 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 2012 and 2011. At the end of both reporting periods, the Group had contracted with tenants for minimum lease payments due within eleven months. The total minimum lease payment is approximately US$657,000 and US$903,000 as at 31 December 2012 and 2011 respectively. This rental income is shown net of the associated cost within operating expenses.

20. EXPLORATION AND EVALUATION ASSETS

The Group

	2012 US$'000	2011 US$'000
At the beginning of the year	44,493	31,533
Additions	1,369	12,960
Acquired through acquisitions of subsidiaries	19,578	—
At the end of the year	65,440	44,493

Garinskoye and the Garinskoye and Kostengiskoye Flanks are classified as exploration and evaluation assets. Additions in both year 2012 and 2011 mainly related to exploration and evaluation expenses capitalized in exploration and evaluation assets. Bolshoi Seym Deposit and Molybdenum Exploration Project acquired during the year are also classified as exploration and evaluation assets. Please refer to note 44(b) and 44(c) for details.

21. 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 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 44(a))	—	—	658	—	658
Exchange adjustments	—	—	(550)	—	(550)
At 31 December 2011 and 1 January 2012	918,557	91,649	59,750	17,419	1,087,375
Additions	56,653	5,095	751	9,466	71,965
Transfers	(3,846)	14,173	570	(10,897)	—
Disposals	(5,076)	—	(1,062)	—	(6,138)
Exchange adjustments	—	—	685	—	685
At 31 December 2012	966,288	110,917	60,694	15,988	1,153,887
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 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 and 1 January 2012	(456,262)	(16,009)	(32,147)	(14,572)	(518,990)
Depreciation charge for the year	(4,487)	(9,779)	(1,996)	—	(16,262)
Impairment charge (note 12)	(20,911)	—	(79)	—	(20,990)
Eliminated on disposals	423	—	757	—	1,180
Exchange adjustments	—	—	(132)	—	(132)
At 31 December 2012	(481,237)	(25,788)	(33,597)	(14,572)	(555,194)
CARRYING AMOUNTS					
At 31 December 2012	485,051	85,129	27,097	1,416	598,693
At 31 December 2011	462,295	75,640	27,603	2,847	568,385

21. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvements US$'000	Computer equipment US$'000	Fixtures and equipment US$'000	Office equipment US$'000	Total US$'000
COST					
At 1 January 2011	9	6	3	46	64
Additions	—	10	—	—	10
At 31 December 2011 and 1 January 2012	9	16	3	46	74
Additions	—	—	—	—	—
At 31 December 2012	9	16	3	46	74
ACCUMULATED DEPRECIATION					
At 1 January 2011	(2)	(1)	(1)	(9)	(13)
Depreciation charge for the year	(4)	(4)	(1)	(24)	(33)
At 31 December 2011 and 1 January 2012	(6)	(5)	(2)	(33)	(46)
Depreciation charge for the year	(3)	(5)	(1)	(13)	(22)
At 31 December 2012	(9)	(10)	(3)	(46)	(68)
CARRYING AMOUNTS					
At 31 December 2012	—	6	—	—	6
At 31 December 2011	3	11	1	13	28

At 31 December 2012, cumulative capitalised borrowing costs of US$3,982,000 (31 December 2011: US$1,507,000) were included within mine development costs in the above table. Depreciation of US$819,000 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 2012 (31 December 2011: US$968,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US$6,320,000 and US$1,318,000 during each of the years ended 31 December 2012 and 2011 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 2012 and 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$247,415,000 and US$332,698,000 respectively. There were no authorized but not contracted commitments as at 31 December 2012 and 2011.

22. INVESTMENTS IN SUBSIDIARIES

The Company

	2012 US$'000	2011 US$'000
Unlisted shares at costs	1,016,772	1,007,358

The activities of the Company's principal subsidiaries are set out in note 46.

23. LAND USE RIGHT

	2012 US$'000	2011 US$'000 (restated)
At the beginning of the year	6,061	—
Acquired on acquisition of Heilongjiang Jiatai Titanium Limited (note 44(a))	—	6,061
Impairment recognised (note 12)	(6,061)	—
At the end of the year	—	6,061

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 (as defined in note 25).

In June 2012, 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 Group recognised an impairment charge of US$6,061,000 in the consolidated income statement for the year ended 31 December 2012 (see note 12 for details).

24. INTEREST IN AN ASSOCIATE

The Group

	2012 US$'000	2011 US$'000
At the beginning of the year	703	—
Capital contribution made	—	616
Share of results of an associate	(185)	87
Transfer to investment in a subsidiary upon acquisition of remaining interests in an associate (note 44(b))	(518)	—
At the end of the year	—	703

24. INTEREST IN AN ASSOCIATE (Continued)

Interest in an associate held at 31 December 2011 represented the Group's 49% ownership interest in the ordinary shares of LLC Uralmining ("Uralmining"). Uralmining is incorporated and principally carries out its mining and project development activities in Russia, where it holds the licence to develop the 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. Uralmining becomes a subsidiary of the Group from an associate thereof. Please refer to note 44(b) for details.

There was no revenue generated by the associate during the year ended 31 December 2012 and 2011. The summary of the financial information of the associate for the year attributable to the Group's interest therein are set out below.

	2011 US$'000
Total assets	16,136
Total liabilities	(14,701)
Net assets	1,435
Group's share of net assets of an associate	703

	2012 US$'000	2011 US$'000
Total revenue	—	—
Total (loss) profit for the year	(378)	177
Total other comprehensive income	—	—
Group's share of (loss) profit and other comprehensive (expense) income of associate for the year	(185)	87

25. INTERESTS IN JOINT VENTURES

The Group

	2012 US$'000	2011 US$'000
At the beginning of the year	7,086	10,346
Share of results of joint ventures	(2,338)	(515)
Transfer to investment in a subsidiary upon acquisition of remaining interest in Jiatai Titanium project (see note 44(a))	—	(3,215)
Exchange adjustments	139	470
At the end of the year	4,887	7,086

25. INTERESTS IN JOINT VENTURES (Continued)

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 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 44(a) 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.

The summary of the financial information of the Group's joint ventures for the year attributable to the Group's interest therein are set out below.

	2012 US$'000	2011 US$'000
Share of joint ventures' assets and liabilities:		
Non-current assets	20,583	13,530
Current assets	15,380	6,018
	35,963	19,548
Current liabilities	(24,451)	(5,296)
Non-current liabilities	(6,625)	(7,166)
The Group's share of net assets	4,887	7,086
Share of joint ventures' revenue and expenses:		
Revenue	7,704	—
Cost of sales	(9,270)	—
Net operating expenses	(344)	(478)
Operating loss	(1,910)	(478)
Financial income	15	26
Financial expenses	(445)	(63)
Other gains	2	—
The Group's share of loss for the year	(2,338)	(515)

26. OTHER NON-CURRENT ASSETS

The Group

	2012 US$'000	2011 US$'000
Deferred insurance premium for bank facilities	14,608	22,057
Prepayments for property, plant and equipment	150,280	68,580
Deferred loan arrangement fee	6,059	7,373
Cash advances to employees	532	350
	171,479	98,360

27. INVENTORIES

The Group

	2012 US$'000	2011 US$'000
Stores and spares	32,746	29,110
Work in progress	4,921	3,958
Finished goods	5,299	8,233
	42,966	41,301

No inventories had been pledged as security and written down to the net realisable value during the year ended 31 December 2012 and 2011.

The cost of inventory charged to the consolidated income statement and included in site operating expenses and service costs was approximately US$34,012,000 for the year ended 31 December 2012 (2011: US$24,207,000).

28. TRADE AND OTHER RECEIVABLES

The Group

	2012 US$'000	2011 US$'000
VAT recoverable	24,848	28,588
Advances to suppliers	8,724	13,401
Amounts due from customers under engineering contracts	1,267	2,514
Trade receivables	14,496	6,165
Other debtors	5,190	6,337
	54,525	57,005

28. TRADE AND OTHER RECEIVABLES (Continued)

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 2012 and 2011 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

The Group has concentration of credit risk as 80.7% (31 December 2011: 81.3%) of the total trade receivables was due from the Group's largest customer as at 31 December 2012. 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% (2011: 97%) 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 at the end of the reporting period.

	2012 US$'000	2011 US$'000
Less than one month	11,990	5,976
One month to three months	2,186	177
Over three months to six months	—	3
Over six months	320	9
Total	14,496	6,165

The Group allows credit periods ranging from 10 days to 45 days to individual third party customers. The directors of the Company considered that the carrying value of trade and other receivables is approximately equal to their fair value.

28. TRADE AND OTHER RECEIVABLES (Continued)

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

	2012 US$'000	2011 US$'000
Less than one month	26	—
One to three months	67	5
Over three months to six months	—	3
Over six months	320	3
Total	413	11

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

The following shows an analysis of movements in the allowance for doubtful debts in respect of trade receivables:

	2012 US$'000	2011 US$'000
At the beginning of the year	2,168	3,130
Changes in allowance for doubtful debts	654	(190)
Amounts written off as uncollectible	(496)	(707)
Exchange adjustments	224	(65)
At the end of the year	2,550	2,168

Included in the allowance for doubtful debts was impaired trade receivables of US$2,550,000 and US$2,168,000 as at 31 December 2012 and 2011, respectively. The amount mainly represented impairment for trade debtors at Giproruda and Olekma for the year ended 31 December 2012 (2011: full impairment for a trade debtors at Olekma) who are in severe financial difficulties and the probability for these trade debtors to settle the receivables is remote. The Group did not hold any collateral over these balances.

The Company

	2012 US$'000	2011 US$'000
Prepayment	139	196

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

29. TIME DEPOSITS

Time deposits of the Group comprised short-term bank deposits with an original maturity of six to nine months. The carrying amounts of the assets approximate their fair value. Time deposits carrying interest at prevailing market rate ranging from 3.2% to 5.0% (2011: nil) per annum.

30. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The Company

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

31. 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. Cash at banks carry interest at prevailing market rates ranging from 0.1% to 1.0% per annum for the years ended 31 December 2012 and 2011.

32. TRADE AND OTHER PAYABLES

The Group

	2012 US$'000	2011 US$'000
Trade creditors	10,214	10,512
Advances from customers	819	2,992
Accruals and other payables	12,880	8,112
	23,913	21,616

For individual third party trade creditors, the average credit period on purchases of goods and services for the year was 39 days (2011: 32 days).

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

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

	2012 US$'000	2011 US$'000
Less than one month	5,476	6,254
One month to three months	192	1,327
Over three months to six months	341	380
Over six months	4,205	763
	10,214	8,724
Trade payables not yet billed	—	1,788
Total	10,214	10,512

The Company

	2012 US$'000	2011 US$'000
Accruals and other payables	2,937	2,212

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

33. LOAN FROM A RELATED PARTY

The Group

On 20 July 2012, the Group has obtained a US$15,000,000 loan facility from Peter Hambro Mining Treasury UK Limited ("PHM"), a subsidiary of Petropavlovsk plc. The loan bears an annual interest of 10.30% and is repayable on 31 December 2012. The Group has drawn down US$9,000,000 and US$1,000,000 on 26 July 2012 and 27 July 2012, respectively. On 20 September 2012, the Group further entered into a supplement agreement with PHM to extend the repayment date to 30 April 2013. As at December 31 2012, the Company had US$5,000,000 undrawn loan facility from PHM.

34. 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 US$'000	Inventory US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2011	(1,465)	106	(665)	(2,024)
Credit (charge) to the consolidated income statement	14	35	(311)	(262)
Exchange adjustments	90	(24)	60	126
At 31 December 2011 and 1 January 2012	(1,361)	117	(916)	(2,160)
Credit to the consolidated income statement	30	111	275	416
Exchange adjustments	(95)	27	(56)	(124)
At 31 December 2012	(1,426)	255	(697)	(1,868)

At 31 December 2012 and 2011, the Group had unused tax losses of US$248.3 million and US$168.9 million respectively, majority of which will expire from 2016 to 2021. For the tax losses as at 31 December 2012 and 2011, 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 deductible temporary difference of US$37.3 million and US$33.4 million as at 31 December 2012 and 2011 respectively, in respect of temporary differences that arose on certain expense capitalised within "mine development costs" of property, plant and equipment. No deferred tax asset has been recognised in respect to these deductible temporary difference due to the unpredictability of future profit streams.

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$44.3 million and US$12.3 million at 31 December 2012 and 2011 respectively.

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

35. BANK BORROWINGS

	2012 US$'000	2011 US$'000
Bank loans		
Asian Pacific Bank	15,000	15,000
Industrial and Commercial Bank of China ("ICBC")	108,491	6,343
Total	123,491	21,343
Secured	108,491	6,343
Unsecured	15,000	15,000
Total	123,491	21,343
Carrying amount repayable		
Within one year	15,000	15,000
More than two years, but not exceeding five years	108,491	6,343
Total	123,491	21,343

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 bore an annual interest of 10% which was payable monthly. The principal of the loan was repaid on 9 October 2012.

On 21 August 2012, the Group entered into US$15,000,000 term-loan facility with Asian Pacific Bank. The loan bears an annual interest of 11% which is repayable monthly. The principal of the loan is repayable on 21 August 2013. As at 31 December 2012, the whole loan amount was drawn down under the loan facility.

On 26 December 2012, the Group entered into US$10,000,000 term-loan facility with Asian Pacific Bank. The loan bears an annual interest rate of 11.22% which is repayable monthly. The principal of the loan is repayable on 25 December 2013. As at 31 December 2012, the Group has not yet drawn down any amount from the loan facility.

As at 31 December 2012, the Group had US$10,000,000 (2011: nil) undrawn financial facility granted by Asian Pacific Bank.

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 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.

35. BANK BORROWINGS (Continued)

Bank loan from Industrial and Commercial Bank of China (Continued)

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 whole facility amount is repayable semi-annually starting from 2014 and is fully repayable by 2022.

On 14 December 2011, the Group made the first drawdown amounting to US$6,958,000. During the year ended 31 December 2012, the Group made further drawn downs amounting to US$112,479,000. The loan is carried at amortised cost with effective interest rate at 5.63% per annum. The outstanding bank borrowings was US$119,437,000 as at 31 December 2012, which is repayable semi-annually starting from 2014 and is expected to be fully repaid by 2017.

As at 31 December 2012, US$6,000,000 (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 bank deposit under non-current assets. The deposit carries interest at prevailing market rate at around 1.0% per annum for the years ended 31 December 2012 and 2011.

As at 31 December 2012 and 2011, the Group had approximately US$220,563,000 (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 45.

36. PROVISION FOR CLOSE DOWN AND RESTORATION COSTS

The Group

	2012 US$'000	2011 US$'000
At the beginning of year	4,092	3,607
Addition	10,732	—
Unwinding of discount	227	291
Exchange adjustments	240	(232)
Change in estimates	(665)	426
At the end of year	14,626	4,092

The account represents provision recognised in relation to mine closure, site and environmental restoration costs which are based on estimates provided by in-house engineers and geologists. The amount shown in 2011 represents the provision recognised for Kuranakh project, the expected timing of cash outflow on the closure of mining operations to be after 2020; the addition in 2012 represents the provision recognised for K&S project, the expected timing of cash outflow on the closure of mining operation to be after 2030.

37. SHARE CAPITAL

As disclosed in note 44(b) and 44(c), the Company has acquired two subsidiaries during the year ended 31 December 2012 by issuance and allotment of the ordinary shares of the Company, details are as follows:

	The Company	
	Number	US$'000
Authorised		
Ordinary shares of HK$0.01 each at 31 December 2011 and 2012	10,000,000,000	12,820
Allotted, called up and fully paid		
At 1 January 2011, 31 December 2011 and 1 January 2012	3,362,000,000	4,330
Issued during the year for acquisition of Uralmining (note 44(b))	74,681,360	96
Issued during the year for acquisition of Caedmon Limited (note 44(c))	57,352,941	74
At 31 December 2012	3,494,034,301	4,500

No ordinary shares of the Company were issued during the year ended 31 December 2011. Details of the ordinary shares of the Company issued during the year ended 31 December 2012, and ordinary shares of the Company in issue at the end of 31 December 2011 and 2012 are given in the table below.

Date	Description	Price HK$	No of shares
1 January 2011, 31 December 2011 and 1 January 2012	Issued share capital	0.01	3,362,000,000
11 July 2012	Issue of share capital	0.01	57,352,941
24 July 2012	Issue of share capital	0.01	74,681,360
31 December 2012	Number of ordinary shares on issue at the end of the reporting period	0.01	3,494,034,301

38. TREASURY SHARES

The Group

	2012 US$'000	2011 US$'000
Treasury shares	43,000	43,000

Treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). Approximately 116,100,000 (2011: 116,100,000) shares were acquired and held under the EBT as at 31 December 2011 and 2012.

39. ACCUMULATED LOSSES

The Company

	US$'000
As at 1 January 2011	16,294
Loss for the year	13,759
As at 31 December 2011 and 1 January 2012	30,053
Loss for the year	17,445
As at 31 December 2012	47,498

40. NOTES TO THE CASH FLOW STATEMENTS

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

	2012 US$'000	2011 US$'000
(Loss) profit before taxation	(52,875)	3,260
Adjustments for:		
Depreciation of property, plant and equipment	15,446	11,286
Financial income	(412)	(716)
Financial expenses	2,210	555
(Gain) loss on disposal of property, plant and equipment	(943)	115
Impairment charges	27,051	—
Share-based payments and LTIP expense (defined in note 41)	6,759	6,823
Share of results of an associate	185	(87)
Share of results of joint ventures	2,338	515
Net foreign exchange gain	(1,676)	(700)
Allowance for (reversal of allowance for) doubtful debts	654	(190)
Derecognition of financial liability	—	(7,500)
Other non-cash adjustments	183	(4,389)
Operating cash flows before movements in working capital	(1,080)	8,972
Increase in inventories	(510)	(7,770)
Decrease (increase) in trade and other receivables	4,392	(28,876)
Increase in trade and other payables	245	2,896
Net cash from (used in) operations	3,047	(24,778)

(b) Major non-cash transactions

Other than disclosed in notes 37, 44(c) and 44(b) in which the Group acquired Caedmon Limited, which holds the exploration and mining licenses of Molybdenum Exploration Project and Uralmining which holds the exploration and mining licenses of Bolshoi Seym Deposit by issuing ordinary shares of the Company, there were no other major non-cash transactions during the year ended 31 December 2012.

During the year ended 31 December 2011, the non-cash transactions mainly represented reversal of 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.

41. SHARE-BASED PAYMENTS

Under the Company's Long-term Incentive Plan (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 the 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 2012

— 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.

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.

41. SHARE-BASED PAYMENTS (Continued)

On 3 November 2010, 91,138,500 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 2010 was vested or forfeited and the outstanding number of shares under the Company's LTIP were 91,138,500 as at 31 December 2010.

On 1 August 2011, another 2,322,000 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 93,460,500 as at 31 December 2011.

On 1 July 2012, another 1,000,000 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$108,000 (determined based on the closing share price of the Company as of 1 July 2012 of HK$0.84 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 94,460,500 as at 31 December 2012.

The amount expensed during the year was US$6,693,000 (2011: US$6,551,000).

In addition to the Company's LTIP, certain employees of the Group are also entitled to participate in the Petropavlovsk plc's Long Term Incentive Plan ("Petropavlovsk plc LTIP"). The Group recognised total expenses of US$66,000 relating to the Petropavlovsk plc LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2012 (2011: US$272,000).

42. RETIREMENT BENEFIT SCHEMES

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 2012 amounted to US$112,000 (2011: US$72,000).

43. 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 net debt, which includes cash and cash equivalents, bank borrowings, loan payable to a related party 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 45 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 5 to the consolidated financial statements.

Categories of financial instruments

The Group

	Carrying value as at 31 December 2012 US$'000	Carrying value as at 31 December 2011 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	44,254	52,040
Financial liabilities		
Amortised cost	(145,854)	(34,601)

The Company

	Carrying value as at 31 December 2012 US$'000	Carrying value as at 31 December 2011 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,422	7,205
Financial liabilities		
Amortised cost	(2,359)	(2,141)

43. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives

The Group's activities expose it to interest rate risk, foreign currency risk, 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.

Foreign currency risk management

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

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

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

The Group

	Assets		Liabilities	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Russian Roubles	39,208	25,521	16,688	15,446
US Dollars	128	3,414	25	15
Renminbi	—	1,935	1,868	1,143
Pounds Sterling	810	39	520	131
Kazakh Tenge	1	625	—	—
Euro	7	492	—	—
Hong Kong Dollars ("HK$")	211	333	106	135

The Company

	Assets		Liabilities	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Russian Roubles	—	—	249	—
HK$	93	123	27	106
Pounds Sterling	6	47	168	130
Euro	18	—	—	—

43. FINANCIAL INSTRUMENTS (Continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US Dollars and Russian Roubles. The following table details the Group's sensitivity to a 25% (2011: 25%) change in exchange rates of functional currency (i.e. US Dollars) of the group entities and of the Company against the relevant foreign currency (i.e. Russian Roubles) for the year. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

A negative number below indicates an increase in post-tax loss in 2012 and decrease in post-tax profit in 2011 where the functional currencies of the group entities strengthen 25% (2011: 25%) against the relevant foreign currency of Russian Roubles. For a 25% (2011: 25%) weakening of functional currency the group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss and the balances below would be positive.

The Group

	Russian Rouble currency impact	
	2012 US$'000	2011 US$'000
Profit or loss	(4,504)	(2,015)

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.

No sensitivity analysis is presented by the Company as the exposure is considered insignificant.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 33 and 35 for details) and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 35 for details of these borrowings). The Group's policy is to maintain bank borrowing at variable rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's 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. The interest rates attached to these instruments are at floating rates. The exposures to interest rates on these financial assets and financial liabilities of the Group and the Company are detailed below.

The interest rate exposure to cash equivalents, restricted bank deposit and time deposit of the Group and the Company are considered to be insignificant by the management. The borrowing costs of the variable-rate bank borrowings are capitalised to the property, plant and equipment (see note 21), and therefore, no sensitivity analysis on interest rate exposure to variable-rate bank borrowings is presented.

43. FINANCIAL INSTRUMENTS (Continued)

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 restricted bank deposit, cash and cash equivalents, time deposits, and trade and other receivables. Cash equivalents, restricted bank deposit and time deposits represent amounts held on deposit with financial institutions.

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

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 45. Amounts held on deposit as at 31 December 2012 and 2011 with these banks located in Russia were US$11,972,000 and US$14,095,000, representing 22% and 27% of total monetary assets held by the Group respectively.

Trade receivables consist mostly of amounts outstanding from the sales of iron ores and ilmenite and service provided 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 2012 is included in note 28.

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2012, the Group's and the Company's principal financial liabilities were trade and other payables, bank borrowings and loan payable to a related party. 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 table includes both interest and 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.

43. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management (Continued)

The Group

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2012 US$'000
As at 31 December 2012					
Trade and other payables	12,103	—	—	12,103	12,103
Bank borrowings	16,650	21,250	98,187	136,087	123,491
Loan from a related party	10,603	—	—	10,603	10,260
	39,356	21,250	98,187	158,793	145,854
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
	29,758	250	6,598	36,606	34,601

The Company

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2012 US$'000
As at 31 December 2012					
Other payables	1,145	—	—	1,145	1,145
Amount due to subsidiaries	1,214	—	—	1,214	1,214
	2,359	—	—	2,359	2,359
As at 31 December 2011					
Other payables	1,385	—	—	1,385	1,385
Amount due to subsidiaries	756	—	—	756	756
	2,141	—	—	2,141	2,141

43. FINANCIAL INSTRUMENTS (Continued)

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs approximate their fair value.

44. ACQUISITIONS

(a) Acquisition of Jiatai Titanium project

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 Jiatai Titanium project (as defined in note 25), Heilongjiang Jiatai Titanium Limited 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

	2011 US$'000
Cash paid	11,535
Adjustment on part relating to waiver of debt of Jiatai Titanium project by the joint venture partner	(3,512)
	8,023

Acquisition-related costs were insignificant and recognised as an expense within the administrative expenses in the consolidated income statement for the year ended 31 December 2011.

44. ACQUISITIONS (Continued)

(a) Acquisition of Jiatai Titanium project (Continued)

Fair value of assets acquired and liabilities assumed at the date of acquisition

	2011 US$'000 (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	(4,479)
	11,666

Net cash outflow arising on acquisition

	2011 US$'000
Consideration paid in cash	11,535
Less: Cash and cash equivalent balances acquired	(9,350)
	2,185

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

(1) 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 year ended 31 December 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 13).

(2) Included in the profit for the year ended 31 December 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.

(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 US$122,208,000, and the profit for the respective period 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.

44. ACQUISITIONS (Continued)

(b) Acquisition of Bolshoi Seym Deposit

On 9 April 2012, the Group, through its wholly-owned subsidiary, Brasenose, concluded an agreement to acquire from Intergeo the remaining 51% interests in Uralmining not previously owned by the Group and the assignment of indebtedness owing by Uralmining to Intergeo. Uralmining becomes 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 at market value of HK$0.68 per share on 24 July 2012, with a nominal value of HK$0.01 each to Intergeo. The transaction was accounted for as an asset acquisition rather than a business combination, as Uralmining did not have any operation activity.

Consideration transferred

	2012 US$'000
Equity instruments issued	6,546

Acquisition-related costs were insignificant and recognised as an expense in the period, within the administrative expenses in the consolidated income statement for the year ended 30 December 2012.

Assets acquired and liabilities assumed at the date of acquisition

	2012 US$'000
Current assets	
Cash and cash equivalents	896
Other receivables	50
Non-current assets	
Exploration and evaluation assets	6,123
Current liabilities	
Other payables	(5)
Net assets	7,064
Equity interest previously held (note 24)	(518)
Total consideration	6,546

Net cash inflow arising on acquisition

	2012 US$'000
Cash and cash equivalent balances acquired	896

44. ACQUISITIONS (Continued)

(c) 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. Caedmon holds the exploration and mining licenses of Molybdenum Exploration Project through its subsidiary, LLC Gorniy Park.

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 at market value of HK$0.88 per share on 11 July 2012, with a nominal value of HK$0.01 each to Sangritta and Lania, respectively. The transaction was accounted for as an asset acquisition rather than a business combination, as Caedmon did not have any operation activity.

Under the same agreement, 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.

US$180,000 and US$320,000 would be payable to Sangritta for the grant of Option, and the shareholder indebtedness, respectively within twelve months of the completion of the transaction.

Consideration transferred

	2012 US$'000
Equity instruments issued	6,508

Acquisition-related costs were insignificant and recognised as an expense in the period, within the administrative expenses in the consolidated income statement for the year ended 31 December 2012.

Assets acquired and liabilities assumed at the date of acquisition

	2012 US$'000
Current assets	
Cash and cash equivalents	24
Other receivables	28
Non-current assets	
Exploration and evaluation assets	13,455
Current liabilities	
Other payables	(171)
Shareholders debt	(320)
Net assets	13,016
Non-controlling interests	(6,508)
Total consideration	6,508

44. ACQUISITIONS (Continued)

(c) Acquisition of Molybdenum Exploration Project (Continued)

Net cash inflow arising on acquisition

	2012 US$'000
Cash and cash equivalent balances acquired	24

45. 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, and its subsidiaries are considered to be related parties. Mr. Peter Hambro and Dr. Pavel Maslovskiy, shareholders of Petropavlovsk plc, are close family members of the directors of the Company, 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 able to exercise significant influence over Asian Pacific Bank. As at 31 December 2012 and 2011, 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.

Millennium Implementation Ltd is considered to be a related party as Dr. Pavel Maslovskiy has interests and able to exercise control over Millennium Implementation Ltd.

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 till 10 April 2011 (note 44(a)) and hence is a related party in 2011. Uralmining is an associate of the Group till 23 July 2012 (note 44(b)) and hence is a related party.

Transactions with related parties of the Group entered into during the year are set out below.

45. RELATED PARTY DISCLOSURES (Continued)

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 expenses incurred, which have been disclosed in note 15.

	Services provided [a]		Services received [b]	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Petropavlovsk plc and its subsidiaries				
Petropavlovsk plc	28	97	287	722
OJSC Irgiredmet	—	—	340	563
LLC NPGF Regis	45	48	73	302
LLC Albynskiy Rudnik	5,737[c]	—	—	—
CJSC Peter Hambro Mining Engineering	—	2	260	3,663
CJSC Pokrovsky Rudnik	34	62	—	34
Dalgeologia	30	781	41	5,651
Kapstroy	—	155	—	1,202
MC Petropavlovsk	857	955	496	395
PRP Stansii	—	3	—	17
CJSC YamalZoloto	339	438	—	—
OJSC ZDP Koboldo	8	6	—	—
LLC Karagay	6	1	—	—
Gidrometallurgia	165	171	—	—
Trading transactions with other related parties				
Apatit	17	1,732	—	—
Asian Pacific Bank	90	70	—	—
Millennium Implementation Ltd.	—	—	—	667

(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.

45. RELATED PARTY DISCLOSURES (Continued)

Trading transactions (Continued)

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]	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Petropavlovsk plc and its subsidiaries				
Petropavlovsk plc	203	160	102	26
OJSC Irgiredmet	13	97	—	—
LLC NPGF Regis	5	5	237	11
CJSC Peter Hambro Mining Engineering	164	553	444	367
CJSC Pokrovsky Rudnik	—	6	1	1
Dalgeologia	184	195	26	43
Kapstroy	1,906	1	—	—
MC Petropavlovsk	46	7	2,132	1,817
CJSC YamalZoloto	—	79	—	—
LLC Karagay	—	23	—	—
Gidrometallurgia	2	2	—	—
Outstanding balances with other related parties				
Apatit	1,071	1,480	—	—
Asian Pacific Bank	10	4	—	—
Millennium Implementation Ltd	—	—	—	667
	3,604	2,612	2,942	2,932

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms.

(b) The amounts are recorded in other payables, which are unsecured, non-interest bearing and repayable on agreed terms.

45. RELATED PARTY DISCLOSURES (Continued)

Banking arrangements

Other than the related party transaction as disclosed in note 35, the Group has bank accounts with Asian Pacific Bank.

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

	2012 US$'000	2011 US$'000
Asian Pacific Bank	5,798	7,888

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

	2012 US$'000	2011 US$'000
Interest income from cash and cash equivalents	4	9

Guarantee arrangements

In relation to the ICBC loan as disclosed in note 35, 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 of no more than 1.75% on outstanding amount will be payable by the Company to Petropavlovsk plc in respect of the guarantee. No security will be granted by the Group to Petropavlovsk plc in respect of the guarantee. Pursuant to the Recourse Agreement, Petropavlovsk plc will have the right to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk plc's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

As at 31 December 2012, Petropavlovsk plc beneficially owns approximately 63.13% (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 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 the ability of the Petropavlovsk plc its to grant security over its assets, make disposals of its assets enter into merger transactions.

Key Management Compensation

During the years ended 31 December 2012 and 2011, only directors considered as key management of the Group, the directors' emoluments were disclosed in note 11.

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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital registered capital[d]	Equity interest attributable to the Group 2012[c]	2011[c]	Principal activities
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 Ltd	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 Ltd	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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital registered capital[d]	Equity interest attributable to the Group 2012[c]	2011[c]	Principal activities
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 Limited	PRC 11 February 2009	RMB219,024,974	100%	100%	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
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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital registered capital[d]	Equity interest attributable to the Group 2012[c]	2011[c]	Principal activities
LLC GMMC	Russia 26 June 2006	RUR780,000,000	100%	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
LLC Uralmining	Russia 12 October 2008	RUR1,000,000	100%	49%	Exploration and mining — Bolshoi Seym
Caedmon Limited	Cyprus 29 September 2011	US$1,232	50.1%	—	Financing and investment holding
LLC Gorniy Park	Russia 25 October 2010	RUR10,000	50.1%	—	Exploration and mining — Molybdenum Exploration Project

(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 2012 and 2011, 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 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.

None of the subsidiaries had issued any debt securities at the end of the year.

47. EVENTS AFTER THE REPORTING PERIOD

On 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of the Company for up to approximately HK$1,845,000,000 (approximately US$238,000,000) in aggregate (the "Share Issue Transaction"). In addition, the Company has also entered into a long-term offtake arrangement ("Offtake Arrangement") with General Nice and Minmetals in respect of the Group's products. Details are as follows:

(i) General Nice Subscription

General Nice has conditionally agreed to subscribe for a total of 851,600,000 new shares of the Company at the price of HK$0.94 (approximately US$0.12) per new share, of which 817,536,000 new shares will be allotted and issued upon the completion of the General Nice's initial subscription. The remaining 34,064,000 new shares will be allotted and issued upon, among other things, the subscription and allotment of General Nice Further Subscription Shares (as defined below).

In addition, the Company has also granted General Nice a right to subscribe for 863,600,000 new shares ("General Nice Further Subscription Shares"), which may be exercised at General Nice's discretion within six months after the completion date of the General Nice's initial subscription.

Assuming total investment completion occurs, General Nice will, in aggregate, hold approximately 31.43% of the issued share capital of the Company as enlarged by the Share Issue Transaction.

(ii) Minmetals Subscription

Minmetals has conditionally agreed to subscribe for a total of 247,300,000 new shares of the Company at the price of HK$0.94 (approximately US$0.12) per new share. The completion of Minmetals' subscription is conditional upon, among other things, the completion of the subscription and allotment in relation to General Nice Further Subscription Shares.

Assuming total investment completion occurs, Minmetals will hold approximately 4.53% of the issued share capital of the Company as enlarged by the Share Issue Transaction.

(iii) Offtake Arrangement

Under the Offtake Arrangement, which applies to all of the existing and future iron ore projects of the Group (other than the Kuranakh project and other specified types of projects) and in respect of products with an iron content of 32% or greater, (i) the Company shall sell and General Nice and Minmetals shall purchase products which is nominated by the Group to be sold through the seaborne market; and (ii) General Nice and Minmetals 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 its products which are not sold through the seaborne market to the General Nice and Minmetals, for which the Group shall pay General Nice and Minmetals a marketing commission.

On 11 March 2013, the above transactions were approved in the Extraordinary General Meeting.

The directors of the Company expect that the General Nice initial subscription will take place in April 2013 and further, expect the subscription in relation to the General Nice Further Subscription Shares and Minmetals Subscription to take place within six months from the General Nice Initial subscription completion date in April 2013.

The directors are in progress to assess the financial impacts of the above transaction to the Group's consolidated financial statements.

FINANCIAL SUMMARY

Results of the Group for the year ended 31 December

	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000
Revenue	9,674	8,260	25,792	122,208	139,687
(Loss) profit attributable to owners of the Company	(427,377)	(139,291)	(82,358)	1,001	(53,232)
(Loss) earnings per share (US cents)					
— Basic	(24.36)	(7.66)	(3.62)	0.03	(1.61)
— Diluted	(24.36)	(7.66)	(3.62)	0.03	(1.61)

Assets and liabilities of the Group as at 31 December

	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000
Total assets	778,682	886,867	867,519	862,582	962,026
Less: Total liabilities	(20,816)	(287,527)	(62,901)	(49,504)	(174,511)
Total net assets	757,866	599,340	804,618	813,078	787,515

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

GLOSSARY

Board	The Board of Directors
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CFR	INCOTERM Cost and Freight
CIM	The Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Concentrate	The clean product recovered from a treatment plant
DAP	INCOTERM Delivery at Place
Deposit	Mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	The directors of the Company
DRI	An abbreviation of "Direct Reduced Iron", being iron produced using the DR method
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users. Raw material for iron ore concentrate, isometric mineral, 8Fe
EAO	Jewish Autonomous Region, an oblast of the Russian Federation
EPC	Engineering, Procurement and Construction contract
Exploration	Method by which ore deposits are evaluated
Fe	The chemical symbol for iron
Feasibility study	An extensive technical and financial study to assess the commercial viability of a project
Flotation	A mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
FOB	INCOTERM Free on Board
General Nice	General Nice Development Limited is a Hong Kong incorporated holding company which trades and produces steel raw material commodities in China and globally
Geophysical	Prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
Geotechnical	Referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
Grade	Relative quantity or the percentage of ore mineral or metal content in an ore body
Haematite	An iron mineral with the formula Fe_2O_3; found as an accessory in igneous rocks, in hydrothermal veins and replacements, and in sediments, generally high grade (>60% iron)
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong	The Hong Kong Special Administrative Region of the PRC
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
Ilmenite	Iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time.
K&S	A magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked
Magnetite	$8FeOFe_2O_3$; major mineral in banded iron formations, generally low grade (1.5-40% iron)
Manganese	Grey-white, hard, brittle metallic element; chemical symbol Mn
Metallurgical	Describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
Mill	Equipment used to grind crushed rocks to the desired size for mineral extraction
Mineralisation	Process of formation and concentration of elements and their chemical compounds within a mass or body of rock
Minmetals Cheerglory	Minmetals Cheerglory Limited, the Hong Kong incorporated, wholly owned subsidiary of China Minmetals Corporation
NI 43-101	Also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface

GLOSSARY (Continued)

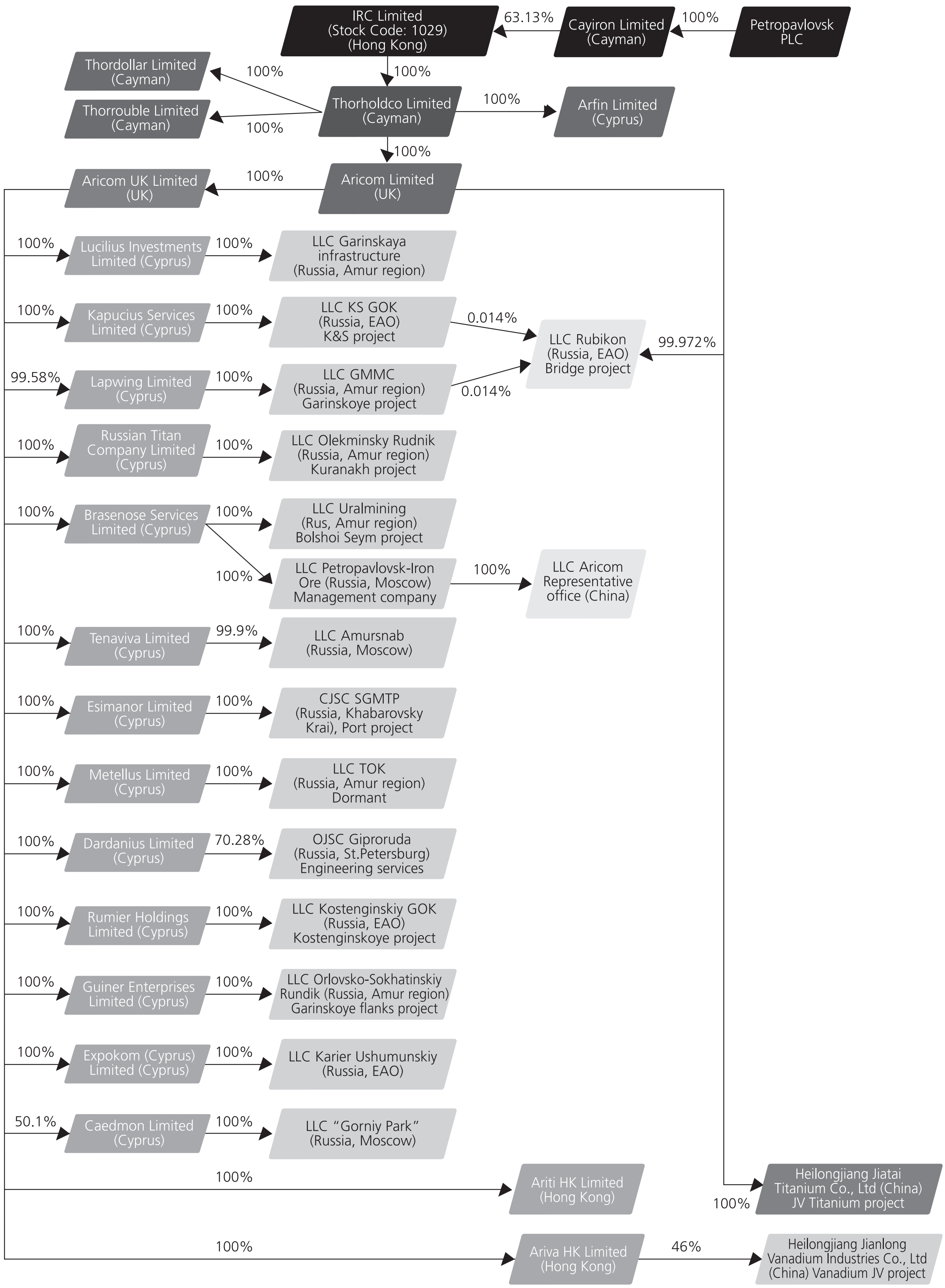
Optimisation	Co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/economic operation
Ore	Material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
Ore-field	A zone of concentration of mineral occurrences
Ore body	Mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
Petropavlovsk	Petropavlovsk plc, the London Stock Exchange quoted, Russian gold mining company
Precious metal	Gold, silver and platinum group minerals
Primary	Characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures etc.; original
Processing	Methods employed to clean, process and prepare materials or ore into the final marketable product
Recovery	Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
Run-of-mine or ROM	Recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Russian Far East	Refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean. The Far Eastern Federal district includes the Amur Region, EAO, Kamchatka Krai, Magadan Region, Primorsky Krai, Sakha Republic (Yakutia), Sakhalin Region, Khabarovsk Krai, and Chukotka Autonomous District
Shareholder(s)	Holder of the Share(s)
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
Strike	The longest horizontal dimension of an ore body or zone of mineralisation
Tailings	Material that remains after all metals/minerals considered economic have been removed from the ore
TiO2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
Titanomagnetite	Concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
Treatment plant	A plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
Tonne/t	I metric tonne (1,000 kg)
US Dollar or US$	United States Dollar

LIST OF ABBREVIATIONS

$^{\circ}C$	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
Fe_2O_3	chemical symbol for haematite
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
nm	not measured
sq.m.	square metre, a unit of area
t	a metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide

All dollars refer to United States Dollars unless otherwise stated.

CORPORATE STRUCTURE



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Stock Exchange of Hong Kong: 1029

CORPORATE INFORMATION

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Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

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Chairman: G.J. Hambro
Chief Executive Officer: Y.V. Makarov
Chief Financial Officer and Company Secretary: R.K.T. Woo

NON-EXECUTIVE DIRECTOR:

S. Murray, *CBE, Chevalier de la Légion d'Honneur*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

EMERITUS DIRECTOR:

Senator Dr P.A. Maslovskiy

COMMITTEES OF THE BOARD:

Audit Committee

C.F. Li (Chairman)
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith (Chairman)
D.R. Bradshaw
C.F. Li

Health, Safety and Environmental Committee

D.R. Bradshaw (Chairman)
C.F. Li
J.E. Martin Smith

Nomination Committee

G.J. Hambro (Chairman)
D.R. Bradshaw
J.E. Martin Smith

AUTHORISED REPRESENTATIVES FOR THE PURPOSES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

G.J. Hambro
R.K.T. Woo

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. From the Board, to executive and operational management and every employee, the Group seeks to undertake a pro-active approach that anticipates risk, seeking to identify them, measure their impact and thereby avoid, reduce, transfer or control such risks.

The Group's view of the principal risks that could impact it for the 2013 financial year and beyond are substantially unchanged from those of the previous years. A summary of these key risks is set out below:

- Operational risks such as delay in supply of/or failure of equipment/services and adverse weather conditions.

- Financial risks such as commodity prices, exchange rate fluctuations, funding and liquidity and capital programme controls.

- Health, safety and environmental risks such as health and safety issues, legal and regulatory risks, licences and permits, restatement of reserves and resources, and non- compliance with applicable legislation.

- Legal and Regulatory risks such as country-specific risks.

- Human Resources risks such as the ability to attract key senior management and potential lack of skilled labour.

This should not be regarded as a complete or comprehensive list of all potential risks that the Group may experience. In addition, there may be additional risks currently unknown to the Group and other risks, currently believed to be immaterial, which could turn out to be material and significantly affect the Group's business and financial results.

DISCLAIMER

Some statements contained in this document referred to in it are or may be forward-looking statements. Statements reflect the Company's current views with respect to future events and are subject to risks, assumptions, uncertainties and other factors beyond the Company's control that could cause actual results to differ from those expressed in such statements. Although the Company believes that such forward-looking statements, which speak only as of the date of this document, are reasonable, no assurance can be given that they will prove to be correct. Therefore, you should not place undue reliance on these statements. There can be no assurance that the results and events contemplated by the forward-looking statements contained in this document will, in fact, occur. The Company will not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this document, except as required by law or by any appropriate regulatory authority. Nothing in this document or in documents referred to in it should be considered as a profit forecast. Past performance of the Company or its shares cannot be relied on as a guide to future performance. This document does not constitute, or form part of or contain any invitation or offer to any person to underwrite, subscribe for, otherwise acquire, or dispose of any shares in IRC Limited or advise persons to do so in any jurisdiction, nor shall it, or any part of it, form the basis of or be relied on in any connection with or act as an inducement to enter into any contract or commitment therefore. In particular, this document and the information contained herein are not an offer of securities for sale in the United States of America. No reliance may be placed for any purpose whatsoever on the information or opinions contained in this document or on its completeness and no liability whatsoever is accepted for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith. The development and production plans and estimates set out herein represent the current views of the Company's management. The Company's Board reviews the production estimates on an ongoing basis. All planning is subject to available funding and capital allocation decisions. This document is prepared in compliance with Hong Kong law and the courts of the Hong Kong Special Administrative Region of the People's Republic of China will have exclusive jurisdiction over any disputes arising from or connected with this document.

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In 2011, the Company implemented electronic communications to reduce the financial and environmental costs of producing the Annual Report. In this regard we would encourage downloading of reports from our website. Financial reports may be found at: www.ircgroup.com.hk/html/ir_financial.php

The annual report this year has been printed on paper certified by the Forest Stewardship Council. This follows reductions in the document size and print run achieved last year.

If however a printed copy is preferred, it is available free of charge from the Company. If you would like to receive paper copies of IRC's publications, please write to:

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We welcome comments on our Annual Report and Communications activities at all times. We can be contacted by mail, phone, email and social media:

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