铁货 IRC

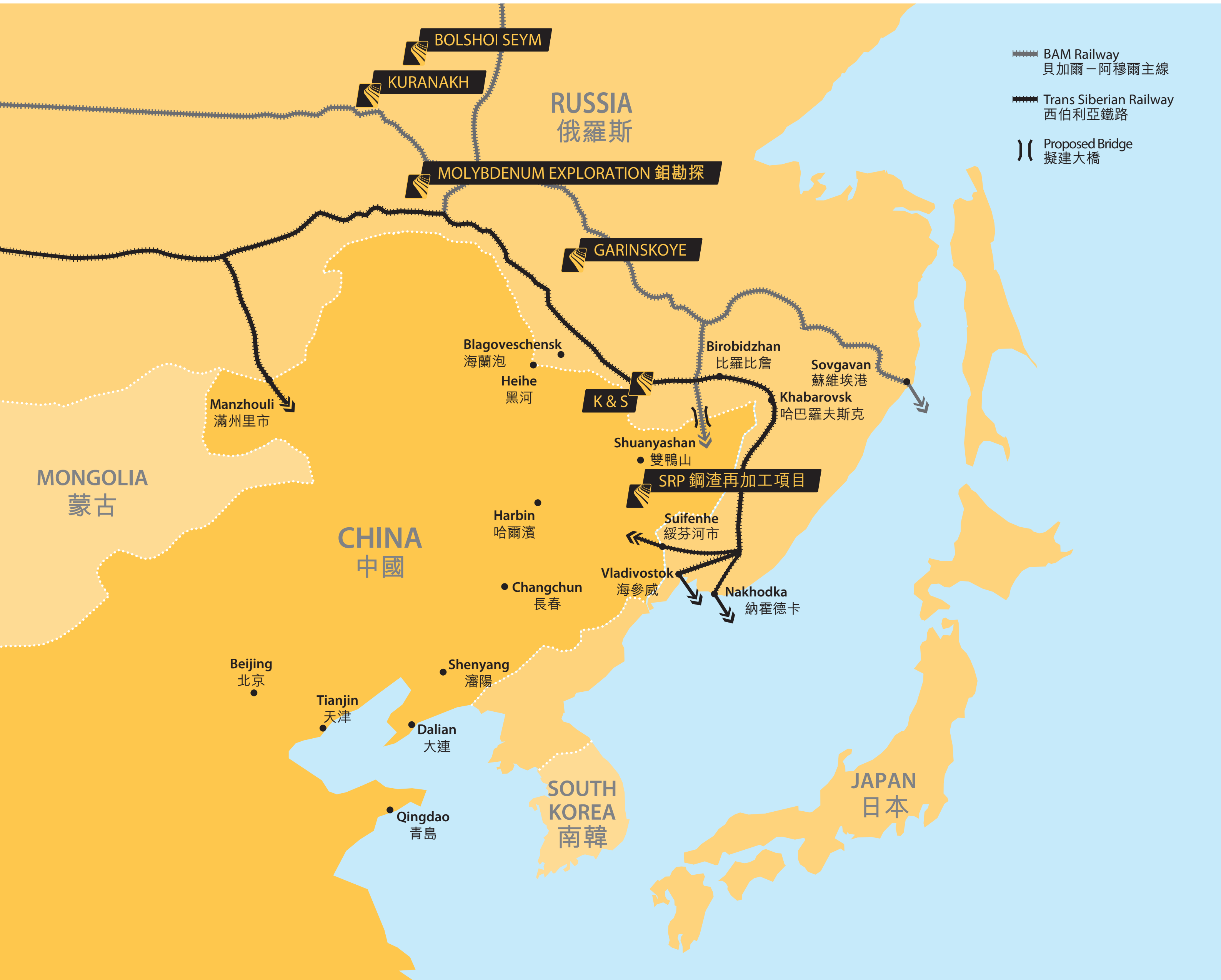
IRC Limited

鐵江現貨有限公司

HONG KONG STOCK CODE 股份代號: 1029

Interim Report 2013

中期報告



A unique combination of **geology, geography** and **infrastructure** ensures that IRC continues to grow as the leading **China-Russia industrial commodities producer**.

During the first half of 2013, IRC continued to deliver on both its production targets, and its ambitious growth plans.

地質、**地理**及**基建**的獨特組合，確保鐵江現貨持續增長，成為**中俄工業商品之行業領先企業**。

於2013年上半年，鐵江現貨繼續履行其生產目標及實踐其宏偉的發展計劃。

CONTENTS

Investor Relations Professional Asia Survey (Third Place)

The Asset Corporate Awards (Titanium)

Deal of the Year

Galaxy Awards (Gold)

Top 100 Annual Reports Worldwide

Platinum Award

Top 50 Chinese Annual Report

Top 50 Annual Reports Asia-Pacific Region

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to report that for the first six months of 2013, IRC has again delivered on both its production targets and its ambitious growth plans. As we enter the second half of 2013, we are marginally ahead of our iron ore targets at our Kuranakh Mine and our K&S Project is on track to be commissioned within less than 12 months. The reputation that IRC enjoys as a company that delivers on targets is something of which we are very proud and seek to continue.

In my last letter to shareholders, I expressed the view that success in our sector demands a consistent long-term strategy because the time horizon from exploration to production and earnings is so long. In this letter therefore, I am delighted to note that IRC has continued to maintain the course of its long-term strategy. Indeed, we have celebrated a number of short-term successes over the last six months, which have contributed to strengthening our business for the long-term.

In July, the Kuranakh Mine celebrated its third year of commercial production, marking a significant achievement for IRC. Whilst the Russian rail network ensures that Kuranakh is well connected to the world, its unique geology, location, and climate pose numerous challenges. It is therefore admirable that IRC has successfully explored and developed Kuranakh against all odds, and as a result, created Russia's only fully integrated titanomagnetite operation. For near successive quarters, production at Kuranakh has steadily increased, breaking all records in the first half of this year. As the operation now matures to full operating capacity levels, our focus has shifted to optimising costs. The operating efficiencies and cost-cutting programme we initiated at the end of last year are bearing fruit and we have enjoyed many positive gains, notably improved mining rates and savings in logistics costs, with more to come in the latter half of 2013. Nevertheless, Russian and local inflation pressures are challenging and have largely absorbed the gains we have made thus far, though we continuously look for opportunities to reduce our operating costs.

On my recent visit to K&S, it was encouraging to see both the considerable progress that is being made and the sheer scale of what we are building. In the first phase, K&S will produce 3.2 million tonnes annually, thereby quadrupling the Group's total production. In the next phase, there is the opportunity to nearly double these production levels to 6.3 million tonnes per annum. Operating at such a large scale will be a first for us, however we are applying our competencies and the lessons learned from Kuranakh, and facing head on the challenges of building such a large-scale operation. Within a year from now, we aim to put K&S in commercial production, and whilst there is still much to do, such as combating the harsh weather and recent rains, we remain confident that we are on track.

Our financial results show a segmental operating profit at Kuranakh of US$8.1 million, which demonstrates that even in the depressed macro environment, our Kuranakh mine can still earn its position in the IRC portfolio. We guided the market that as we continue to ramp up our corporate costs ahead of K&S commissioning, the Group would incur small losses. We have managed to maintain a tight control on costs and this is demonstrated by a 14% fall in central administrative expenses to US$11.8 million for the first six months of 2013, compared to the first six months of 2012. The Group loss has reduced to US$10.7 million from US$20.4 million recorded in the first half of 2012.

Early in the year we announced our proposal to align strategically with Chinese miner-traders General Nice and Minmetals. I thank you, our shareholders, for overwhelmingly supporting this alliance. There are many opportunities to invest in developing iron ore projects the world over and it is encouraging that these leading Chinese players have chosen IRC, in this sense endorsing our geological and geographic competitive advantages and long term growth potential.

Already we have completed the first phase of the alliance with the injection of just over US$100 million into IRC. The second phase is on track for completion by the end of September with the additional capital injection of approximately US$135 million. These transactions bolster IRC's balance sheet and will provide the initial capital needed to advance with the development of K&S Phase 2 and the Garinskoye Project. Furthermore, the alliance includes an offtake arrangement, providing IRC with a guaranteed route-to-market for its products and therefore long-term cash flow security. Upon completion of the first phase, General Nice and Minmetals have received places on IRC's Board.

Recently I had the opportunity to present at one of the most prestigious mining conferences on the theme "Survival of the Fittest in the Mining Industry." As we prepared our presentation, teasing out the points I wanted to convey, IRC's strengths became very clear. Our sizeable portfolio of high quality geology, with iron ore, ilmenite and molybdenum, places us apart from pure iron ore producers. Our location on China's doorstep with direct rail access provides us with geographical advantages. Our legacy and operations experience in Russia have taught us first-hand how to build and operate mining operations. The alliance with our strategic Chinese partners has helped to orientate our business towards China, the world's largest iron ore market, whilst provided us with capital and a mutually beneficial offtake arrangement. And finally, as the K&S Mine comes into operation, our position on the cost-curve will shift favourably. This is why, in my presentation, I propounded that IRC is one of the fittest near term high growth companies, not only in the mining sector globally, but in the Hong Kong market as well. Over the next year, I am confident that these competitive advantages will be reflected in a re-rating for IRC. It's an exciting 12 months ahead.

G. JAY HAMBRO
Executive Chairman

OPERATIONS REVIEW

For the first six months of 2013, IRC continued to make good progress on all fronts. Key highlights include:

Kuranakh:	Production targets achieved, annual targets reaffirmed
K&S:	Construction on track for commissioning within 12 months
Garinskoye:	Geology and financing for DSO operation advancing
Corporate:	Strategic Chinese investment supported by shareholders

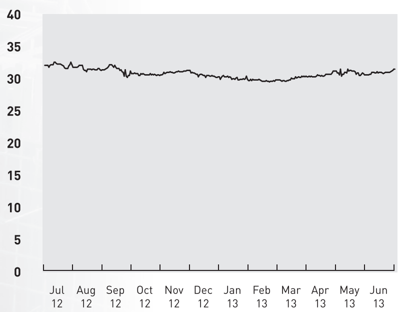
Prices

Iron ore prices for delivery to China weakened over the first six months following the seasonally higher first quarter and heightened uncertainty surrounding the Chinese and global macro environment. The benchmark Tianjin CFR price (62% Fe iron ore fines) opened the year at US$145 per tonne, falling to US$111 per tonne in early June before recovering to US$115 per tonne at the end of the month. Subsequently, the price has recovered in August to about US$130 per tonne. Current prices are far short of some of the more pessimistic forecasts of sub-US$100 per tonne. In reality, steel demand is proving to be more robust than forecast and with iron ore inventories at near-historic lows, demand for iron ore continues to grow, even in the usually weaker Chinese summer months.

Tianjin Iron Ore Price (US$/t 62% Fe CFR)

Demand for IRC ilmenite concentrate registered growth in the second quarter of 2013. The price for ilmenite, a titanium dioxide feed product, however, deteriorated rapidly in early 2013, though like iron ore, it has recovered into August. The average achieved selling price for the first half was US$250 per tonne, a 13% decline compared to the same period in 2012. As production from Kuranakh has ramped-up in the last 12 months, the additional production is being sold to Chinese customers. Consequently, the majority of IRC ilmenite sales are to Chinese customers today. The prices realised for ilmenite in China typically lag the global average. This means that when global prices deteriorated, the price realised by IRC was a little higher than the global average. Subsequently, as global prices for ilmenite recover, the price achieved by IRC takes longer to improve. This lag explains why the short-term fall in the IRC ASP is greater than the fall in average global prices, though over the longer-term, there is little if any difference. Presently the IRC marketing team suggests that the outlook for the TiO_2 market is optimistic due to forecast GDP growth and an improving economic outlook in China.

US Dollar-Rouble Exchange Rate



During the first five months of 2013 the Russian Rouble opened at 30.6 and traded relatively flat against the US Dollar. In May however, volatility returned, largely as response to the oil price, concerns over the US Dollar and some Russian Central Bank interventions. On-mine inflation remained stubbornly high in the first six months, at approximately 3.5% and this has had a negative impact on operating costs.

Kuranakh

This year Kuranakh celebrated its third commercial production anniversary. The operation is the first vertically-integrated titanomagnetite mining, processing and production facility in Russia, proudly designed, built and managed by IRC. Since it was officially opened by former Russian President Medvedev in July 2010, the mine has produced over 2.7 million tonnes of iron ore and 275,000 tonnes of ilmenite concentrates. The operation currently employs 1,223 people and is a significant contributor to the local economy and communities through a range of environmental and social activities.

Safety

Our safety vision is for 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. The LTIFR per 1,000,000 hours worked was 5.19 for the first six months, a deterioration compared to an LTIFR of 2.55 in 2012 and an improvement on 5.54 in 2011.

Production

The Kuranakh operation comprises both the original Saikta open pit and the more recently established Kuranakh open pit thereby increasing ore flexibility. Mining activities have continued to advance to plan. During the second quarter (and for some time into the third quarter) efforts focussed on mining through lower-grade ore zones in order to increase face availability of higher-grade ore for the future, when production from this pit will increasingly complement from the Saikta pit. Consequently, 2.5 million cubic metres of overburden and 1.6 million tonnes of ore were removed compared to 2.2 million cubic metres of overburden and 1.8 million tonnes of ore respectively during the first six months of 2012.

The Crushing and Screening Plant processed 1.9 million tonnes of ore with a grade of 25.6% Fe and 7.8% TiO_2, producing just over 0.9 million tonnes of pre-concentrate. This was transported to the nearby Olekma Processing Plant, where it was processed, yielding production of 518,899 tonnes of iron ore concentrate (Fe 62.5%) and 79,088 tonnes of ilmenite concentrate (TiO_2 48%).

The 2013 full year annual production targets are 900,000 tonnes of iron ore concentrate and 160,000 tonnes of ilmenite concentrate. At the end of June 2013, 58% of the annualised iron ore and 49% of the annualised ilmenite target had been achieved, providing the confidence required to re-affirm the full year production targets.

ROM stockpiles at the end of June 2013 totaled approximately 252,894 tonnes, equivalent to 25-days feed for the Processing Plant and comparable to the 257,000 tonnes at the end of June 2012.

Financial Performance

Sales volumes for the first six months were above expectations with 548,850 tonnes of iron ore sold, a 29% increase compared to the first half of 2012 and 78,336 tonnes of ilmenite concentrate sold, a 48% increase compared the first half of 2012.

The iron ore ASP for IRC was US$123.5 per tonne, marginally ahead of the US$121.8 per tonne achieved in the first half of 2012. Sales volume for iron ore concentrate are secured under a long-term offtake agreement and prices are calculated on the INCOTERM "Delivered at Place" (DAP) basis. The ASP calculation is based on a formula which takes into account prices in preceding months, and therefore lags spot prices.

During the first half of 2013, Kuranakh generated total revenues of US$87.0 million. This includes ilmenite revenue, which in the same period last year was treated as a by-product credit to offset costs. Excluding ilmenite the revenue would be recorded as an equivalent of US$67.6 million, a comparable increase of 31% compared to the US$51.7 million realised in the first half of 2012.

Cash costs averaged US$62.8 per tonne. This compares to an average US$65.2 per tonne in the first half of 2012 and US$56 per tonne for the 2012 year as a whole.

Transportation costs for iron ore averaged US$37.0 per tonne, a decrease of 18% compared to the US$45.3 per tonne achieved in the first half of 2012.

Costs savings were achieved through enhanced production efficiencies and logistics savings, in particular wagon loading and leasing costs, which fell by US$8 per tonne.

K&S

The K&S Project is under construction and due to commence commercial production within 12 months. It is a large magnetite operation with a first phase production capacity of 3.2 million tonnes of iron ore concentrates per annum for 25 years. The project is mostly funded through a debt facility with ICBC.

A further development stage has the potential to almost double production capacity to 6.3 million tonnes of iron ore concentrates per annum whilst lowering operating expenses due to economies of scale.

Safety

The K&S Project continued to report an excellent safety performance during the first half of 2013. The reported LTIFR rate per 1,000,000 hours worked was 0.00, an exceptional performance.

At the end of June 2013, 657 people were employed at the project in addition to varying contractor numbers depending upon the activities, a considerable increase as construction activities continued to ramp-up through the busy summer period.

Mining

IRC's small mining fleet continues to work to plan, with stripping rates intensifying during the summer after planned winter slowdown. To date over 5 million cubic metres of overburden has been removed — this is in line with the plan of the total 14.5 million cubic metres required before for the start of commercial operations. A mining contractor has been appointed to assist with completing the pre-production stripping works. The anticipated benefits of lower capital and operating costs combined with higher capacity rates typically experienced with a contractor will also be extended long-term to normal commercial operations.

Processing Plant

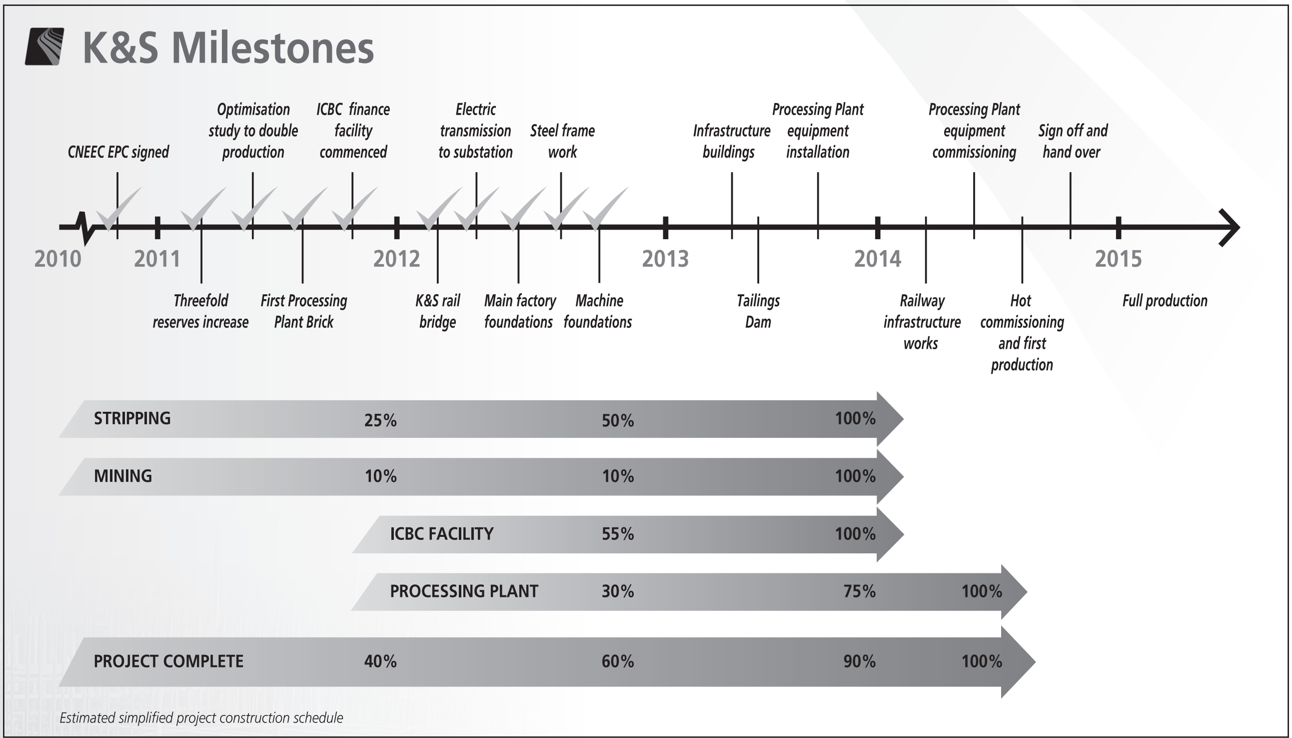
The Processing Plant is being constructed as a turnkey project for delivery in the first half of 2014. It is funded through a project finance facility provided by ICBC and equity. Major construction is being undertaken by CNEEC, with project management led by IRC. The plant has been designed for modular expansion so that it can process additional ore feed in the future from an expanded K&S operation and potentially also Garinskoye if required.

Activities during the first half of 2013 progressed to plan, although some time was lost due to the unseasonably long winter snowfall and summer rains. Although the schedule is tight going forward, the target remains to complete the structural and external construction of the beneficiation plant by October, thereby allowing for internal fitting of the buildings during the winter period. Construction materials and processing equipment are being delivered to site to plan. The number of contractors on site has continued to increase, with commitments to further increase their numbers in the near term as site activity increases.

The recently updated construction schedule confirms the contractor's commitment for completion in the first half of 2014.

OPERATIONS REVIEW

IRC Project Timeline



Infrastructure

The K&S Project is well situated. The operation is adjacent to the Trans-Siberian Railway and Federal Highways, with good access to labour in nearby cities, and access to power and water. All the requisites needed to build and operate this large-scale mining and processing operation are in place.

IRC with the assistance of specialist contractors is constructing the infrastructure needed to support mining and processing activities. Good progress was achieved during the first half. The tailings dams are nearly complete, while the pipelines connecting to the plant are under construction. Site railway infrastructure progresses to plan, with land work complete and materials arriving on site for installation. Construction for auxiliary services, such as internal transport, administrative and storage buildings, electrical and water infrastructure are also on schedule.

Outlook

To date construction activities remain on schedule and the contractors assure a delivery of the plant on schedule. As K&S enters the final 12 months of construction ahead of commercial production, there remains much work to do and there are many challenges to address. However, the good working relationship between IRC and CNEEC fosters a solution orientated culture that is keeping the project execution on track.

Exploration

Garinskoye

The Garinskoye Project continues to advance well. Following the announcement of a Direct Shipment Ore (DSO) style operation as an intermediate opportunity before proceeding with the original full-scale open-pit mining operation a Bankable Feasibility Study is underway. Preliminary findings suggest no material differences from the internal study, and with the work near completion, it is anticipated that this study will be released during the second half of 2013.

The initial DSO operation is for production potential of 2.1 million tonnes of iron ore per annum (60% Fe iron ore fines). The project is attractive based on a range of measures due to its low capital costs and a short construction period. Furthermore, the use of simple technology and production facilities suggests low operating costs, and proximity to the Chinese border will result in lower transportation costs.

IRC has commenced discussions with a range of potential financial providers for the construction of the Garinskoye DSO project. The project's position at the lowest point on both the operational and capital cost curves has generated a range of financing opportunities.

FINANCIAL REVIEW

The following table sets out the condensed consolidated statement of profit or loss for IRC Limited for the six months ended 30 June 2013 and 2012.

	For the six months ended 30 June	
	2013 US$'000	2012 US$'000
Revenue		
Iron Ore Concentrate	**67,649**	51,657
Ilmenite*	**19,392**	—
Engineering Services	**5,192**	5,291
Total Revenue	**92,233**	56,948
Site operating expenses and service costs*	**(85,988)**	(55,769)
Central administration expenses	**(11,805)**	(13,773)
Impairment charges	**—**	(6,061)
Share of results of joint venture and associate	**(1,394)**	(1,883)
Net operating loss	**(6,954)**	(20,538)
Other gains and losses	**(1,561)**	959
Net financial expense	**(1,590)**	(649)
Loss before taxation	**(10,105)**	(20,228)
Taxation expense	**(290)**	(110)
Loss for the period	**(10,395)**	(20,338)
Non-controlling interests	**(258)**	(67)
Loss for the period attributable to owners of the Company	**(10,653)**	(20,405)

* Ilmenite was previously treated as a by-product and its sales revenues were netted off against costs. For the first six months of 2012 equivalent ilmenite revenues were approximately US$15.2 million.

REVENUE

Iron ore concentrate

Although the average selling price of iron ore only marginally improved from US$121.8 per tonne in the first half of 2012 to US$123.5 per tonne in the same period in 2013, revenue from the sales of iron ore increased by US$16.0 million from US$51.7 million to US$67.6 million (an increase of 31%) due to a 29% increase in sales volumes from 424,021 tonnes in the first half of 2012 to 548,850 tonnes in 2013.

Ilmenite

Ilmenite was previously classified as a by-product. We have begun to consider it a more significant product since the second half of 2012 due to the increase in its sales volume after the ramping up of the ilmenite production circuit and the rise in the ilmenite price.

As such, we reported ilmenite sales of US$19.4 million as a revenue item in 2013 while in the first half of 2012, it was treated as a by-product credit, netted off against the cost of iron ore production. Equivalent ilmenite sales for the first half of 2012 totalled US$15.2 million, demonstrating a strong increase in ilmenite revenue, again due to higher sales volumes. In the first six months of 2013, the Group sold 78,336 tonnes of ilmenite, a 48% increase compared to the 52,966 tonnes sold in the same period last year. However, the price of ilmenite was weaker, falling 12.7% to US$249.9 per tonne, for the first six months of 2013 compared to the same period in 2012.

Engineering services

Engineering services revenue from Giproruda, the Group's complementary mine design business, was marginally lower at US$5.2 million for the first half of 2013 compared to US$5.3 million in the same period in 2012.

SITE OPERATING EXPENSES AND SERVICE COSTS

In the first six months of 2013, production volumes of both iron ore and ilmenite ramped up at Kuranakh, notably ilmenite. Consequently site operating expenses, including the production and transportation costs of iron ore and ilmenite, also increased accordingly. Total site operating expenses and service costs for Kuranakh in the first six months of 2013 amounted to US$78.9 million (30 June 2012: US$48.6 million, which included the contribution from ilmenite sales), comprising US$20.3 million and US$7.9 million for iron ore and ilmenite railway tariffs and related transportation costs respectively.

FINANCIAL REVIEW

During the first half of 2013, we produced 518,899 tonnes of iron ore concentrate for a cash cost of US$32.6 million. For presentation and analysis purposes, the table below details ilmenite sales as a by-product credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore (similar to the first half of 2012). The details of the key cash cost components are as follows:

	Total Cash Cost US$' million	Cash cost per ton US$/t
Mining	17.6	33.9
Processing	9.7	18.7
Transportation to plant	3.5	6.7
Production overheads	5.4	10.5
Site administration and related costs	7.8	15.0
Contribution from sales of illmenite* and others	(11.4)	(22.0)
1H 2013 Production cash cost	**32.6**	**62.8**
1H 2012 Production cash cost	28.2	65.2

* net of tariff and other railway charges for ilmenite

SEGMENTAL INFORMATION

Despite the relatively weak iron ore and ilmenite selling prices achieved during the first half of 2013 and the rising mining costs, the Group's two income generating segments, "Mine in production" and "Engineering" segments, contributed segmental profits of US$8.1 million (30 June 2012: US$3.0 million) and US$0.6 million (30 June 2012: US$0.1 million) respectively. Segmental results of the Group improved significantly, from a loss of US$6.8 million in the first half of 2012 to a profit of US$4.9 million in 2013.

CENTRAL ADMINISTRATION EXPENSES

In the first half of 2013, administrative expenses decreased by 14.3% from US$13.8 million in first half of 2012 to US$11.8 million in the same period of 2013, primarily due to the successful implementation of certain cost savings initiatives.

IMPAIRMENT CHARGES

No impairment provision is considered necessary for the first half of 2013. In the first half of 2012, an impairment charge of US$6.1 million was provided to write off the carrying value of the land use right relating to the acquisition of additional equity interest in the Jiatai titanium joint venture.

NET OPERATING LOSS

As a result of the above, the net operating loss in the first half of 2013 decreased by US$13.6 million to US$7.0 million, mainly as a result of the increase in production and sales volume of iron ore and the absence of an impairment charge.

OTHER GAINS AND LOSSES

During the first half of 2013, other losses of US$1.6 million, primarily attributable to net foreign exchange loss of US$1.8 million were recorded due to the depreciation of the Russian Rouble against the US Dollar. In 2012, gains of US$1.0 million were booked, primarily due to a one-off gain on disposal of equipment.

NET FINANCIAL EXPENSE

The Group reported a net financial expense of US$1.6 million in the first six months of 2013, as compared to US$0.6 million in the same period in 2012, due to the drawdown of short-term working capital facilities.

LOSS FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Consequently, the Group recorded a loss of US$10.7 million attributable to the owners of the Company in the first six months of 2013, a fall of 47.8% compared to the loss of US$20.4 million reported for the same period last year.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

On 5 April 2013, General Nice subscribed a total of 851,600,000 new shares of the Company at a price of HK$0.94 (US$0.12) per share. Pursuant to the subscription agreement, the Company allotted and issued to General Nice 817,536,000 new shares and received subscription money of approximately HK$800.5 million (US$103.1 million). The allotment and issuance of the remaining 34,064,000 new shares is conditional upon, among other things, the allotment and issuance of the further subscription shares to General Nice.

It is expected that the further subscription of shares by General Nice and Minmetals Cheerglory would be completed in the second half of 2013, by which time cash proceeds of approximately HK$1,044.2 million (US$134.7 million) would be injected into the Group.

The share placements not only provided IRC with strong strategic Chinese investment partners, but have also solidified the Group's financial strength and expanded opportunities for raising capital for future development.

Cash position and capital expenditure

As at 30 June 2013, the carrying amount of the Group's cash and bank balances was approximately US$112.6 million (31 December 2012: US$24.0 million), of which US$6.0 million is under restricted cash deposit. It represents an increase of US$88.6 million, primarily due to the investment proceeds from General Nice, net of expenditure to fund K&S development and administrative costs. It is anticipated that most of the future capital expenditure for the development of the K&S project would be funded by the undrawn loan facility from ICBC of approximately US$209.6 million.

The following table details the capital and operating expenditures in the first half of 2013:

US$'m	Operating expenses	Capital expenditure	For the 6 months ended 30 June 2013 Total	For the 6 months ended 30 June 2012 Total
Kuranakh, primarily sustaining capital expenditure	**72.9**	**2.1**	**75.0**	52.6
K&S development	**—**	**23.6**	**23.6**	79.1
Exploration projects and others	**—**	**0.5**	**0.5**	2.3
Total expenditure	**72.9**	**26.2**	**99.1**	134.0

BORROWINGS AND CHARGES

As 30 June 2013, the Group had gross borrowings of US$145.4 million (31 December 2012: US$144.7 million). All of the Group's borrowings were denominated in US Dollars. Of the gross borrowings, US$15.0 million is unsecured bank borrowing repayable within one year while the remaining US$130.4 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 levels, with its weighted average interest rate at approximately 6.2% per annum. As of 30 June 2013, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, improved significantly to 2.5% (31 December 2012: 12.3%) following the share subscription by General Nice as mentioned above.

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. The foreign exchange movements between US Dollars and Russian Roubles during the first half of 2013 are illustrated on page 4.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2013, the Group employed a total of 2,431 employees. The total staff costs excluding share based payments incurred were approximately US$29.0 million for 2013 (30 June 2012: US$30.2 million). Despite the fact that the headcounts increased in the first half of 2013, the Group managed to control staff costs at a comparable level to that of 2012. The emolument policy of the employees of the Group is set up by the Executive Committee on the basis of their merit, qualifications and competence.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 34, which comprises the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 August 2013

Condensed Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
	NOTES	**2013 US$'000 (unaudited)**	2012 US$'000 (unaudited)
Revenue	4	**92,233**	56,948
Operating expenses	5	**(97,793)**	(69,542)
Impairment charges	6	**—**	(6,061)
		(5,560)	(18,655)
Share of results of a joint venture		**(1,394)**	(1,878)
Share of results of an associate		**—**	(5)
		(6,954)	(20,538)
Other gains and losses	7	**(1,561)**	959
Financial income	8	**283**	194
Financial expenses	9	**(1,873)**	(843)
Loss before taxation		**(10,105)**	(20,228)
Taxation expense	10	**(290)**	(110)
Loss for the period		**(10,395)**	(20,338)
Loss for the period attributable to:			
Owners of the Company		**(10,653)**	(20,405)
Non-controlling interests		**258**	67
Loss for the period		**(10,395)**	(20,338)
Loss per share (US cent)	12		
Basic		**(0.28)**	(0.63)
Diluted		**(0.28)**	(0.63)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period	**(10,395)**	(20,338)
Other comprehensive expense for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1,267)**	(223)
Total comprehensive expenses for the period	**(11,662)**	(20,561)
Total comprehensive expenses attributable to:		
Owners of the Company	**(11,534)**	(20,531)
Non-controlling interests	**(128)**	(30)
	(11,662)	(20,561)

Condensed Consolidated Statement of Financial Position

AT 30 JUNE 2013

	NOTES	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited) (restated)
NON-CURRENT ASSETS			
Exploration and evaluation assets	13	**65,892**	65,440
Property, plant and equipment	13	**609,215**	594,371
Interests in a joint venture		**3,531**	4,887
Other non-current assets	14	**173,931**	171,479
Restricted bank deposit	20	**6,000**	6,000
		858,569	842,177
CURRENT ASSETS			
Inventories	15	**41,850**	42,966
Trade and other receivables	16	**46,844**	54,525
Time deposits	17	**2,500**	2,500
Cash and cash equivalents		**104,136**	15,536
		195,330	115,527
TOTAL ASSETS		**1,053,899**	957,704
CURRENT LIABILITIES			
Trade and other payables	18	**(27,049)**	(23,913)
Current income tax payable		**(267)**	(353)
Loan from a related party	19	**—**	(10,260)
Bank borrowings — due within one year	20	**(15,000)**	(15,000)
		(42,316)	(49,526)
NET CURRENT ASSETS		**153,014**	66,001
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,011,583**	908,178
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(1,834)**	(1,868)
Provision for close down and restoration costs		**(14,075)**	(14,626)
Bank borrowings — due more than one year	20	**(120,364)**	(108,491)
		(136,273)	(124,985)
TOTAL LIABILITIES		**(178,589)**	(174,511)
NET ASSETS		**875,310**	783,193
CAPITAL AND RESERVES			
Share capital	21	**5,553**	4,500
Share premium		**1,141,423**	1,042,016
Treasury shares		**(43,000)**	(43,000)
Capital reserve		**17,984**	17,984
Reserves		**45,208**	42,770
Accumulated losses		**(303,342)**	(292,689)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**863,826**	771,581
NON-CONTROLLING INTERESTS		**11,484**	11,612
TOTAL EQUITY		**875,310**	783,193

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Total attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Treasury shares US$'000	Accumulated losses US$'000	Share-based payments reserve US$'000	Translation reserve US$'000	Other reserve[a] US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2012 (audited)	4,330	1,029,131	17,918	(43,000)	(235,135)	18,993	(15,841)	32,057	808,453	4,625	813,078
Loss for the period	—	—	—	—	(20,405)	—	—	—	(20,405)	67	(20,338)
Other comprehensive expenses for the period											
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(126)	—	(126)	(97)	(223)
Total comprehensive expenses for the period	—	—	—	—	(20,405)	—	(126)	—	(20,531)	(30)	(20,561)
Share-based payments	—	—	66	—	—	3,319	—	—	3,385	—	3,385
Balance at 30 June 2012 (unaudited)	4,330	1,029,131	17,984	(43,000)	(255,540)	22,312	(15,967)	32,057	791,307	4,595	795,902
Balance at 1 January 2013 (audited) (originally stated)	4,500	1,042,016	17,984	(43,000)	(288,367)	25,686	(14,973)	32,057	775,903	11,612	787,515
Adjustment (Note 2)	—	—	—	—	(4,322)	—	—	—	(4,322)	—	(4,322)
Balance at 1 January 2013 (restated)	**4,500**	**1,042,016**	**17,984**	**(43,000)**	**(292,689)**	**25,686**	**(14,973)**	**32,057**	**771,581**	**11,612**	**783,193**
Loss for the period	**—**	**—**	**—**	**—**	**(10,653)**	**—**	**—**	**—**	**(10,653)**	**258**	**(10,395)**
Other comprehensive expenses for the period											
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**(881)**	**—**	**(881)**	**(386)**	**(1,267)**
Total comprehensive expenses for the period	**—**	**—**	**—**	**—**	**(10,653)**	**—**	**(881)**	**—**	**(11,534)**	**(128)**	**(11,662)**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**3,319**	**—**	**—**	**3,319**	**—**	**3,319**
Issue of new shares (Note 21)	**1,053**	**102,033**	**—**	**—**	**—**	**—**	**—**	**—**	**103,086**	**—**	**103,086**
Transaction costs attributable to issue of new shares	**—**	**(2,626)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,626)**	**—**	**(2,626)**
Balance at 30 June 2013 (unaudited)	**5,553**	**1,141,423**	**17,984**	**(43,000)**	**(303,342)**	**29,005**	**(15,854)**	**32,057**	**863,826**	**11,484**	**875,310**

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	NOTES	Six months ended 30 June 2013 US$'000 (unaudited)	 2012 US$'000 (unaudited)
OPERATING ACTIVITIES			
Net cash from (used in) operations		**18,632**	(8,882)
Interest expenses paid		**(3,657)**	(927)
Income tax paid		**(333)**	(309)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**14,642**	(10,118)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and exploration and evaluation assets		**(26,212)**	(86,857)
Interest received		**283**	194
Proceeds on disposal of property, plant and equipment		**211**	5,697
NET CASH USED IN INVESTING ACTIVITIES		**(25,718)**	(80,966)
FINANCING ACTIVITIES			
Proceeds on issuance of new shares	21	**103,086**	—
Proceeds from new bank borrowings		**18,235**	77,519
Repayment of loan from a related party	19	**(10,000)**	—
Repayment of bank borrowings		**(7,300)**	—
Transaction costs attributable to issue of new shares		**(2,626)**	—
Loan arrangement and commitment fees paid		**(551)**	(844)
NET CASH FROM FINANCING ACTIVITIES		**100,844**	76,675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD		**89,768**	(14,409)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD		**15,536**	33,188
Effect of foreign exchange rate changes		**(1,168)**	(283)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD		**104,136**	18,496

Notes to The Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements are presented in United States Dollars ("US$"), which is also the functional currency of the Company.

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity and going concern of the Company and its subsidiaries (collectively referred to as the "Group") in light of the Group's loss for the period, the Group's capital and other commitments as at 30 June 2013 (details set out in note 13) against cash and cash equivalents and the credit facilities maintained by the Group as at that date, and the loan covenants requirements of the ICBC Facility Agreement (as defined in note 20).

Taking into account the expectation of the directors of the Company as to the completion by early October 2013 of the share subscriptions pursuant to the conditional share subscription agreements dated 17 January 2013, namely (i) further share subscription in the Company by General Nice Development Limited ("General Nice") of HK$811.8 million (equivalent to approximately US$104.7 million); and (ii) share subscription in the Company by Minmetals Cheerglory Limited for HK$232.4 million (equivalent to approximately US$30.0 million), the directors consider that the Group has sufficient financial resources and available banking facilities to meet its financial obligations as they fall due for the foreseeable future and are satisfied that all covenant obligations will be met accordingly.

The initial share subscription by General Nice of HK$800.5 million (equivalent to approximately US$103.1 million) was completed in April 2013 (note 21).

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied the following new and revised standards, interpretation and amendments ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are mandatorily effective for the current interim period:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive income
HK (IFRIC) Int-20	Stripping costs in the Production Phase of a Surface Mine

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for 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; while 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.

In addition, 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. The amendments have been applied retrospectively. The Group used the two statements method and the condensed consolidated statement of comprehensive income is renamed as condensed consolidated statement of profit or loss and other comprehensive income; while the condensed consolidated income statement is renamed as condensed consolidated statement of profit or loss. The presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

HK (IFRIC) Int-20 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 of the Company have assessed the impact of the application of HK(IFRIC)-Int 20 retrospectively. The effect on the financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2012, is as follows:

	31 December 2012 US$'000 (originally stated)	Restatement US$'000	31 December 2012 and 1 January 2013 US$'000 (as restated)
Property, plant and equipment, effect on net assets	**598,693**	**(4,322)**	**594,371**
Accumulated losses, effect on equity	**(288,367)**	**(4,322)**	**(292,689)**

Except as described above, the management of the Company considered the impacts of application of HK (IFRIC)-Int 20 on the Group's loss for both six months ended 30 June 2013 and 2012 are insignificant.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Except as described above, the application of the other new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosure set out in these condensed consolidated financial statements.

The Group has not early applied any new or revised standards, amendments to standards or interpretation that have been issued at the date of these condensed consolidated financial statements are authorised for issuance but are not yet effective.

3. SEGMENT INFORMATION

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

Six months ended 30 June 2013 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	87,041	—	5,192	—	92,233
Segment revenue	87,041	—	5,192	—	92,233
Site operating expenses and service costs	(78,908)	(1,045)	(4,595)	(1,440)	(85,988)
Site operating expenses and service costs include:					
Depreciation (see note 5(a))	(5,424)	(4,179)	(234)	(36)	(9,873)
Share of results of a joint venture	—	—	—	(1,394)	(1,394)
Segment profit (loss)	8,133	(1,045)	597	(2,834)	4,851
Central administrative expenses					(11,699)
Central depreciation					(106)
Other gains and losses					(1,561)
Financial income					283
Financial expenses					(1,873)
Loss before taxation					(10,105)

3. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2012 (unaudited)

	Mine in production US$'000	Mine in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	51,657	—	5,291	—	56,948
Segment revenue	51,657	—	5,291	—	56,948
Site operating expenses and service costs	(48,626)	(17)	(5,145)	(1,981)	(55,769)
Site operating expenses and service costs include:					
Depreciation (see note 5(a))	(4,823)	(2,278)	(251)	(45)	(7,397)
Impairment charges	—	—	—	(6,061)	(6,061)
Share of results of a joint venture	—	—	—	(1,878)	(1,878)
Share of results of an associate	—	(5)	—	—	(5)
Segment profit (loss)	3,031	(22)	146	(9,920)	(6,765)
Central administrative expenses					(13,589)
Central depreciation					(184)
Other gains and losses					959
Financial income					194
Financial expenses					(843)
Loss before taxation					(20,228)

4. REVENUE

Starting from July 2012, the Group determined that ilmenite, which had previously been classified as a by-product, should 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 its major products and services:

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Revenue		
Sale of iron ore concentrate	**67,649**	51,657
Sale of ilmenite	**19,392**	—
Engineering services	**5,192**	5,291
	92,233	56,948

5. OPERATING EXPENSES

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Site operating expenses and service costs [a]	**85,988**	55,769
Central administrative expenses [b]	**11,805**	13,773
	97,793	69,542

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Staff costs	**22,632**	24,151
Fuel	**8,626**	8,291
Materials	**12,099**	10,360
Depreciation	**9,873**	7,397
Electricity	**1,447**	1,417
Royalties	**1,420**	1,156
Railway tariff	**26,449**	17,788
Movement in finished goods and work in progress	**(1,469)**	(15,858)
Engineering services cost	**6,343**	6,012
Professional fees	**141**	136
Bank charges	**235**	280
Insurance expenses (compensation), net	**103**	(54)
Office rent	**570**	533
Business travel expenses	**166**	390
Office costs	**647**	1,232
Mine development costs capitalised in property, plant and equipment	**(10,478)**	(13,140)
Allowance for for bad debts	**6**	9
Property tax	**2,585**	—
Other expenses	**4,593**	5,669
	85,988	55,769

5. OPERATING EXPENSES (Continued)

(b) Central Administrative Expenses

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Staff costs	**6,385**	6,069
Depreciation	**106**	184
Professional fees**	**(86)**	1,654
Bank charges	**26**	31
Insurance	**332**	100
Office rent	**909**	907
Business travel expenses	**485**	890
Share-based payments	**3,319**	3,385
Office costs	**189**	303
Reversal of allowance for bad debts*	**(57)**	—
Property tax	**10**	—
Other expenses	**187**	250
	11,805	13,773

* Reversal of allowance for bad debts of approximately US$57,000 was recognised in profit or loss for the six months ended 30 June 2013, and mainly represented partial recovery of a trade debtor.

** Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees. Reversal of professional fees amounting to approximately US$831,000 were recognised in profit or loss for the six months ended 30 June 2013 as a result of overprovision of professional fees in relation to share placement of the Company as detailed in note 21.

6. IMPAIRMENT CHARGES

Heilongjiang Jiatai Titanium Co. Limited was a Chinese titanium sponge processing joint venture project established by the Group and a Chinese partner ("Jiatai Titanium project"). In 2011, the Group successfully acquired the remaining 35% interest in the Jiatai Titanium project from the joint venture partner and planned to proceed with the project while seeking a different joint venture partner. 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 on the land use rights. This impairment charge was recognised in the condensed consolidated statement of profit or loss for the six months ended 30 June 2012.

At 30 June 2013, the Group considered whether there were any indictors that further impairment or the need to reverse previously recognised impairment existed at Kuranakh project located in the Amur Region of the Russian Federation; and K&S project which is at the development 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.

6. IMPAIRMENT CHARGES (Continued)

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:

	As at 30 June 2013
Real discount rate post-tax	**11.4%**
Real discount rate pre-tax	**13.2%**
Average Russian inflation rate from the period-end to 2023 and 2043	**2.0%**
Average Russian Rouble: US dollar exchange rate from the period-end to 2023 and 2043	**33.0**
Average iron ore concentrate prices from the period-end to 2023 and 2043	**US$/tonne 110.0**
Average ilmenite prices from the period-end to 2023	**US$/tonne 250.0**

Forecast inflation rates and sales prices for iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management has estimated the long term forecast sales prices for iron ore concentrate prices which take into account their views of the market, recent volatility and other external sources of information. Judgment has then been applied by management in determining a long-term price of iron ore concentrate for the purpose of assuming impairments. The impairment assessments are particularity sensitive to changes in commodity prices. To put the impairment assessment model into perspective, with all other variables keep constant; a 5% drop in input average iron ore concentrate prices would result in the need to consider an impairment provision of approximately US$11,696,000; while a 10% drop in input average ilmenite prices would result in the need to consider an impairment provision of approximately US$10,486,000. Based on recent market volatility in average iron ore concentrate prices and ilmenite prices, the percentage change analysed represented potential downside scenarios if market volatility persists.

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Net foreign exchange loss	**(1,772)**	(7)
Gain on disposal of property, plant and equipment	**211**	966
	(1,561)	959

8. FINANCIAL INCOME

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest income on cash and cash equivalents	**184**	190
Interest income on time deposits	**70**	—
Others	**29**	4
	283	194

9. FINANCIAL EXPENSES

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest expenses on bank borrowings:		
— wholly repayable within five years	**4,082**	1,032
Interest expenses on loan from a related party wholly repayable within five years	**406**	—
Less: interest expenses capitalised to property, plant and equipment	**(3,137)**	(250)
	1,351	782
Unwinding of discount on environmental obligation	**522**	61
	1,873	843

10. TAXATION EXPENSE

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
	(unaudited)	(unaudited)
Cyprus current tax	**(2)**	—
Russia current tax	**(181)**	(162)
Current tax expense	**(183)**	(162)
Deferred tax (expense) credit	**(107)**	52
	(290)	(110)

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2013 and 2012.

10. TAXATION EXPENSE (Continued)

Cyprus corporation tax is calculated at a rate of 12.5% and 10% of the estimated assessable profit for each of the six months ended 30 June 2013 and 2012 respectively.

For the six months ended 30 June 2012, the Group had no assessable profit subject to Cyprus corporation tax. For the six months ended 30 June 2013 and 2012, no Hong Kong profits tax, UK Corporation tax and PRC enterprise income tax was provided for as the Group had no assessable profit arising in or derived from these tax jurisdictions during both periods.

11. DIVIDENDS

No dividends were paid, declared or proposed during both the six months ended 30 June 2013 and 2012.

12. LOSS PER SHARE

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

Loss

	Six months ended 30 June	
	2013 **US$'000** **(unaudited)**	2012 US$'000 (unaudited)
Loss for the purposes of basic and diluted loss per ordinary share being loss for the period attributable to owners of the Company	**10,653**	20,405

Number of shares

	Six months ended 30 June	
	2013 **Number** **'000**	2012 Number '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per ordinary share	**3,768,535**	3,246,000

The computation of weighted average number of ordinary shares for the purposes of basic loss per ordinary share for the six months ended 30 June 2013 and 2012 does not take into account the Company's 116,100,000 treasury shares.

The computation of diluted loss per share for the six months ended 30 June 2013 and 2012 does not take into account of the Company's outstanding shares awarded under the Group's Long-term Incentive Plan ("LTIP") and Deferred Subscription Share (as defined in note 21) since assuming their issuance would result in a decrease in loss per share.

13. EXPLORATION AND EVALUATION ASSETS AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US$26.2 million (for the period ended 30 June 2012: US$86.9 million) on the mine development and acquisition of property, plant and equipment, including prepayments for property, plant and equipment as disclosed in note 14.

At 30 June 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$237.0 million (31 December 2012: US$247.4 million).

14. OTHER NON-CURRENT ASSETS

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Deferred insurance premium for bank facilities	**13,884**	14,608
Prepayments for property, plant and equipment	**154,032**	150,280
Deferred loan arrangement fee	**5,735**	6,059
Others	**280**	532
	173,931	171,479

15. INVENTORIES

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Stores and spares	**31,116**	32,746
Work in progress	**6,653**	4,921
Finished goods	**4,081**	5,299
	41,850	42,966

16. TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
VAT recoverable	**18,561**	24,848
Advances to suppliers	**8,167**	8,724
Amounts due from customers under engineering contracts	**1,867**	1,267
Trade receivables	**14,313**	14,496
Other debtors and prepayments	**3,936**	5,190
	46,844	54,525

Amounts due from customers under engineering contracts are expected to be billed and settled within one year, and relate to the long-term contracts in progress.

The following is an analysis of the trade receivables by age, presented based on the invoice date.

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Less than one month	**12,535**	11,990
One month to three months	**1,599**	2,186
Over three months to six months	**70**	—
Over six months	**109**	320
Total	**14,313**	14,496

The Group allows credit periods ranging from 10 days to 45 days (2012: 10 days to 45 days) to individual third party customers.

17. 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. As at 30 June 2013, time deposits carrying interest at fixed rate of 5% per annum (31 December 2012: 3.2% to 5% per annum).

18. TRADE AND OTHER PAYABLES

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Trade payables	**7,400**	10,214
Advances from customers	**6,339**	819
Accruals and other payables	**13,310**	12,880
	27,049	23,913

The following is an analysis of the trade payables by age, presented based on the invoice date.

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Less than one month	**4,001**	5,476
One month to three months	**685**	192
Three months to six months	**528**	341
Over six months	**2,186**	4,205
Total	**7,400**	10,214

19. LOAN FROM A RELATED PARTY

In July 2012, the Group obtained an US$15,000,000 loan facility from Peter Hambro Mining Treasury UK Limited ("PHM"), a subsidiary of Petropavlovsk plc. The loan borne an annual interest of 10.30% and was repayable on 31 December 2012. The Group drew down in total US$10,000,000 in the same month. In September 2012, the Group entered into a supplement agreement with PHM to extend the repayment date to 30 April 2013 and the loan was fully repaid during the six months ended 30 June 2013. As at 30 June 2013, the Group did not have any credit facilities from PHM (31 December 2012: US$5,000,000 undrawn loan facility from PHM).

20. BANK BORROWINGS

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)
Bank loans		
Asian Pacific Bank	**15,000**	15,000
Industrial and Commercial Bank of China ("ICBC")	**120,364**	108,491
Total	**135,364**	123,491
Unsecured	**15,000**	15,000
Secured	**120,364**	108,491
Total	**135,364**	123,491
Carrying amount repayable		
Within one year	**15,000**	15,000
More than one year, but not exceeding two years	**26,748**	—
More than two years, but not exceeding five years	**93,616**	108,491
Total	**135,364**	123,491

Bank loans from Asian Pacific Bank

In August 2012, the Group entered into an 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.

In December 2012, the Group entered into another 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. During the six months ended 30 June 2013, the Group drew down US$7,300,000 from such facility in five tranches and such amount was repaid during the six months ended 30 June 2013.

As at 30 June 2013, the Group had US$10,000,000 (31 December 2012: US$10,000,000) undrawn loan facility with Asian Pacific Bank.

These facilities are primarily working capital financing the Group's Kuranakh project. The loans are not secured against any assets of the Group or other related parties.

20. BANK BORROWINGS (Continued)

Bank loan from Industrial and Commercial Bank of China ("ICBC")

On 6 December 2010, LLC KS GOK ("K&S"), 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.

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 in 16 installments of US$21,250,000 each, starting from December 2014 when the whole facility amount is expected to be drawn down and is fully repayable by June 2022.

On 14 December 2011, the Group made the first drawdown amounting to US$6,958,000. During the year ended 31 December 2012, the Group made further drawn downs amounting to US$112,479,000. Additional drawn downs amounting to US$10,935,000 were made by the Group during the six months ended 30 June 2013. The loan is carried at amortised cost with effective interest rate at 5.63% per annum. The outstanding loan principals were US$130,372,000 as at 30 June 2013 (31 December 2012: US$119,437,000), which is repayable semi-annually starting from December 2014 and is expected to be fully repaid by December 2017.

As at 30 June 2013 and 31 December 2012, 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 six months ended 30 June 2013 and the year ended 31 December 2012.

As at 30 June 2013, the Group had approximately US$209,628,000 (31 December 2012: US$220,563,000) undrawn financial facility in relation to the ICBC Facility Agreement.

Details of the guarantee granted by Petropavlovsk plc in relation to the ICBC Facility Agreement are set out in note 22.

21. SHARE CAPITAL

As disclosed in note 47 to the Group's 2012 consolidated financial statements, on 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice and Minmetals for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK$1,845,000,000 (approximately US$238,000,000) in aggregate.

A total of 851,600,000 new shares of the Company at the price of HK$0.94 (equivalent to approximately US$0.12) per share was initially subscribed by General Nice, of which 817,536,000 new shares were allotted and issued to General Nice on 5 April 2013 following approval by the shareholders and the receipt of subscription monies of approximately HK$800,504,000 (equivalent to approximately US$103,086,000) from General Nice.

The allotment and issue of the remaining 34,064,000 new shares ("Deferred Subscription Share") is conditional upon, among other things, the allotment and issue of shares in relation to the further subscription by General Nice within six months after the completion date of initial share subscription by General Nice. As at 30 June 2013, approximately HK$32,020,000 (equivalent to approximately US$4,128,000) received for the Deferred Subscription Share is forfeitable and shall be retained by the Company for its benefit if no further subscription by General Nice. Such amount is included in share premium in the condensed consolidated financial statements.

Transaction costs of approximately US$2,626,000 directly attributable to the issuance of new shares to General Nice were credited against equity.

21. SHARE CAPITAL (Continued)

Details of the allotment and issuance of ordinary shares by the Company during the six months ended 30 June 2013 are as follows:

	Number	US$'000
Authorised		
Ordinary shares of HK$0.01 each at 30 June 2012 and 2013	10,000,000,000	12,820
Allotted, called up and fully paid		
At 1 January 2012 and 30 June 2012	3,362,000,000	4,330
At 1 January 2013	3,494,034,301	4,500
Issued to General Nice during the period	817,536,000	1,053
At 30 June 2013	4,311,570,301	5,553

No ordinary shares of the Company were issued during the six months ended 30 June 2012. These shares rank *pari passu* in all respects with other shares in issue.

22. 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.

During the six months ended 30 June 2013, 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, shareholder of Petropavlovsk plc, is close family member of the director of the Company, Mr. George Jay Hambro.

Asian Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have interests and, collectively, exercise significant influence over Asian Pacific Bank.

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.

Heilongjiang Jianlong Vanadium Industries Co., Limited is a joint venture of the Group and hence is a related party.

22. RELATED PARTY DISCLOSURE (Continued)

Related parties (Continued)

Related party transactions the Group has entered into that related to the day-to-day operating of the business are set out below, except for interest expenses incurred which have been disclosed in note 9.

	Services provided[a] Six months ended 30 June		Services received[b] Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)	**2013 US$'000 (unaudited)**	2012 US$'000 (unaudited)
Petropavlovsk plc and its subsidiaries				
Petropavlovsk plc	**21**	21	**96**	187
OJSC Irgiredmet	**—**	—	**10**	125
LLC NPGF Regis	**24**	23	**1**	74
CJSC Peter Hambro Mining Engineering	**—**	—	**380**	261
CJSC Pokrovsky Rudnik	**2**	28	**—**	—
Dalgeologia	**—**	—	**—**	42
MC Petropavlovsk	**450**	421	**173**	283
CJSC YamalZoloto	**—**	216	**—**	—
OJSC ZDP Koboldo	**5**	4	**—**	—
LLC Karagay	**5**	2	**—**	—
LLC Albynskiy Rudnik	**—**	5,697[c]	**—**	—
Gidrometallurgia	**90**	86	**—**	—
Transaction with other related party				
Asian Pacific Bank	**43**	—	**—**	—

(a) Amounts represent fee received from related parties for provision of administrative support.

(b) Amounts represent fee paid to related parties for receipt of administrative support and helicopter services.

(c) Amount represents the consideration from the disposal of property, plant and equipment.

22. RELATED PARTY DISCLOSURE (Continued)

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[a]		Amounts owed to related parties[b]	
	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (audited)	**As at 30 June 2013 US$'000 (unaudited)**	As at 31 December 2012 US$'000 (audited)
Petropavlovsk plc and its subsidiaries				
Petropavlovsk plc	**213**	203	**62**	102
OJSC Irgiredmet	**17**	13	**—**	—
LLC NPGF Regis	**17**	5	**220**	237
CJSC Peter Hambro Mining Engineering	**7**	164	**—**	444
CJSC Pokrovsky Rudnik	**—**	—	**—**	1
Dalgeologia	**171**	184	**24**	26
MC Petropavlovsk	**171**	46	**1,989**	2,132
Gidrometallurgia	**2**	2	**—**	—
LLC Karagay	**106**	1,906	**—**	—
Outstanding balances with other related parties				
Apatit	**766**	1,071	**—**	—
Asian Pacific Bank	**8**	10	**—**	—
	1,478	3,604	**2,295**	2,942

(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.

22. RELATED PARTY DISCLOSURE (Continued)

Banking arrangements

Other than the related party transactions as disclosed in note 19, the Group has bank accounts with Asian Pacific Bank. The bank balances at the end of the reporting period are set out below:

	As at 30 June 2013 US$'000 (unaudited)	As at 31 December 2012 US$'000 (unaudited)
Asian Pacific Bank	**17,106**	5,798

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

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Interest income from cash and cash equivalents	**165**	44

Guarantee arrangements

In relation to the ICBC loan as disclosed in note 20, Petropavlovsk plc has guaranteed the Group's obligations under the ICBC Facility Agreement. Petropavlovsk plc, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk plc provides the guarantee ("Recourse Agreement"). No fee will be payable by the Group in respect of the provision of the guarantee by Petropavlovsk plc while Petropavlovsk plc remains the parent company of the Company. 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 obligation to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk plc's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

As at 30 June 2013, Petropavlovsk plc beneficially owns approximately 51.16% (31 December 2012: 63.13%) of the issued share capital of the Company. Under the ICBC Facility Agreement, each of the following will constitute a covenant; and noncompliance with any covenant will constitute an event of default upon which the ICBC Facility Agreement immediately will become 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.

22. RELATED PARTY DISCLOSURE (Continued)

Guarantee arrangements (Continued)

As at 30 June 2013 and 31 December 2012, the Group does not have any noncompliance on the above covenants.

Key Management Compensation

During the six months ended 30 June 2012, George Jay Hambro, Yury Makarov, Raymond Woo, Daniel Bradshaw, Jonathan Martin Smith, Chuang-fei Li and Simon Murray were considered the key management of the Group. During the six months ended 30 June 2013, upon initial share subscription by General Nice as described in note 21, Cai Sui Xin and Liu Qingchun, being representatives from General Nice and Minmetals, respectively, were appointed as directors of the Group and considered as its key management personnel with the other key management personnel continue in office. The remuneration of key management personnel is set out below in aggregate.

	Six months ended 30 June	
	2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Short-term benefits	**2,875**	2,415
Post-employment benefits	**135**	123
Share-based payments	**2,046**	1,987
	5,056	4,525

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends. As a normal practice, the Company is working with an independent accounting firm to provide an impartial review of the Group's remuneration policy, levels and particularly the LTIP (as defined in note 12). Previous analysis has supported the remuneration policy is in line with market and a further report will be prepared in 2013.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS

As at 30 June 2013, 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	Approximate % of the Company's total issued share capital as at 30 June 2013
George Jay Hambro	Contingent beneficial interest[1]	23,220,000	0.539%
	Beneficial interest	352,000	0.008%
Yury Makarov	Contingent beneficial interest[1]	20,317,500	0.471%
	Beneficial interest	238,000	0.006%
Raymond Kar Tung Woo	Contingent beneficial interest[1]	14,512,500	0.337%
	Beneficial interest	120,000	0.003%
Sui Xin Cai*	Interest of a controlled corporation	817,536,000	18.961%

* These shares are beneficially owned by General Nice Development Limited ("GND") and Mr. Sui Xin Cai is deemed to be interested in such shares under the SFO by virtue of the fact that General Nice Group Holdings Limited, which is wholly owned by Mr. Sui Xin Cai, holds 50% equity interest in GND. Mr. Sui Xin Cai also directly holds 5% equity interest in GND.

Name of director	Nature of interest	Number of shares in Petropavlovsk PLC ("Petropavlovsk")	Approximate % of Petropavlovsk PLC's total issued share capital as at 30 June 2013
George Jay Hambro	Contingent beneficial interest	54,166	0.029%[2]
Yury Makarov	Contingent beneficial interest	41,666	0.022%[2,3]
	Beneficial interest	53,846	0.029%[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 30 June 2013, the EBT held 116,100,000 shares of the Company, representing 2.69% 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 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 6 months ended 30 June 2013.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2013, 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	Approximate % of the Company's total issued share capital as at 30 June 2013
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	51.162%
Cayiron Limited*	Beneficial owner	2,205,900,000	51.162%
Ming Chi Tsoi**	Interest of a controlled corporation	817,536,000	18.961%
General Nice Group Holdings Limited***	Interest of a controlled corporation	817,536,000	18.961%
General Nice Development Limited	Beneficial owner	817,536,000	18.961%
BlackRock, Inc.	Beneficial owner	219,420,355	5.089%

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

** These shares are beneficially owned by General Nice Development Limited ("GND") and Mr. Ming Chi Tsoi is deemed to be interested in such shares under the SFO by virtue of the fact that he holds 35% equity interest in GND.

*** General Nice Group Holdings Limited holds 50% equity interest in GND.

Save as disclosed above and those disclosed under "Directors' Interests", the Group had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 June 2013.

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

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 30 June 2013, 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.

CORPORATE GOVERNANCE

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2012 Annual Report.

During the six months ended 30 June 2013, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save that the Executive Director, Mr. Yury Makarov; the Non-Executive Director, Mr. Simon Murray; and Independent Non-Executive Directors, Mr. Jonathan Eric Martin Smith and Mr. Chuang-fei Li, were unable to attend the extraordinary general meeting of the Company held on 11 March 2013 as provided for in code provision A.6.7 as they had overseas engagements.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the period 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.

The 2013 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

CORPORATE INFORMATION

IRC LIMITED — 鐵江現貨有限公司

(Stock Exchange of Hong Kong: 1029)

CORPORATE INFORMATION

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Corporate Website: http://www.ircgroup.com.hk

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

PRINCIPAL PLACE OF BUSINESS IN RUSSIA

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Stanislavskogo
Business Center "Fabrika Stanislavskogo"
109004 Moscow
Russia
(LLC Petropavlovsk-Iron Ore)

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

S. Murray, *CBE, Chevalier de la Légion d'Honneur*
S. X. Cai
Q. C. Liu

EMERITUS DIRECTOR:

Senator Dr P.A. Maslovskiy

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

COMMITTEES OF THE BOARD:

Audit Committee

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

Remuneration Committee

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

Health, Safety and Environmental Committee

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

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

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

ASP	Average selling price
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, Fe
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
GDP	Gross domestic product
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	Fe_3O_4; 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

GLOSSARY

Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface
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.

2015 & beyond
二零一五年及以後

- **K&S** Doubling production
  產量倍增
- **Garinskoye** Production
  投產

2014
二零一四年

- **K&S** First commercial production
  首次商業投產

2013
二零一三年

- **IRC 鐵江現貨** General Nice + Minmetals Cheerglory Strategic Alliance
  與俊安及五礦企榮之戰略聯盟
- **K&S** Ongoing construction
  建設中

2012
二零一二年

- **Kuranakh** Ilmenite production full capacity
  鈦鐵礦生產達產
- **Garinskoye** DSO operation announced
  公佈直接輸出礦石營運
- **Exploration 勘探** Ilmenite & Molybdenum Exploration acquisitions
  鈦鐵礦及鉬礦勘探之收購

2011
二零一一年

- **Kuranakh** Full year production targets exceeded
  超越全年生產目標
- **IRC 鐵江現貨** Group reserves increase threefold
  公佈集團的儲量較上一次公佈的增加三倍
- **K&S** First drawdown ICBC facility
  Optimisation Study to double K&S production
  提取首筆工商銀行融資
  公佈優化研究，將K&S產量倍增
- **SRP 鋼渣再加工項目** First production
  正式投產
- **Kuranakh** Iron ore production full capacity
  鐵礦石生產達產

ON TRACK TO DELIVER SUPERIOR GROWTH & RETURNS

正在理想增長及理想回報之軌道上邁進

2010
二零一零年

- **K&S** US$340m ICBC facility
  US$400m CNEEC EPC contract
  獲授工商銀行融資3.4億美元
  與中國電力工程有限公司簽訂4億美元的工程、採購及建築(EPC)合約
- **IRC 鐵江現貨** HKEx listing
  於香港交易所上市
- **Kuranakh** Commissioned
  開始營運

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