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IRC Limited

HONG KONG STOCK CODE: 1029

Annual Report 2013

ABOUT US

We are a vertically integrated producer of industrial commodities, operating in the Russian Far East and North-Eastern China. We are characterised by our industry leading cost position and low-risk growth profile.

WHY IRC

IRC is unique in the iron ore market due to its combination of competitive advantages, namely superior geology and direct access using established world-class infrastructure to China, the world's largest iron ore market.

During 2013 IRC consolidated its position as a leading investment in iron ore as it delivered over a million tonnes of production, stepped closer to a tripling of production in the coming year and secured the financial, operational and offtake support of two strategic Chinese investors.

2014 AND BEYOND

With a solid 2013 behind us, we are preparing to triple production capacity in 2014, with the potential to double production again in the following years. We are financially secure with strong partners, genuine Russian and Chinese credentials and a low-risk profile.

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DELIVERING GROWTH

Since listing on the Hong Kong Exchange over three years ago, IRC has consistently delivered production growth at its Kuranakh Mine, while advancing its K&S and Garinskoye Projects. In 2014 K&S will commence production, boosting annual group production capacity by an additional 3.2 million tonnes of high-grade iron ore.

OPERATIONAL PROGRESS IN 2013

During our third year of commercial scale operations, we have continued to ramp-up production and once again exceeded our iron ore production targets. Development activities at the K&S project advanced, placing us on the way to boost production capacity by an additional 3.2 million tonnes in 2014.

CORPORATE PROGRESS IN 2013

In January 2013 we announced a strategic alliance with a US$238 million investment in our business by General Nice and Minmetals Cheerglory, one of China's largest private steel raw materials traders and largest metals, mining and trading State-Owned Enterprise respectively. By the end of the year over 60% of the funds from General Nice had been received. This investment provides IRC with more financial security, a flexible offtake arrangement and partners with solid Chinese credentials.

2015 & beyond

K&S	: Doubling production capacity
Garinskoye	: DSO production
Infrastructure	: Amur River bridge

2014

K&S	: Commercial production
Garinskoye	: Approval of DSO operation

2013

Kuranakh	: Over 1 million tonnes iron ore production Ilmenite production expanded
K&S	: Development ongoing
Garinskoye	: Bankable Feasibility Study Progress
IRC	: General Nice & Minmetals Transaction

2012

Kuranakh	: Full ilmenite capacity
K&S	: Construction commenced
Garinskoye	: DSO study announced
IRC	: Exploration portfolio expanded

2011

Kuranakh	: Full iron ore capacity
K&S	: Phase II optimisation study
IRC	: Maiden profit
IRC	: First ICBC loan drawdown
SRP	: First production

2010

Kuranakh	: Commissioned
IRC	: HKEx listing raised US$240m
IRC	: CNEEC US$400m EPC contract agreed
IRC	: US$340m ICBC facility agreed

One Million Tonnes Produced, and On The Way To Over Four Million Tonnes Capacity.

Dear Shareholder,

In 2013 IRC passed a new milestone with production of over 1 million tonnes at the Kuranakh Mine. This is our highest production yet and the third consecutive time that we have exceeded our iron ore production targets. Kuranakh generated a segmental EBITDA of US$22.8 million, a 40% improvement on 2012.

This is a great achievement and demonstrates our ability to operate. Furthermore, it provides confidence for 2014 when our new K&S Mine will open and ultimately quadruple group production capacity.

Targeting a production capacity of 3.2 million tonnes, K&S will not only add new low-cost production, but also generate significant rewards that shareholders have been patiently waiting for.

In review, 2013 was a year of operational progress while 2014 and 2015 will be the years of financial transformation when we will reap the benefits of this hard work.

Mission to be a Sino-Russian Champion

With a foot in both Russia and China, IRC enjoys an enviable position on one of the world's most promising trade borders. Sino-Russian trade has become a topic of increasing interest during 2013 as both states signed plentiful trade deals. We believe that with our experience working in both states, we are well positioned to capitalise on the new found interest in Sino-Russian trade and have a clear competitive advantage to succeed due to our experience.

Superior Insight to the World's Most Important Iron Ore Market

Because China is the largest market for iron ore, we also benefit from a unique insight into this market. A few years ago we suggested that China was not heading for the hard landing that markets feared, and last year we highlighted that contrary to the pessimistic forecasts of many, Chinese iron ore production would grow comfortably and support the price. As it turns out, we were right on all accounts as China successfully manages a path to slower growth. Iron ore demand in 2013 hit new records growing over 10% to 800 million tonnes. Looking forward to 2014, we agree that Chinese demand growth might slow. However, it is important to understand that it will do so off a larger base and therefore even lower growth rates will require as much additional material in volume terms as the high growth witnessed times just a few years back.

Robust Iron Ore Markets

Strong Chinese demand helps to explain why iron ore markets were good in 2013. The volatility experienced in 2012 abated and the price averaged a smooth US$136 a tonne for the year. Iron ore markets were much more robust than market commentators suggested and iron ore was one of the best performing commodities for the year as a whole.

We try to keep an eye on the longer-term trends in the iron ore market and not be distracted by the occasional volatility or seasonality that can occur. We hold our view that Chinese iron ore demand will continue to grow and iron ore supply will continue to be constrained. This will provide for a firm market and good prices, which will benefit IRC as we develop new projects at the lower end of the cost-curve.

EXECUTIVE CHAIRMAN & CHIEF EXECUTIVE OFFICER REVIEW (Continued)

Superior Access to Resources

Often it's the case that some of the most attractive ore deposits are located in some of the most non-ecumene geographies. Historically, our assets were untouched due to the absence of a local steel industry. And contrary to popular opinion, the Russian Far East is well connected, especially to China, where there is a large steel industry. We have access to quality people and skills in the nearby towns and cities. Power and fresh water are readily available at a reasonable cost. These are some of the most important inputs in a successful mining operation, and in many geographies the challenges of providing these render geology insignificant. Fortunately, for IRC this is not the case.

An Established Reputation and Trust

It's over three years since we listed on the Hong Kong Stock Exchange, and in that time, we have established a reputation as a trusted mining company. We take pride in achieving our goals, and as such, it was pleasing that at Kuranakh we beat our upgraded iron ore production targets for the third consecutive year. Delivering over a million tonnes of iron ore, which is actually 15% above nameplate capacity is a rare achievement for a mining company.

In 2013 we won multiple local and international awards for our corporate reporting. This is a great endorsement for our company in Hong Kong. As we start to generate significant returns from K&S, we are confident that shareholders, old and new, will take comfort and trust in our commitments to the highest standards and a track record that we believe is unmatched.

Operational Advances in 2013

Our portfolio of assets grew on all fronts during 2013. Our producing Kuranakh Mine hit new production records. We also spent considerable time preparing for the future, notably opening up the second pit to provide additional flexibility and the installation of new ilmenite capacitors to increase production capacity. The Kuranakh Mine operation recorded a segmental EBITDA of US$22.8 million for 2013, a 40% improvement compared to 2012.

At K&S development was rapid. The end of the year saw mining and infrastructure preparation ahead of schedule and the beneficiation plant housed and heated ready for the installation of equipment.

Garinskoye nears a decision on production with the reengineered bankable feasibility study for a DSO-style operation. Potential funding opportunities are ongoing, with several potential project partners having been identified and a full expression of interest for project financing received from a multi-lateral banking institution.

Strategic Chinese Partners

Early in the year we announced our proposal to align strategically with Chinese miner-traders General Nice and Minmetals Cheerglory. Shareholders overwhelmingly supported 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 chose IRC, endorsing our geological and geographic competitive advantages and long term growth potential.

The transaction originally envisaged two stages for completion. 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.

The first phase of the alliance completed in April 2013 with the injection of just over US$100 million into IRC. Upon completion of the first phase, General Nice and Minmetals Cheerglory received places on IRC's Board.

At the end of December, General Nice advised that they would not be able to complete the second subscription for new shares in full at that time. We are always monitoring the Chinese macro environment and we observed that credit availability reduced and interest rates increased. As the December deadline progressed, the liquidity situation tightened in China. Subsequently, General Nice has raised further funds and the remaining balance is now due in April 2014. Whilst the delay is regrettable, it was a victim of liquidity constraints and high interest rates that were prevailing in China. The long-term benefits of the strategic partnership however remain firm, and all the parties are committed to completing the transaction.

As we turn our attention to 2014, we have a clear set of goals that will help us deliver on our strategy, namely:

1. *Achieve our production targets at Kuranakh: 900,000 tonnes of iron ore and 160,000 tonnes of ilmenite.*
2. *Start commercial production at K&S during the second half of 2014, ramping up to full capacity of 3.2 million tonnes in 2015.*
3. *Complete the Bankable Feasibility Study and financing for K&S Phase II by the end of 2014, targeting production in 2016/2017.*
4. *Complete the Bankable Feasibility Study and financing for Garinskoye by the end of 2014, targeting construction in 2015.*

Achieving these goals will help us deliver on our strategy and unlock the value inherent in our geology. 2014 is set to be a transformational year for IRC and we will be working hard to ensure that our shareholders are rewarded for their patience, notably with the K&S Mine entering production.

Thank you

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

George Jay Hambro
Executive Chairman, IRC Limited

YURY MAKAROV
Chief Executive Office, IRC Limited

Stripping Activities at the K&S Mine

CFO'S STATEMENT

Dear Shareholder,

In this letter I will explain the main items from our 2013 financial results and why I believe we are in a secure financial position and why I expect we will soon start to enjoy significant positive cash flow from our investments and what this could mean for shareholder returns.

In 2013 IRC drew one step closer to the start-up of the new K&S Mine. As expected, as a consequence of the cost of building a large scale mining operation, IRC has again generated a loss for 2013. However, it is important to note that despite this significant expenditure the Group considerably narrowed its loss in 2013 and the financial position of the Company actually strengthened following subscriptions for new shares by our Chinese strategic investors.

Profit & Loss Account

The Group reported revenue of US$160.9 million, a 15.2% increase compared to 2012. This additional income is mainly derived from higher sales volume and prices for iron ore from our operating Kuranakh Mine. The volume of ilmenite sold also increased but this was not enough to offset lower realised prices.

As one would expect with higher production, total costs also increased. On a unit cost basis the Kuranakh Mine reported a cash cost of US$67.1 per tonne in 2013, this was primarily due to the increased cost of temporarily mining through lower-quality ore, and the smaller contribution from ilmenite by-product credits as explained above. On a positive note, rail freight costs for iron ore fell US$6 per tonne somewhat tempering increases elsewhere. It is pleasing to note that the Kuranakh Mine again reported a positive segmental EBITDA, increasing 40% to US$22.8 million.

The wider cost-cutting initiatives that we started in 2011 continue to help limit inflationary pressures. This is reflected in a reduction in general administrative costs for the second year in a row, reducing to US$19.0 million in 2013 from US$26.2 million in 2012, despite the sizeable business growth.

In 2013, an impairment charge of US$28.9 million was recorded. Due to the weakened molybdenum price and capital requirements for developing these greenfield projects, we decided to suspend investment of molybdenum exploration projects to preserve capital, resulting in an impairment charge of US$13.5 million, of which US$6.7 million was shared by the non-controlling interests. Furthermore, noting the sensitivity at Kuranakh to ilmenite and iron ore prices, we took the appropriate decision to take an impairment charge of US$15.4 million against the project. It's important to understand that these are non-cash charges and therefore it is appropriate to act in a prudent and conservative manner as we manage our business on a long-term basis.

Capital & Shareholding Structure

At the end of the year, we reported cash balances of US$98.4 million compared to US$24.0 million last year. This increase is a result of the completed subscriptions from our new Chinese strategic investor, General Nice, of which there are more to follow in 2014 in addition to an investment by Minmetals Cheerglory. The total subscription when announced in January 2013 was at HK 94 cents per share for 1,962,500,000 new shares for HK$1,844.8 million (approximately US$238.0 million). By the end of the 2013, General Nice had completed the subscription of over 60% of its commitments, and by the end of February 2014 over 70% or HK$1,160.8 million (approximately US$149.8 million), with the remaining balance, and the Minmetals Cheerglory subscription due in April 2014.

During the year we continued to draw down on the US$340 million ICBC project finance facility for the K&S Project. At the end of December 2013 a total of US$195 million had been drawn down. It is envisaged that the remaining balance will be fully drawn down by the end of 2014 according to the construction schedule. The loan repayments will begin in December 2014 and are structured to repay in full over a period of 8-years on a semi-annual basis. With operations at K&S scheduled to commence at the end of 2014, the repayment schedule is on track.

At the end of December the Company had cash and deposit balance of US$98.4 million, gross debt of US$214.8 million and the gearing ratio remained low at 10.5% and undrawn facilities totaled US$150 million. Furthermore, by the end of April 2014, the Company should receive an additional US$88.2 million of funding from General Nice and Minmetals Cheerglory. This means the Group would have ample resources available for development and ongoing operations.

Looking back on 2013, while the overall operating environment was challenging and our performance affected by the falling commodity prices, we are pleased with the improvements in profitability at Kuranakh and are cautiously optimistic that performance there in 2014 will improve further if the markets for our end products strengthen.

At K&S, we have managed expenditure prudently and look forward to this operation starting to generate an earnings stream that will lift the Group into profitability.

We enter the Year of the Horse in a stronger financial position than last year, even after investing heavily in future growth. We are in an excellent position as we transform from a developer to a significant producer of quality iron ore that will provide good returns for our investors and stakeholders alike.

Raymond Woo.

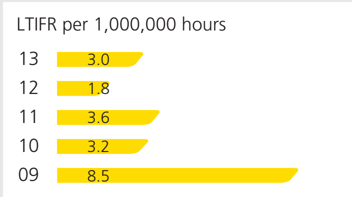
Raymond Woo
Chief Financial Officer, IRC Limited

KEY PERFORMANCE INDICATORS

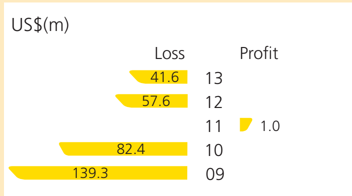
Key Performance Indicator	Context	2013 Development
Safety	Our vision is a culture of zero harm. We are committed to the safety of our employees and contractors by adhering to the strictest safety policies and standards.	Initiatives continued during the year including ongoing extensive health, safety and basic first-aid training for all operational employees and contractors.
Profitability	Profitability at IRC should be seen in the full context: the development of new mining operations will increase future growth, therefore profitability is not wholly appropriate to our KPIs this year.	Kuranakh reported a segmental EBITDA of US$22.8 million. The Group as a whole reported a net loss of US$41.6 million, in-line with guidance and analyst forecasts on a pre-impairment basis.
Production	We are targeting production growth by developing and expanding our portfolio of mines in a conservative manner whilst extracting value throughout the production chain.	A strong year at Kuranakh resulted in production exceeding iron ore targets for the third consecutive year. Ilmenite production increased, however, it was marginally short of the target.
Efficiency	Productivity measures are a fairer indication of efficiency than pure production growth. We rate our growth against capital and operating costs, and inputs and waste such as energy, water and emissions.	Cash costs increased 20% to US$67.1 per tonne, as production volumes ramped up and despite Russian inflation at 6.5%, costs saving initiatives provided results.
Exploration & Development	Our exploration programmes aim to add value through the discovery of new resources and increasing and confirming confidence in mineable reserves.	At Garinskoye a re-engineered feasibility was completed for a DSO-style opportunity. A third-party fatal flaw analysis was commenced.
HSE & Community	HSE is measured by adhering to legislation and best practice in the communities and environment where we operate.	HSE efforts increased, and continue to support the business and its wider objectives. Our efforts were rewarded during 2013 with an improved performance and a renewed ISO 14001:2004 certification.

2013 Performance

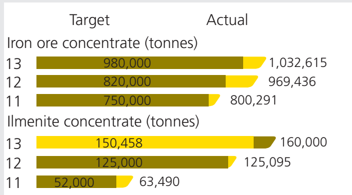
Safety



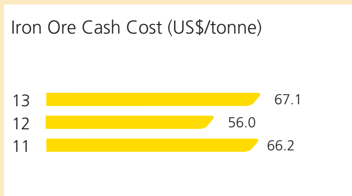
Profitability



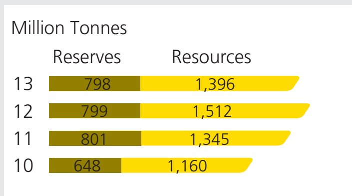
Production



Efficiency



Exploration



Extensive HSE statistics are published in the HSE section, pages 27 to 35.

KEY PERFORMANCE INDICATORS (Continued)

	2012 Comparison	Future Opportunities
No fatalities occurred in 2013. The Group LTIFR per 1,000,000 hours increased to 3.0. Increases in lost time injuries were recorded at Kuranakh and K&S.	Regrettably, a fatality was recorded in 2012. The Group Total Recordable Injury Frequency Rate per 1,000,000 hours worked was 1.8 for 2012.	IRC will continue to set high safety standards and a target of zero harm across its operations. As operations ramp up at K&S, and develop at Garinskoye, education programmes for employees and contractors will expand.
The Group financial loss reduced to US$41.6 million due to an improved performance at Kuranakh and central cost savings.	Kuranakh reported a segmental EBITDA of US$16.3 million in 2012. The Group reported a net loss of US$57.6 million in 2012.	With improvements in production and efficiencies underway, profitability for 2014 is expected to improve relative to production volumes and commodity prices. Cash flows will be boosted significantly with the introduction of the K&S Mine.
In 2013 Kuranakh increased iron ore production by 6.5% to 1,032,615 tonnes compared to a target of 980,000 tonnes. Ilmenite production increased 20% to 150,458 tonnes of ilmenite concentrate compared to a target of 160,000 tonnes.	In 2012, Kuranakh produced 969,436 tonnes of iron ore concentrate compared to a target of 820,000 tonnes and 125,095 tonnes of ilmenite concentrate compared to a target of 125,000 tonnes.	In 2014 Kuranakh production targets are 900,000 tonnes of iron ore and 160,000 tonnes of ilmenite concentrate, in line with plant capacity. First commercial production is anticipated from K&S in the second half of 2014.
The average cash cost per tonne of iron ore was US$67.1 per tonne compared to US$56.0 per tonne in 2012 as a result of a smaller by-product credit due to lower ilmenite price. Rail transport costs for iron ore concentrate, from Kuranakh to Suifenhe averaged US$35 per tonne a 14% reduction compared to 2012.	In 2012, the average cash cost per tonne of iron ore was US$56.0 per tonne.	When K&S commences production, its lower operating costs will reduce total average group production costs.
Group resources decreased to 1,396 million tonnes at the end of 2013. Group reserves totalled 798 million tonnes a marginal decrease from 799 million tonnes at the end of 2012 due to mining at Kuranakh.	Group resources increased 12% compared to 2012 to 1,512 million tonnes. Group reserves decreased marginally to 799 million tonnes from 801 million tonnes.	The Garinskoye feasibility and third party verifications will be published. Exploration will continue across other properties, notably brownfield iron ore sites and greenfield ilmenite sites, in addition to the constant review of external opportunities.
Consumption of energy and water, and employees numbers all fell relative to production. Production of pollutants also reduced at Kuranakh relative to production, though increased at K&S in-line with more intensive construction activities.	Efforts focused on expanding ISO 14001:2004 certification to new operations and maintaing certification at Kuranakh. Pollution levels were in line with increased activity levels notably at K&S.	The Group will strive to reduce energy consumption thereby reducing emissions, water usage and waste. ISO certification will be maintained.

BOARD OF DIRECTORS

The Board of Directors is composed of nine directors whose expertise covers a broad range of industries, geographies and skills. The Board formally meets four times a year. Numerous additional sub-committee meetings, information events and director training sessions are also held, including site visits to IRC's regional offices.

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

Jay Hambro **Yury Makarov** **Raymond Woo** **Daniel Rochfort Bradshaw** **Jonathan Martin Smith** **Chuang-fei Li** **Simon Murray** **Cai Sui Xin** **Liu Qingchun**

Executive Directors

Jay Hambro

Executive Chairman

Mr Jay Hambro, 39, is the Executive Chairman of IRC. He began his career as a metals and mining project financier at NM Rothschild and investment banker at HSBC. In 2002 he joined what is now Petropavlovsk and was subsequently appointed CEO of Aricom plc. Following the acquisition of Aricom by Petropavlovsk in 2009, he became the CIO there, a role he relinquished in 2010 to become Executive Chairman of IRC. Mr Hambro is a Fellow of the Institute of Materials, Minerals and Mining and an Independent Non-Executive Director of Winsway Coking Coal Holdings Limited. He holds a Bachelor of Arts in Business Management from Newcastle University.

Yury Makarov

Chief Executive Officer

Mr Yury Makarov, 39, is the Chief Executive Officer of IRC. He is also the Chairman of the Operations Committee. He began his career at NT Computers in Moscow as an engineer, working his way up to be a Commercial Director with responsibility for sales, service and support. In 2002 he joined Aricom as COO and moved to Petropavlovsk as the Group Head of Operations of the industrial commodities business before taking up his new role at IRC in 2010. Mr Makarov is a qualified systems engineer with a Masters Degree in Avionics Design and Production from the Moscow State Aircraft Technology Institute.

Raymond Woo

Chief Financial Officer & Company Secretary

Mr Woo, 44, is the Chief Financial Officer and the Company Secretary of IRC. Mr Woo is responsible for the financial management of IRC in Russia, China and Hong Kong. Mr Woo began his career as an accountant at Arthur Andersen and subsequently as an investment banker at ING, CITIC Securities and Credit Suisse. Mr Woo holds a Bachelor of Commerce and is a member of both the Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He is an Independent Non-Executive Director of Yuanda China Holdings Limited.

BOARD OF DIRECTORS (Continued)

Independent Non-Executive Directors

Daniel Rochfort Bradshaw

Mr Daniel Bradshaw, 67, is the Senior Non-Executive Director, and Chairman of the Health, Safety and Environment Committee. As a Hong Kong lawyer with a specialist shipping practice, he brings considerable legal and logistics experience, having worked for most of his career at Mayer Brown JSM as a solicitor, and currently as a consultant. Mr Bradshaw holds an LLB and LLM in Law and is a registered solicitor. He is an independent non-executive director of Euronav N.V., and an Independent Non-Executive Director of Pacific Basin Shipping Limited, a Director of the Kadoorie Farm and Botanic Garden and a member of the Executive Council of the Hong Kong World Wide Fund for Nature.

Jonathan Eric Martin Smith

Mr Jonathan Martin Smith, 55, is an Independent Non-Executive Director and Chairman of the Remuneration Committee. Mr Martin Smith founded Smith's Corporate Advisory, which was sold to Westhouse Holdings Ltd., a UK stockbroker, in 2010, where he is now Head of Mining. He brings industry and capital markets experience to the Board. Prior to establishing his own firm, Mr Martin Smith worked at UBS, Credit Suisse and Williams de Broë. He is a graduate from the Royal Military Academy Sandhurst where he served as an officer until 1982.

Chuang-fei Li

Mr Chuang-fei Li, 67, is a Non-Executive Director and Chairman of the Audit Committee. Mr Li worked for Bank of China in London as the Deputy General Manager and the Chief Lending Officer. He was in charge of investment and corporate banking, treasury and capital markets, financial institutions coverage, structure finance, aircraft and shipping finance, syndications, retail banking and auditing. He was instrumental in the establishment of Bank of China International, the first Chinese owned investment banking operation. Mr Li is a past Fellow of the Asia Centre at Harvard University.

Non-Executive Directors

Simon Murray

CBE, Chevalier de la Légion d'honneur

Mr Murray, 74, is a Non-Executive Director of IRC. Mr Murray brings considerable Hong Kong and Asia based experience to the Board, from a career spanning Jardine Matheson, Hutchison Whampoa as the Group Managing Director, Executive Chairman of Asia Pacific of the Deutsche Bank Group and his current position as Chairman of GEMS Limited. Mr Murray was the first Chairman of Glencore International and is currently Director of Cheung Kong (Holdings) Ltd., Orient Overseas International Ltd., Wing Tai Properties, Greenheart Group Ltd., and Spring Asset Management Limited being the manager of Spring REIT, all are companies listed in Hong Kong. He is also Chairman of Gulf Keystone Petroleum Plc., Vice Chairman and INED of Essar Energy plc, and the Non-Executive Director of Compagnie Financiere Richemont SA, all being listed companies overseas.

Cai Sui Xin

Mr Cai Sui Xin, 52, is the Founder and Chairman of General Nice, a strategic shareholder of IRC and a global producer and trader of steel raw commodities. Mr Cai is the Executive Chairman of Singapore quoted Abterra Ltd, Digiland International Limited, Executive Chairman of Hong Kong quoted Loudong General Nice Resources (China) Holdings Limited.

Liu Qingchun

Mr Liu Qingchun, 48, is the Managing Director of Minmetals Cheerglory, a subsidiary of China Minmetals Corporation. He has considerable experience in international trading and in the iron and steel industry. He has held a number of senior management positions in China Minmetals Group since 1997. Mr Liu currently acts as the Business Director of the Ferrous Trading and Logistics Centre of China Minmetals Corporation, a Director and the Deputy General Manager of China Minmetals H.K. (Holding) Limited, and a Director of Beijing Newglory International Ltd. Mr Liu is a Non-Executive Director of Hong Kong quoted Winsway Coking Coal Holdings Limited. Mr Liu obtained a MBA from Saint Mary's University in Canada and a Bachelor of Arts in International Economics Law from Shanghai Institute of Foreign Trade.

Emeritus Director

Senator Dr Pavel Maslovskiy

Senator Dr Pavel Maslovskiy, 57, is the Co-Founder of Petropavlovsk plc. In this capacity, Senator Dr Maslovskiy has extensive experience in the operational management of mining and processing operations in precious and non-precious metals.

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

KURANAKH

Ownership

IRC 100%

Location

56° 41'35"(N)
170° 26'30"(E)

Kuranakh celebrated its third anniversary in 2013, beating iron ore production targets for the third consecutive year and achieving a new milestone with annual production over 1 million tonnes of iron ore for the first time.

Overview

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

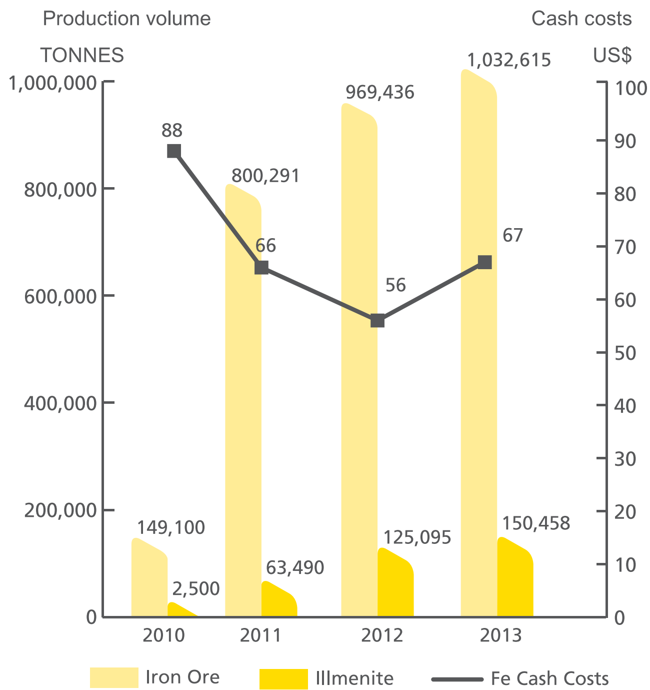
The entire operation covers 85km^2 and comprises the Kuranakh and Saikta open-pit mines, an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant.

The operation produces an iron ore concentrate with a 62.5% iron (Fe) content and an ilmenite concentrate with a 48% titanium dioxide content (TiO2). The concentrates are directly loaded onto railcar wagons for transportation via the BAM and Trans Siberian Railways to customers in Russia, China and internationally via the Russian Pacific sea ports.

Safety

The Kuranakh Mine reported deterioration in the LTIFR per 1,000,000 hours worked in 2013, increasing to 3.90 from 2.55 in 2012. Whilst efforts to improve safety performance are ongoing, it is also important to note that no fatalities were recorded in 2013.

IRC is currently the only iron ore company in the Russian Far East that complies with the ISO 140001: 20014 certification, a qualification which was achieved in 2012 and renewed in 2013.



PROJECT REVIEW (Continued)

Mining

During 2013, mining rates hit new records. Development at the Kuranakh Pit, brought into production in 2012 was ongoing for much of the year. Whilst this resulted in lower grades, it will provide opportunity to improve the face availability and mine flexibility in 2014.

A total 5.6 million m^3 of overburden was removed, an increase of 33% compared to the 4.2 million m^3 realised in 2012. In total, 3.8 million tonnes of ore were removed, an increase of approximately 9% compared to 2012.

Crushing and Screening Plant

The on-site Crushing and Screening Plant handled the additional tonnages from mining operations well. During the year, the plant processed a 19% increase to 3.8 million tonnes of ore. Production increased from 1.8 million tonnes to 1.9 million tonnes. The grade decreased from 48.7% to 43.8%.

Olekma Processing Plant

The Olekma Processing Plant also ramped up capacity in-line with mining activities. During the year, the plant processed 1.9 million tonnes at a grade of 42.9% Fe.

At the end of the year, stockpiles totalled 504,008 tonnes, enough to temporarily reduce winter mining operations.

Production

Production of iron ore concentrate, with a 62.5% Fe content was 1,032,615 tonnes, 5.4% above the annual target which was increased in September 2013 and 6.5% more than the 969,436 tonnes produced in 2012.

Production of by-product ilmenite concentrate with a 48% grade increased 20% to 150,458 tonnes compared to 125,095 tonnes in 2012.

Financial Performance

During 2013 Kuranakh generated revenues of US$152 million, compared to US$128 million in 2012. Higher iron ore production and achieved prices provided a boost to revenue, though this was offset by lower prices for ilmenite, despite an increase in production.

Unit cash costs, averaging US$67.1 per tonne compared to US$56.0 in 2012. Despite Russian inflation averaging approximately 6.5% for the year, on mine and transport savings were achieved, notably transportation costs savings to the Chinese border through optimised wagon loading which has resulted in an approximate US$6 per tonne saving.

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

	2012 US$/t	**2013 US$/t**
Mining	31.1	**37.5**
Processing	18.7	**18.4**
Transportation to Plant	8.0	**7.0**
Production Overheads	10.8	**9.3**
Site Administration and Related Costs	12.6	**13.1**
Contribution from sales of ilmenite*and others	(25.2)	**(18.2)**
Total	56.0	**67.1**

* net of tariff and other railway charges for ilmenite

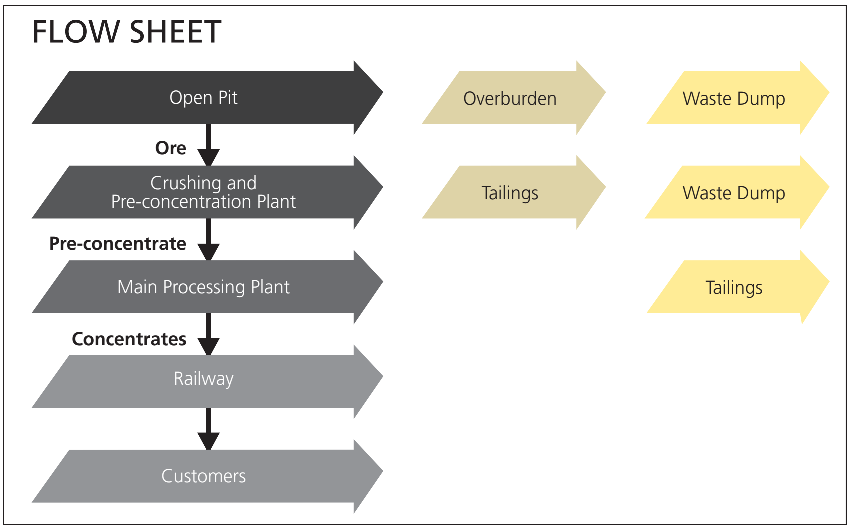
For 2013, Kuranakh reported a segmental EBITDA of US$22.8 million, a 40% increased compared to US$16.3 million in 2012, primarily due to the higher iron ore price and volumes and saving of transportation costs.

Sustainable Benefits

Kuranakh is Russia's first vertically-integrated titanotmagnetite processing and production plant. Although enjoying good access to infrastructure, the operation is located in a remote part of the Russian Far East and consequently has bought a much welcomed boost to the local economy. During 2013, an average of 1,220 people were employed at the operation.

2014 Targets

During 2013, Kuranakh achieved full production capacity for iron ore and near full capacity for ilmenite. The target for iron ore concentrate for 2014 is maintained at 900,000 tonnes and the target for ilmenite is 160,000 tonnes, 6.4% above the 150,458 tonnes produced in 2013.



K&S

Ownership

IRC 100%

Location

48° 59'04"(N)
131° 25'10"(E)

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

Overview

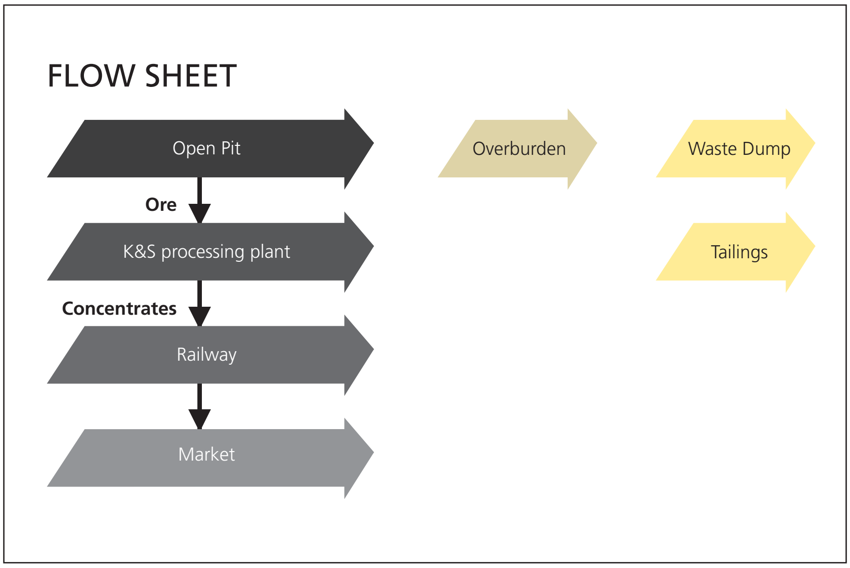
Targeting commercial production in the second half of 2014, K&S will be IRC's second mining operation. An approximate 3.2 million tonnes a year project at Phase I, with the opportunity to expand to 6.3 million tonnes thereafter, K&S is a large scale low-cost operation producing a popular high-grade product.

Safety

The K&S Mine reported an excellent safety performance for 2013. The LTIFR rate per 1,000,000 hours worked was 1.00. Although a slight deterioration this remains a fair performance.

Mining

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



In 2013 mine development made good progress and at year-end was ahead of schedule. This was in part due to the appointment of a mining contractor which helped accelerate stripping and mining rates. At the end of 2013 a total of 10.7 million m^3 of material has been removed and ore stockpiles totalled 1,911,480 tonnes, about two-thirds of the full requirements ahead of commercial start-up.

PROJECT REVIEW (Continued)

Processing

The Processing Plant is well situated between the two deposits. Construction began in 2010 and should start commercial operations in the second half of 2014.

The plant design for Phase 1 is to process 10 million RoM tonnes to produce 3.2 million tonnes of iron ore concentrate with a superior 65% Fe grade. With the addition of ore feed from the Sutara Pit, a Phase 2 expansion is planned for the Processing Plant, doubling the throughput capacity to 20 million RoM tonnes, to produce 6.3 million tonnes of iron ore concentrate with a 65% Fe grade. Additionally, there are further expansion opportunities to treat pre-concentrates from the nearby Kostenga Deposit and longer-term, possibly Garinskoye.

The Phase 1 Processing Plant is being constructed by CNEEC and funded through a project finance facility provided by ICBC. At the end of 2013 construction of the main processing building was almost completed with the building fully covered and heated enabling equipment installation to commence through the winter. The primary crushing building, ore sorting building, secondary and fine crushing ore building and dry magnetic separation building are more than half complete, many nearing full completion with equipment installations on-going.

Infrastructure and Logistics

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

In addition to transport access, K&S also enjoys excellent power and water availability. The on-site electrical transmission sub-station is already complete and connected to the federal grid. On-site boreholes provide the required fresh-water needs for full production.

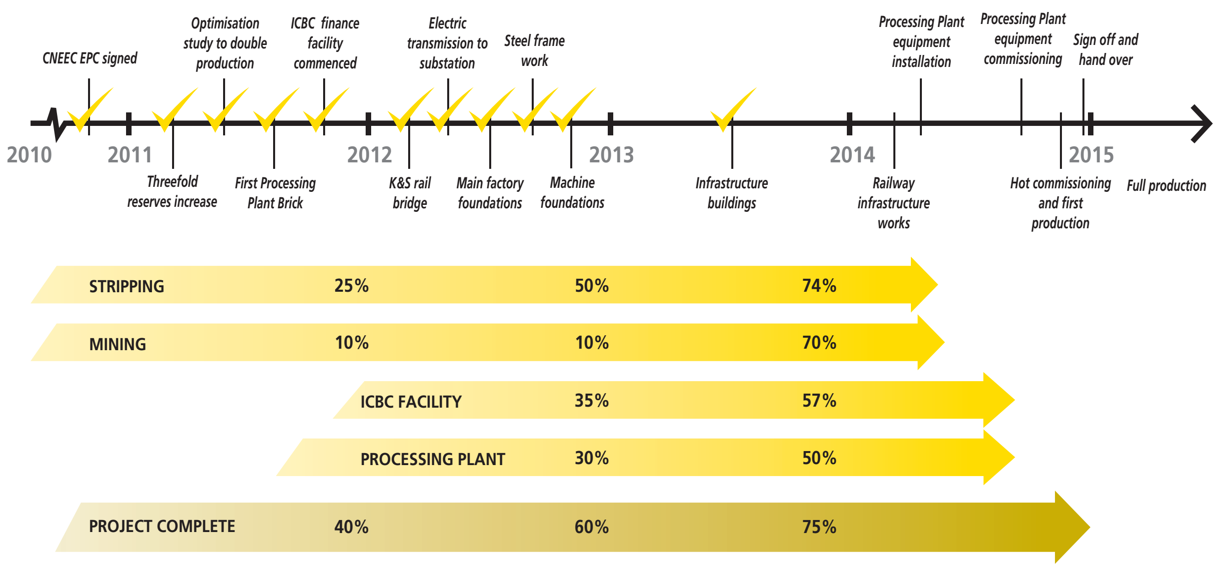
Sustainable Benefits

The K&S deposits were discovered in the 1950s, however, they remained undeveloped until IRC acquired the licences in 2007. IRC is spending more than US$500 million to develop the K&S operation, and as such is ranked as the largest ever investment in the EAO. The workforce currently comprises local and contract employees totaling approximately 730 at the end of 2013, and it is expected that at full scale operations, it will employ 1,300 people.

Production Targets

It is expected that operations will commence during the second half of 2014 with a rapid ramp-up to full capacity of 10 million tonnes with a grade of 35% Fe, processed to produce 3.2 million tonnes of iron ore concentrate with a grade of 65% Fe.

K&S Milestones



Estimated simplified project construction schedule

GARINSKOYE

Ownership

IRC 99.6%

Location

52° 35'00"(N)
129° 65'30"(E)

The Garinskoye Project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans Siberian Railways and near to the Zeya River which flows directly to China.

Overview

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

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

Development Opportunities

There are two possibilities to develop Garinskoye: a large-scale 4.6 million tonne per annum open pit operation for 20 plus years, as originally envisaged, though dependent on a rail connection, or alternatively an intermediate 2.1 million tonne DSO-style operation which does not require a rail connection and can be started up in advance of a larger conventional operations, thereby unlocking value in the near-term.

In 2013, IRC has completed an internal Bankable Feasibility Study, and once third-party verification and a fatal flaws analysis is completed, it will be announced. In the meantime, funding opportunities are ongoing, with several potential project partners having been identified and a full expression of interest for project financing received from a multi-lateral banking institution.

The new intermediate approach envisages a DSO-style operation with a pre-production capital cost estimated at c. US$130m. This comprises an optimised pit with a 20.2mt reserve, 48% Fe grade, and a 1.7:1 strip-ratio (m3:t basis). Using conventional truck and hydraulic excavator mining methods, and a simple processing circuit using low intensity magnetic separation and small-scale equipment, a 55% grade iron ore fines product could be produced. The product will be transported by purpose-built road, and existing barge and rail routes (depending on the season), to the Chinese border for a total operating costs of between US$50 and US$57 per tonne.

Summary of principal mineral resources at Garinskoye*

Project	Resource Category	Mineral Resources (Mt)	Fe (%) total
Garinskoye	Indicated	177.5	33.4%
	Inferred	85.7	32.5%
	Total	263.2	33.1%

* In accordance with the Guidelines of the JORC Code (2012)

Exploration Projects

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

K&S and Kostenginskoye

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

Bolshoi Seym & Molybdenum

Following the acquisition of the remaining shares in Bolshoi Seym ilmenite deposit in July 2012, IRC increased its shareholding from 49% to 100%. Consequently exploration has continued on the Deposit. In July 2012, the Company completed the acquisition of a controlling stake in a portfolio of a Molybdenum exploration projects in the Amir Region of the Russian Far East. Due to weakened molybdenum price and capital requirements for developing this greenfield project, further investment has been temporarily suspended.

Infrastructure Projects

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

Bridge

The project to build a railway bridge across the Amur/Heilongjiang River between Nizhneleninskoye and Tongjiang advanced during 2013, largely due to interest from the Russian government to move ahead with construction.

IRC continues to assist Russian Railways and with the Russian and Chinese authorities to facilitate the ongoing development of the bridge.

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

Port

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

Overview
Project Review
Corporate Communication
Corporate Governance
Financial Information
Other Information

Giproruda

Location

St Petersburg, Russia, with regional and international offices.

Overview

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

SRP

Location

Shuangyashan, Heilongjiang, North-Eastern China

Overview

The Steel Slag Reprocessing Plant (SRP) is a Sino-Russian partnership, being a joint venture between IRC (46% ownership) and its largest iron ore customer in Heilongjiang in North-Eastern China. The plant is located adjacent to the customer's operations and processes steel slag, a by-product from our customer's operations. The SRP is reliant on concentrate from Kuranakh and thus is a long-term offtaker. Production ramped up through 2013 and with the project significantly reducing its loss. As stable production output is realised, further improvements in production efficiencies and costs are targeted.

During the year, the joint venture sold 7,927 tonnes of its product to a number of customers in the PRC. Vanadium pentoxide is widely used in steel industry for production of alloys as well as in production of lithium batteries.

Bridge connection K&S Processing plant to Trans Siberian Railway

Blasting at K&S Central Pit

MINERAL RESOURCE AND RESERVE STATEMENT

Exploration Summary

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

Exploration Highlights

The total Group resources, at the end of December 2013 were 1,396 million tonnes, comprising 1,003 million tonnes in the Measured and Indicated category and 393 million tonnes in the Inferred category.

The Group proven and probable reserves at the end of December 2013 were 798 million tonnes, updated following the mining activities at Kuranakh during 2013 and new resource estimates completed at Garinskoye following further analysis of the exploration results. Estimates for K&S and Bolshoi Seym remain the same as before. No exploration activity was carried out during the year.

Group Resources Summary

Project	Deposit	Category	Tonnage Mt	Fe Grade %	Fe Mt	TiO2 Grade %	TiO2 Mt
Kuranakh	Kuranakh	Indicated	12	27.3%	3.2	9.3%	1.1
		Inferred	5	31.3%	1.7	9.9%	0.5
	Saikta	Indicated	19	29.3%	5.7	9.7%	1.8
	Total	Indicated	31	28.6%	8.9	9.5%	2.9
		Inferred	5	31.3%	1.7	9.9%	0.5
K&S	Kimkan-Center	Indicated	98	33.2%	32.4		
		Inferred	27	32.7%	8.7		
	Kimkan-West	Indicated	53	33.3%	17.8		
		Inferred	54	33.5%	18.0		
	Sutara	Measured	196	32.5%	63.5		
		Indicated	231	32.2%	74.4		
		Inferred	66	31.0%	20.4		
	Maisky	Indicated	15	32.0%	4.8		
		Inferred	21	31.9%	6.6		
	Sovkhozniy	Inferred	4	30.2%	1.3		
	Total	Measured and Indicated	593	32.5%	192.9		
		Inferred	171	32.2%	55.1		
Garinskoye	Garinskoye	Indicated	177	33.4%	59.3		
		Inferred	86	32.5%	27.9		
	Total	Indicated and Inferred	263	33.1%	87.2		
Bolshoi Seym	Bolshoi Seym	Indicated	202	17.4%	35.2	7.6%	15.3
		Inferred	131	16.5%	21.6	7.5%	9.8
	Total	Indicated and Inferred	333	17.1%	56.9	7.5%	25.1
Total Measured and Indicated			**1,003**				
Total Inferred			**393**				
Total Measured, Indicated and Inferred			**1,396**				

All figures are prepared in accordance with the Guidelines of JORC (2004) except for the resources figures of Bolshoi Seym and Garinskoye which have been prepared based on NI43-101 and JORC (2012) respectively.

MINERAL RESOURCE AND RESERVE STATEMENT (Continued)

Group Reserves Summary

Project	Deposit	Tonnage (Mt)	Grade Fe %	Fe (Mt)
Kuranakh	Kuranakh	11.9	27.3%	3.2
	Saikta	19.3	29.3%	5.7
	Total	31.2	28.5%	8.9
K&S	Kimkan Center	95.1	33.1%	32.0
	Kimkan West	50.1	33.4%	16.7
	Sutara	409.7	32.4%	132.7
	Total	554.9	32.6%	181.0
Garinskoye		212.0	36.0%	76.3
	Total	798.1	33.4%	267.4

Kuranakh

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

During 2013, open pit mining continued at the Saikta Deposit and at the Kuranakh Deposit where mining commenced in 2012. A combined total of 3,831,000 tonnes of ore was removed, 1,790,200 tonnes from the Saikta Pit and 2,040,800 tonnes from the Kuranakh Pit respectively. As of 31 December 2013, the updated mineral resources after taking into account the 2013 mining activities are a combined 31.2 million tonnes (indicated), 19.3 million tonnes for Saikta and 11.9 million tonnes of ore (Indicated) for Kuranakh respectively.

Kuranakh and Saikta Resources*

	Ore Resources (Mt)	Fe (%)	TiO2 (%)	TiO2 (Mt)
Kuranakh				
Indicated	11.9	27.3%	9.3%	1.1
Inferred	5.0	31.3%	9.9%	0.5
Saikta				
Indicated	19.3	29.3%	9.7%	1.8
Total				
Indicated	31.2	28.6%	9.5%	2.9
Inferred	5.0	31.3%	9.9%	0.5

* Assumption: 17% Fe cut-off grade

At the end of December 2013, the total Group reserves for Kuranakh were 31.2 million tonnes, split 11.9 million tonnes at the Kuranakh Deposit and 19.3 million tonnes at the Saikta Deposit.

Kuranakh and Saikta Reserves*

	Tonnage (Mt)	Fe (%)	Fe (Mt)
Kuranakh			
Proven	—	—	—
Probable	11.9	27.3%	3.2
Saikta			
Proven	—	—	—
Probable	19.3	29.3%	5.7
Total			
Proven	—	—	—
Probable	31.2	28.5%	8.9

* Assumption: 17% Fe cut-off grade.

K&S

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

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

The current mining plan is that Kimkan Center and Kimkan West will be mined first. The Sutara Deposit will be mined simultaneously with Kimkan starting in the third year of operations at Kimkan. The total proven and probable reserve as of 31 December 2013 is 555 million tonnes with an average Fe grade of 32.6%, ensuring the life of mine in excess of 30 years at a rate of 10 million tonnes per annum.

K&S Mineral Resources*

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

* Assumption: Kimkan Fe cut-off grade 17% and Sutara Fe cut-off grade 18%.

K&S Proven and Probable Reserves*

	Ore (Mt)	Fe Grade (%)	Fe (Mt)
Kimkan Center	95.1	33.1%	32.0
Kimkan West	50.1	33.4%	16.7
Sutara	409.7	32.4%	132.7
Total	554.9	32.6%	181.0

* Assumption: Kimkan Fe cut-off grade 17% and Sutara Fe cut-off grade 18%.

Garinskoye

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

The deposit was first discovered in 1949 through an aeromagnetic anomaly. Between 1950 and 1958, detailed exploration was carried out including pits, trenches, shafts and underground development, together with drill holes. The current geological exploration works have been conducted at Garinskoye since 2007 and since 2011 focus has been on opportunities for a DSO-style operation.

The Garinskoye deposit is hosted within metamorphic Proterozoic and lower-Cambrian units enclosed by widely spread intrusives. The metamorphic units form a large 2.5 by 7 kilometre block inside early Paleozoic gabbro-diorites and granites.

The ore bearing unit, which is bedded upon the dominant unit with a slight unconformity, is represented by interstratified schistose and massive albite, amphibole-albite and lime-albite sequences, magnetite ores and crystalline limestones. The mineralised bodies are generally steeply dipping (from 70° to 80°) and consist of tabular lens-like beds whose dimensions average from 80m to 1,500m along strike, 500m down dip and from <2m to 49m in thickness. Individual zones can be made up of a series of thin tabular layers (up to eight interlayers) with a common strike and dip. There are a total of 56 of these orebodies that geographically can be grouped into three clusters.

The dominant form of mineralisation is magnetite that sees a shift to martite within the near surface oxidation zone which is up to 20 metres thick. Sulphide mineralisation also found in the deposit includes pyrite, chalcopyrite, blende, galena, chalcocite, pyrrhotite, molybdenite, bornite and covellite. From the non-metals, amphibole, albite, garnet and calcite dominate.

Three types of mineralisation are present at Garinskoye; magnetite, magnetite-hematite and pebble with magnetite is the most widespread. The magnetite ores can be divided into three iron grade types: rich (high) grade (>50% Fe), average (medium) grade (from 20% to 50% Fe) and low grade (from 15% to 20% Fe). The high-grade ores are divided into low and high phosphorus (P_2O_5) sub-categories.

MINERAL RESOURCE AND RESERVE STATEMENT (Continued)

In 2013, IRC continued work on the Garinskoye DSO Feasibility Study. Although no new exploration was carried out during 2013, external consultants were engaged to review the 2011 exploration results and assist in designing the open pit.

In line with the timing of this review, the Garinskoye mineral resources were re-stated in accordance with the guidelines of the latest 2012 edition of JORC Code, according to which only the ore resources within the outline of the proposed pit that are expected to be economically mineable during the project life, can be estimated. This resulted in a decrease of the estimated mineral resources tonnage from 376Mt of Fe (as stated in 2012 annual report) to 263 Mt. The decrease does not reflect any new geological information, but rather the amendment of the proposed mining plan targeting higher grade ore for the DSO-style operation.

Garinskoye Resources*

	Period Basis of preparation Cut-off grade	2012 JORC 2004 20%			**2013** **JORC 2012** **20%**		
Project	**Resource category**	Mineral Resources (Mt)	Grade Fe (%)	Fe Mt	**Mineral Resources (Mt)**	**Grade Fe (%)**	**Fe Mt**
Garinskoye	Indicated	219.9	32.0%	70.4	**177.4**	**33.4%**	**59.3**
	Inferred	155.9	29.3%	45.7	**85.7**	**32.5%**	**27.9**
	Total	375.8	30.9%	116.1	**263.2**	**33.1%**	**87.2**

* Assumption: 20% Fe cut-off grade.

Garinskoye Mineral Resources*
(in accordance with the guidelines of the JORC Code (2012)

Type	Criteria	Class	Ore (Mt)	Fe Grade (%)	Fe (Mt)
Common	20-50% Fe	Indicated	158.9	31.0%	49.3
		Inferred	78.5	30.4%	23.9
High Phosphorous	>50% Fe (>0.15% P)	Indicated	10.3	53.4%	5.5
		Inferred	4.0	54.0%	2.2
Low Phosphorous	50% Fe (<0.15% P)	Indicated	8.2	53.8%	4.4
		Inferred	3.2	55.1%	1.8
Total		Indicated	177.4	33.4%	59.2
		Inferred	85.7	32.4%	27.9

* Assumption: 20% Fe cut-off grade.

Garinskoye Reserves*

Ore Reserves for Garinskoye are presented as of 1 November 2008. Wardell Armstrong International ("WAI"), an independent mineral industry consultant, has run a reserve optimisation using the parameters of RJC, an independent consultant and the Mineral Resource Model from 2008 in accordance with the guidelines of the JORC Code (2004). The Mineral Resource Model from 2008 has been used and the cut-off grade of 20% Fe was applied. No ore dilution or mining losses have been applied to the below tonnages. It is WAI opinion according to competent person report that the below Ore Reserves are Probable Ore Reserves under the JORC Code (2004).

Project	Tonnage (Mt)	Grade Fe (%)	Fe (MT)
Garinskoye	212.0	36.0%	76.3

* Assumption: 20% Fe cut-off grade.

Bolshoi Seym

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

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

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

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

Bolshoi Seym Resources*

Project	Deposit	Category	Tonnage Mt	Fe Grade %	Fe Mt	TiO2 Grade %	TiO2 Mt
Bolshoi Seym	Bolshoi Seym	Indicated	202	17.4%	35.2	7.6%	15.3
		Inferred	131	16.5%	21.6	7.5%	9.8
	Total	Indicated and Inferred	333	17.1%	56.9	7.5%	25.1

* Assumption: 5% Ti02 cut-off grade

The Orlovsko-Sokhatinskaya Area

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

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

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

Kostenginskoye

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

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

MARKETS & COMMUNICATIONS

Commodity Products

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

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

Iron Ore Supply and Demand & Price

Iron ore markets were one of the most stable commodity markets in 2013, following the extreme volatility witnessed in 2012. Iron ore prices held up well throughout the year, defying the pessimism of market commentators as Chinese demand continued to grow ahead of original expectations.

Global iron ore production grew for the fourth consecutive year, dominated by new supply from Australia. This supply helped to offset a drastic fall in Indian production and seasonal disruptions in Chinese domestic production due to unseasonal weather and increasingly, mine shutdowns due to environmental pressures. It is estimated that Chinese iron ore imports in 2013 grew by 10% to 820 million tonnes; and forecasts for 2014 are suggesting further increases. Whilst new production is expected to be delivered from Australia, challenges due to geological, political, finance and logistical constraints will limit growth potential going forward especially from more non-ecumene geographies.

The final months of the year saw restocking of iron ore inventories due to the early Chinese New Year (end of January) and anticipated mine shutdowns in Northern China due to the cold winter weather. The restock was, however, muted due to credit constraints and it is expected that stocks will remain at lower levels until liquidity improves. Nevertheless. despite a smaller restock than anticipated, the iron ore price held between US$130–140 a tonne through most of 2013 averaging US$136 per tonne for the year. Whilst there has been some seasonal weakness in the iron ore price in the first month of 2014, we believe that this will improve and the long-term outlook is positive.

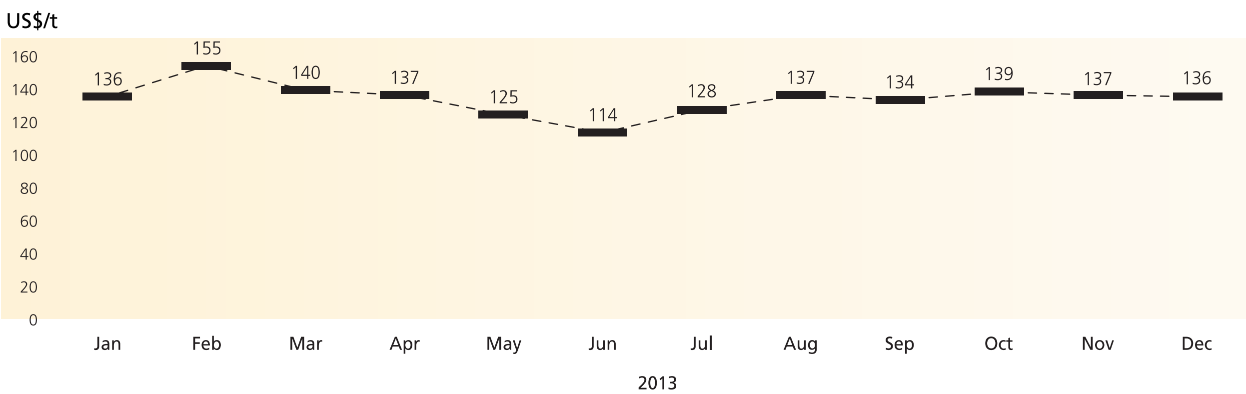
IRC receives a monthly price for its Kuranakh iron ore; a full China CFR price, less a small discount due to some residual titanium content. IRC's products, however, remain attractive to customers because of the surety and consistency of supply. In 2014, the K&S Mine will come on stream, providing a new source of high quality iron ore to customers in the North East of China.

Ilmenite

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

The Kuranakh product quality is held in high regard because of its consistency and low impurity levels. The product is sold on the domestic and international markets in two tonne bags, an innovative approach rather than the traditional large tonnage offerings, thereby ensuring a diverse customer base.

Demand for IRC products during 2013 was good however, prices continued to suffer throughout the year. Following technology upgrades in 2012 and 2013, production capacity has been expanded and the outlook for 2014 production capacity is good.



Communications

IRC dedicates considerable effort to ensuring transparent communication without prejudice to all its audiences. Through an in-house communications team in Hong Kong and Moscow, the objectives are to provide as effective and complete a picture as commercially possible in a timely and cost effective a manner. In 2013, the team was recognised for its success, winning several prestigious awards.

Shareholder Base

During the course of 2013, we diversified the shareholder base by shareholder type and geography. The shareholder base changed following the subscriptions with General Nice. Petropavlovsk plc remains the largest shareholder, with 48.7% of all shares, a decrease from 63% last year. General Nice is now the second largest shareholder with 22.9% of all shares. Following completion of the second stage of the General Nice and Minmetals Cheerglory subscriptions, Petropavlovsk will reduce to 40.4%, with General Nice increasing to 31.4% and Minmetals Cheerglory 4.5%. The balance of shares is held by institutional funds, many of whom are long-term value investors and private investors.

Share Price Performance

The price opened the year at HK$1.20 and closed the year at HK$0.78, with an average share price over the year of HK$0.93. When compared to other Hong Kong quoted mining companies and developing iron ore producers this performance is considered fair.

Efforts to improve liquidity during the year were successful, notably towards the end of the year with a noticeable improvement in trading volumes. Periods around statutory reporting and corporate announcements recorded significant, and occasionally record volumes.

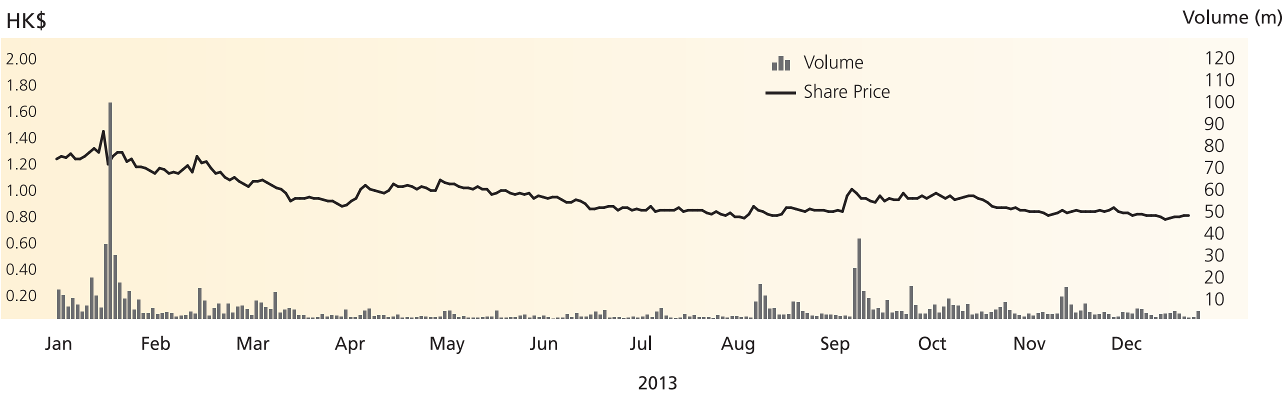
Activities

Communications activities stepped up during the year with IRC holding a record number of meetings with equity analysts, shareholders and potential investors and media. There are six analysts covering IRC, including brokers in Hong Kong, London and Moscow. This recommendations and forecasts can now be followed on the IRC website through an online financial section for investors. An active programme for 2014 plans to reach an even wider audience with the relaunch of the IRC website and social media platforms.

Awards

In 2013 IRC won several awards for its communications activities, including a prestigious third place ranking from Institutional Investor for investor relations in Asia. The 2012 Annual Report was awarded gold in the mining sector by Galaxy and an Honours in the Mercury Awards. Also a titanium award was earned for corporate governance and social responsibility in the Asset Asian Awards.

HK$	2012	2013
Shares on Issue (31 December)	3.5 billion	4.5 billion
Share Price High	1.55	1.42
Share Price Low	0.50	0.75
Share Price Average	0.95	0.93
Opening Share Price (3 January/ 2 January)	1.07	1.20
Closing Share Price (31 December)	1.17	0.78
Market Capitalisation (31 December)	4.1 billion	3.5 billion



HEALTH SAFETY ENVIRONMENT COMMUNITY

Introduction

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

In 2012 our efforts were recognised and awarded when we became the first and only iron ore company in the Far East, as well as the first mining company in the Jewish Autonomous and Amur regions certified for compliance with ISO 14001:2004. This certification was renewed and indeed extended in 2013.

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

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

Health & Safety Report

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

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

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

Five Year Safety Statistics 2009-2013 (Russian Standard Scale)

	2009		2010		2011		2012		**2013**	
	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	**Injuries**	**LTIFR**
Kuranakh	7	11.1	4	4.6	12	5.54	6	2.55	**9**	**3.90**
K&S	—	—	0	0.00	0	0.00	0	0.00	**1**	**1.00**
Other projects	—	—	—	—	—	—	0	0.00	**0**	**0.00**
Group	7	8.5	4	3.2	12	3.61	6	1.77	**10**	**3.00**

Sustainable Development

The operations of IRC are large-scale projects that cover large areas. Thousands of people are involved on many sites in working in many disciplines. The Company's operations are providing a new stimulus for the economic development of the Russian Far East and as such have become an integral part of the local economic fabric.

Rational use of natural resources, preservation of favorable environment for further generations and provision of safety health and labor conditions (including those of contractors and official visitors) became important constituents of IRC's sustainable development policy.

The Environment

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

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

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

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

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

ISO14001:2004 Certification and Ecological policy and environmental monitoring system

In 2012 IRC was awarded full ISO 14001:2004 certification. This status was renewed in 2013.

To enhance and expand the IRC Environmental Policy an Ecological and Social Responsiveness Policy is under implementation and will be consistent with ISO 14001:2004 international standard and International Financial Corporation standards for social and environmental sustainability.

IRC pays great attention to environmental aspects. We employ advanced scientific research findings and technologies to minimise our impact on the environment and ensure the efficient use of natural resources.

The Group environmental policy recognises initiatives to protect and develop the indigenous people and preserve the biodiversity in the areas in which we operate.

Our environmental management system is effecting change by educating our employees, contractors and business partners, in the importance of protecting the natural and social environments in which we operate.

Environmental Monitoring, Control and Measuring

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

Control of emission sources and discharge of pollutants to the environment, as well as the monitoring of process parameters and energy usage is tested on a regular basis. Ecological monitoring as well as industrial environmental monitoring is performed in accordance with Russian legislation and international guidelines. Only accredited laboratories and advanced research organisations with the appropriate licenses are contracted to undertake environmental industrial monitoring. Monitoring of natural water streams in the area surrounding Kuranakh, including sewage waste control is being undertaken by an IRC owned certified laboratory based on more than 20 specific indicators.

In total more than 50,000 analyses of various environmental components and more than 17,000 waste water and industrial emissions test have been carried out as part of monitoring programmes since 2004.

Environmental Tests 2004–2013

Year	Atmospheric	Surface Water	Subsurface Water	Bottom Sediments	Top Soil
2004	112	584	—	1,878	6,058
2005	60	176	—	176	2,992
2006	100	1,127	—	827	250
2007	1,052	1,252	—	619	106
2008	2,108	1,944	162	653	2,022
2009	2,024	1,263	—	707	144
2010	1,666	2,014	78	346	134
2011	912	4,953	349	2,531	1,561
2012	1,210	2,142	179	267	232
2013	1,148	2,365	205	248	152
Total	**10,392**	**17,820**	**973**	**8,252**	**13,651**

Volume of Industrial Ecological Testing (Sewage Waters and Industrial Emissions

Year	Waste Water	Industrial Waste
2009	92	12
2010	3,136	74
2011	4,197	228
2012	4,832	419
2013	4,402	371
Total	**16,659**	**1,104**

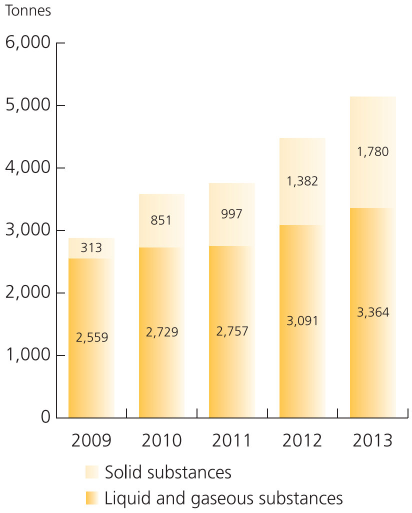
Air Pollutants and Emissions

An increase in atmospheric emissions was observed in 2013. The volume of emissions in 2013 was 5,144 tonnes, which is 15% higher than the 4,473 tonnes in 2012. The increase is attributable to construction activities at K&S notably:

- Construction of Beneficiation plant
- Construction of railway infrastructure
- Construction of the tailings facility and access road
- Laying of 220 kilovolt power transmission lines

- Site preparation for construction of solid domestic and industrial waste landfill
- Cementing foundations for domestic sewage water treatment plant

Emissions of Air Pollutants from Stationary Sources



In 2012 in an attempt to minimise atmospheric emissions, IRC instituted Maximum Allowable Emission Targets. The targets cover Kuranakh and K&S and include:

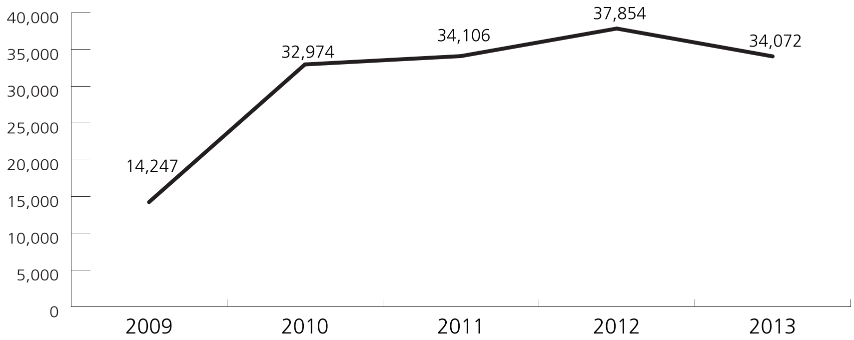
- Developed dust suppression schedules by watering. Monitoring of schedule implementation is ongoing;
- The performance of dust and gas treatment facilities at processing plants is controlled through the use of approved operating methodologies based on approved operating manuals for dust and treatment facilities.
- Industrial emissions purification reached 90% in 2013. The programme is also targeting renovation and replacement opportunities at the plants.
- During technical inspections, continuous monitoring of motor vehicles exhaust smoke capacities .
- Energy consumption targets and fuel utilisation limits are carefully monitored to ensure they fall within approved limits.
- At Kuranakh, the cleaning and dust collection systems have been reconstructed with the crushing and screening cyclones are equipped with covered dust collection containers to avoid secondary pollution.

Industrial environmental monitoring results show that emissions have been within all regulations limits.

Greenhouse Gas Emissions

IRC records all greenhouse gas emissions. In 2013 emissions were recorded at 34.1 thousand tonnes of carbon dioxide, a 10% reduction compared to 2012.

Greenhouse Gases Emissions



In 2013 the reduction in greenhouse gas emissions was mainly achieved by a reduction of fuel and power resources at K&S together with the implementation of energy-saving measures. Individual measures included:

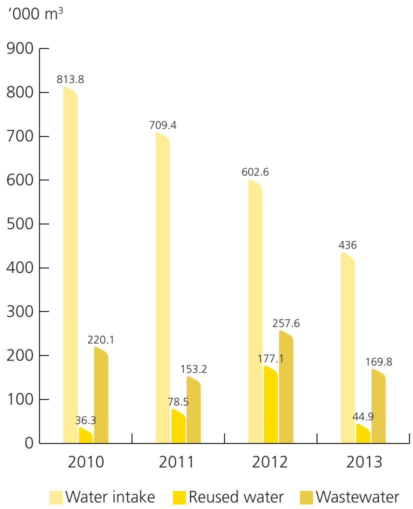
- Improved monitoring of diesel fuel consumption by Liebherr excavators and ROC L8 drill rigs.
- Implementation of "Autograph" software which controls vehicle routes and fuel consumption.
- Transition to more efficient coal resulted in improved efficiencies per kwhr.

Water Consumption and Conservation

In 2013 IRC extracted 436,000 m^3 of water a 38% decrease compared to 2012. Sewage (water disposal) also decreased, reducing by 30% to 179,700 m^3.

The chart below illustrates the ongoing reduction in water usage and disposal across IRC operations.

Water Consumption and Disposal (000 m^3)



The use of water at the enterprises is conducted on the basis of agreements for water use or licenses for use of subsurface resources. Consumption of water from available public service systems is conducted on the basis of purchase and sale contracts.

HEALTH SAFETY ENVIRONMENT COMMUNITY (Continued)

Land use and Reclamation

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

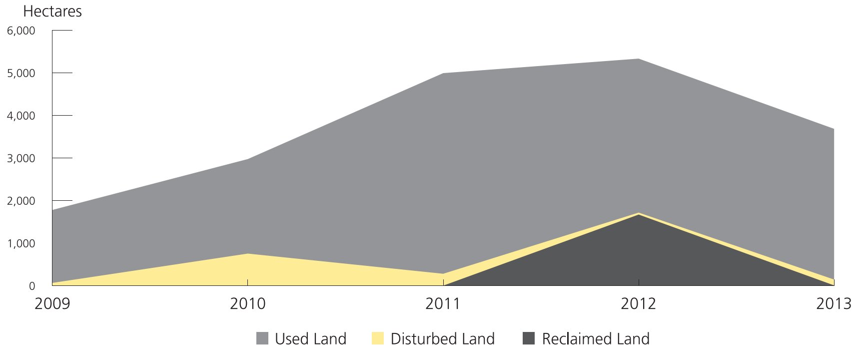
In 2013 the total amount of land used by IRC was approximately 3,540 hectares, which is approximately 80 hectares less than in 2012. The decrease of the area of used land is mainly connected with the return of land plots to Forest Department of the Government of Amur Region (Kuranakh) and Forest Department of the Government of the Jewish Autonomous Region (K&S).

The total area of soils disturbed was 137 hectares in 2013. Over two thirds of this is attributed to K&S, with the balance at Kuranakh. The land is primarily being used for the development of mining pits and the construction of processing facilities and repair shops.

It is important to note that any land that is disturbed will be restored to its previous state through various engineering and biological solutions. Land reclamation work is carried out in accordance to environmental regulations and respects the natural surroundings of sites. The major component of reclamation work is the removal and preservation of fertile topsoil that will ultimately be restored to the site.

Correlation of lands used, disturbed or recultivated by PIO Group of companies is presented on the chart below.

Land Use



Production, Assessment and Disposal of Waste

IRC uses five internationally recognised categories to classify hazardous waste:

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

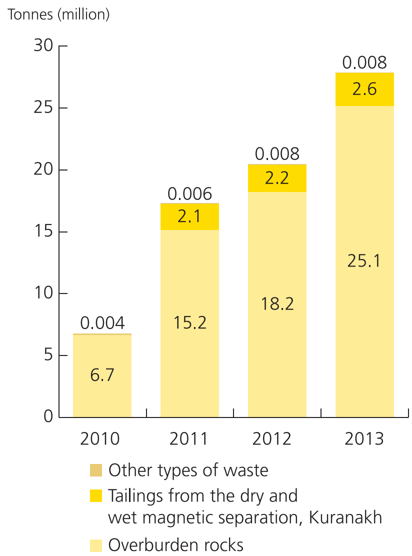
Staff training in hazardous waste management and labeling is ongoing. Efforts are made to ensure the universal labeling of hazardous materials according to international standards.

The total volume of waste generated in 2013 increased 36% to 27,708,000 tonnes, including:

— Overburden of 25.1 million tonnes, approximately 91% of total waste.

— Wet and dry tailings of 2.6 million tonnes, approximately 9.4% of total waste.

Waste Volume



In 2013, 26.4 million tonnes of ore was stockpiled 28% more than 2012. The increase in waste includes overburden rocks, wet and dry magnetic railings, ashes and slag. The increase is due to increased production across the group.

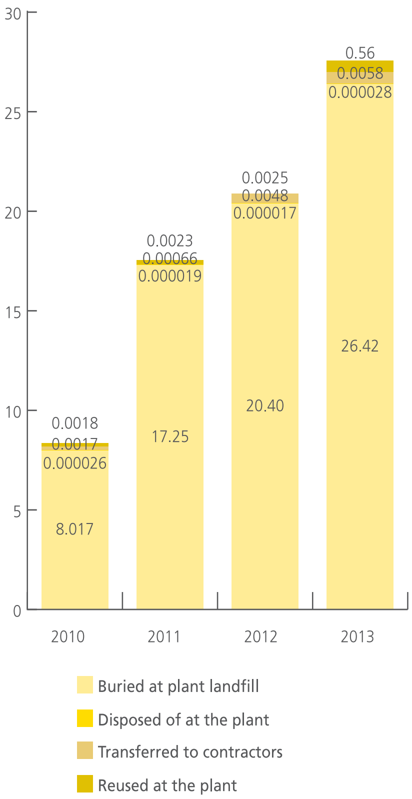
IRC continues to work on opportunities to optimise waste disposal. Initiatives in 2013 to recycle waste included:

- Using tyres as secondary material resources.
- Oil waste used to heat on-site accommodation.
- Overburden rocks and dry-magnetic separation tailings used for road construction.
- Ashes and slag wastes used as anti-icing agent or additive to concrete mixtures.
- Battery acid wastes immobilisation plant introduced at Kuranakh, resulting in a 39% increase in neutralised waste.

In 2013, the volume of waste delivered to the external companies for use, decontamination, storage and burial increased 21% to 5,763.5 tonnes compared to 2012.

Waste Handling

Tonnes (million)



All Company's enterprises developed and approved draft waste generation practices and waste disposal limits during 2013. This includes the implementation of a "Green Office Model". The Company is continuing to implement measures towards reducing the use of blank paper, gathering recording and recycling waste paper and in addition all offices have committed to switching to totally chlorine free (TCF) paper, certified by the Forest Stewardship Council — FSC. Consumption of blank paper was reduced by 6.4% in 2013. Consolidated gathering and recording of acrylonitrile-butadienestyrene plastic wastes, spent electric batteries and office appliances is in progress, with disposal conducted by designated companies.

Energy Consumption and Conservation

Operating in harsh climatic conditions energy conservation and efficiency is a key area of concern for IRC. In 2013 improvements were made at K&S with the introduction of "Autograph" software. The software is installed in vehicles and uses GPS sensors to monitor location and idling time and fuel level sensors to monitor consumption patterns. Linked to other site software used for process analysis and accounting fuels inventories and expenditures can be better managed and e-waybills employed.

At Kuranakh, energy conservation initiatives in 2013 included:

- Installation of solar panels for hot water
- Introduction of Ecolain heating devices
- Expanded use of energy saving bulbs
- Frequency converters employed across electrical equipment
- Introduction of inverter welding

At IRC administrative offices, centralised electrical power systems have been installed. The system makes small savings, for example automatically switches computer screens into sleep mode and turning lights off in empty rooms. Energy saving materials are also distributed to all employees.

Biodiversity Conservation

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

In 2013, the following activities are examples of what was undertaken as part of the Company's bio-diversity activities:

- Employees took part in the municipal ecological campaign "Plant your tree". The seedlings of both birch-trees and Korean pines (Pinus koraiensis Siebold et Zucc, included in the Red book of the Jewish Autonomous Region) have been planted in of the Companies EAO administrative buildings. 40 seedlings were donated to the City Recreation Park and to the "Kudesnik", a children's puppet theatre. All the seedlings were taken from ground at the K&S Mine which was being cleared for mining.

- Additional mineral feedings for wild animals organized at K&S.

- Fire-fighting prevention measures carried out.

- Planting by employees at the "Territory of Rotation Camp", including planting of wild rosemary bushes.

Continuous monitoring of the state of flora and fauna and water bioresources is carried out to ensure ecological safety in the areas affected by operations. A range of new initiatives are in place to expand IRC's bio-diversity programmes in 2014.

Environmental Education

IRC regularly holds environmental education events for employees, contractors and communities around it's operations.

In Russia, 2013 was The Year of Environmental Protection. As part of this year long event, IRC carried out numerous social and ecological activities in the Amur and EAO Regions. Some examples include:

- A children drawing contest at K&S called "Our Green World" dedicated to the year of environmental protection. Drawings and crafts by over 60 children were submitted, appraised by independent judges, and prizes awarded.

- IRC employees together with representatives of the International Committee on Applied Research in Population, the Russian Geographical Society and the Directorate of Specially Protected Natural Areas contributed to social and ecological forums and expeditons, including the Ulduri Regional Wildlife Reserve and ecological educational work in the villages, located along the periphery of this wildlife reserve.

- IRC, together with the Russian Geographical Society sponsored a photographic expedition in Birobidzhan. Over 25 professional photographers exhibited their work showing the beauty and riches of regional nature.

- The K&S Environmental Monitoring System was the finalist of EAO Prize in Public Relations and Ecological Image.

- Employees at Kuranakh conducted landscape gardening on the site territory, installing many water garden fountains cross the site made with recycled vehicle tyres.

Interaction with Local Stakeholders

One serious environmental policy obligation is to support of indigenous population in the regions where the Company operates, to preserve their life-style and contribute to their sustainable development. IRC has established good connections with the Evenk people.

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

Since 2003, IRC has contributed to over RUB2.9 million to Evenk communities, all within the frames of Ust-Nyukzha Indigenous Minorities Development Plan 2004–2013. Funded activities included:

- The Traditional Evenki Reindeer-breeder and hunter's day festival

- Purchasing of reserve outboard engine for river crossing

- Purchasing of equipment for the village Cultural Centre

IRC Environmental Statistics 2010–2013

Performance Indices	Units	2010	2011	2012	**2013**
Land use and biological diversity					
Land lease:					
Total	ha	2,219.6	4,712.4	3,616.1	**3,540.2**
Land disturbed at the start of reporting period	ha	738.1	413.49	674.7	**136.9**
Recultivated lands for the reporting period:					
Used topsoil	m^3	0	843	1.123	**0**
Preservation of topsoil					
Removed to stockpiles	m^3	549,000	585,200	19,373	**37,400**
Total topsoil stored at the end of the reported period	m^3	664,600	1,248,957	1,267,207	**1,304,607**
Forest plantation					
Total	ha	156.3	0	0	**0**
Atmospheric emissions and air quality					
Mass of emitted hazardous pollutants:					
Total	t	3,580.5	3,753.5	4,473.0	**5,143.1**
Solid substances	t	2,729.1	2,756.9	3,090.8	**3,363.6**
Liquid and gaseous substances	t	851.4	996.6	1,382.2	**1,779.5**
Mass of greenhouse gases emitted to atmospheric air (carbon dioxide):					
Gasoline combustion	t	520.9	766.7	538.4	**461.5**
Diesel fuel combustion	t	15,810.9	16,135.6	26,935.8	**16,091.98**
Kerosene combustion	t	0.38	1.03	0.14	**0.38**
Coal combustion	t	16,642.8	17,203.3	10,380.1	**17,518.9**
Total	t	32,974.98	34,106.6	37,854.4	**34,072.8**
Rate of permissible discharge:					
Rate of permissible release of solids	%	99.8	100	91.8	**86**
Rate of permissible release of liquid and gaseous substances	%	100.2	100	101.5	**81**
Mass of removed pollutants by using gas treatment:					
Total removed	t	2,956.4	2,957.6	3,036.4	**3,020.3**
Removed solid substance	t	2,657.2	2,658.4	2,510.0	**2,418.0**
Removed liquid and gaseous substances	t	299.2	299.2	526.4	**602.3**
Water management and conservation					
Water intake:					
Total	m^3	595,487	621,492	602,632	**436,910**
From natural sources (surface, subsurface)	m^3	501,463	523,880	501,729	**357,043**
From municipal systems	m^3	94,024	97,612	100,903	**79,867**
Water disposal:					
Total	m^3	169,214	154,384	257,603.6	**179,751.7**
To natural water bodies and soils	m^3	167,560	145,302	248,344	**169,781**
To existing municipal sewage systems	m^3	1,654	9,082	9,259.6	**9,970.7**
Volume of reused water:					
Total	m^3	36,300	78,497	177,064	**44,878**

HEALTH SAFETY ENVIRONMENT COMMUNITY (Continued)

Performance Indices	Units	2010	2011	2012	2013
Mass of release of pollutants contained in waste waters					
Total	t	80.96	86.54	23.90	**45.38**
Nitrogen (total)	t	0.23	1.374	0.98	**0.685**
Phosphorus (total)	t	0.036	0.222	0.25	**0.182**
Anionic surface-active agents	t	0	0.051	0.05	**0.018**
Suspended substances	t	78.65	83.449	22.1	**43.383**
Oil products	t	1.326	1.027	0.03	**0.023**
Total ferrum	t	0.296	0.394	0.42	**1.074**
Manganese	t	0.392	0.014	0.014	**0.007**
Cadmium	t	0	0	0	**0**
Chrome	t	0	0	0	**0.0003**
Nickel	t	0.001	0.0002	0	**0**
Hydrargyrum	t	0	0	0	**0**
Lead	t	0	0	0	**0**
Zinc	t	0.029	0.008	0.002	**0.006**
Copper	t	0.002	0.002	0.001	**0.003**
Hazard management					
Explosive substances:					
Total	t	2,510.8	2,348.32	6,239.48	**8,648.97**
Igdanit	t	1,603.7	1,807.71	1,610.49	**1,815.87**
Ammonium nitrate	t	1,550.00	1,637.98	1,520.19	**1,733.39**
Diesel fuel	t	57.7	169.73	90.3	**91.46**
Grammonite 79/21	t	0	0	0	**0**
Ammonite 6ЖВ	t	22.2	0.90	20.19	**9.42**
Emulsolite	t	884.9	539.716	177.06	**2.37**
Lubricating materials					
Lubricating materials (oils)	l	128,502	203,196.4	227,000.249	**254,655.506**
Lubricating materials (grease)	t	9	16.857	19.95	**28,753.367**
Waste management					
Formed wastes:					
Total	t	8,020,410.55	17,257,752.27	20,404,726.82	**27,829,561.51**
Industrial wastes related to the engineering process:	t	8,016,765	17,251,953.87	20,397,162.4	**27,821,208.86**
• Overburden rocks	t	3,026,245	15,188,563	18,222,979	**25,188,323**
• Wet tailings	t	128,010	595,803.27	675,681.5	**722,892.86**
• Dry tailings	t	369,242	1,467,587.6	1,498,501.9	**1,909,993**
• Emulan "PVV-A"		n/g	n/g	4,425.65	**6,821.31**
• Saber-detonator		n/g	n/g	6.1	**0**
Waste management:					
Disposed at the plant	t	26.12	18.48	16.69	**27.74**
Reused at the plant	t	1,750.82	2,296.67	2,546.32	**562,286.33**
Buried at plant landfill	t	8,016,765	17,254,618	20,397,162.4	**26,418,778.9**
Transferred to contractors	t	1,707.50	657.22	4,771.68	**5,763.50**
Energy saving					
Use of energy sources:					
Coil	t	8,857.5	9,118.72	9,662.65	**9,710.4**
Diesel fuel	l	5,665,911	13,064,130.36	15,938,977.86	**18,181,912.6**
Gasoline	l	141,651	207,761.24	187,237.33	**199,043.23**
Kerosene	l	151	400	55	**349.6**

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

Throughout the year, the Company was in compliance with the code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

Board of Directors

The Board provides leadership and supervises the overall direction of the Group's businesses. The Board comprises of nine Directors:

Executive Directors	3
George Jay Hambro *(Chairman)*	
Yury Makarov *(Chief Executive Officer)*	
Raymond Kar Tung Woo	
Non-Executive Directors	3
Simon Murray, *CBE, Chevalier de la Légion d'Honneur*	
Cai Sui Xin	
Liu Qingchun	
Independent Non-Executive Directors	3
Daniel Rochfort Bradshaw	
Jonathan Eric Martin Smith	
Chuang-fei Li	
	9

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

Three of the directors — representing one-third of the Board — are Independent Non-Executive Directors. The number of Independent Non-Executive Directors meets the requirements under Rule 3.10(A) of the Listing Rules. Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

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

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

During the year, the Board adopted a board diversity policy setting out the approach to diversify the members of the Board. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments are based on meritocracy, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises of nine directors and is characterised by significant diversity in terms of nationality, age, professional background and skills.

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

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

During the year, the Company organised a formal training session for the directors of the Company using training materials provided by the Company's external auditors, Deloitte Touche Tohmatsu. The training session covered topics including accounting, auditing and financial reporting environment.

A summary of training received by the directors for the year ended 31 December 2013 is as follows:

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

Notes:

A: attending briefing sessions and/or seminars

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

The Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All directors have access to board papers and related materials which are provided in a timely manner. For the year ended 31 December 2013, the Chairman of the Company held meetings with the Non-Executive Directors (including the Independent Non-Executive Directors) without the presence of other Executive Directors.

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

The Board held five meetings in 2013 and the attendance of individual directors is set out in the table on page 42.

Audit Committee

The Audit Committee consists of the three Independent Non-Executive Directors — C.F. Li (Chairman), D.R. Bradshaw and J.E. Martin Smith. The principal duties of the Committee include the review and supervision of the Group's financial reporting system and internal control procedures. During 2013, the Audit Committee reviewed the 2013 interim and annual reports and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence and reported to the Board. The terms of reference for the Audit Committee are maintained on the websites of the Company and HKEx.

The Committee met three times in 2013 and the attendance of individual Directors is set out in the table on page 42.

Remuneration Committee

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

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

The Company's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value creation. The policy for 2013 and so far as practicable, for subsequent years, is framed around the following principles:

- remuneration arrangements will be designed to support the Company's business strategy and to align it with the interests of the Company's shareholders;
- total reward levels will be set at appropriate levels to reflect the competitive global market in which the Company operates, with the intention of positioning such levels within the a peer group of global mining companies;
- a high proportion of the remuneration should be 'at risk', with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

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

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

The Remuneration Committee is satisfied that the Company's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which the Company operates. Detailed remuneration policy and practices of IRC in 2013 are set out in a letter from the Remuneration Committee Chairman below.

The Remuneration Committee held three meetings in 2013 and the attendance of individual Directors is set out in the table on page 42.

A letter from the Remuneration Committee Chairman

Dear shareholder,

On behalf of the Board and the Remuneration Committee, I present the IRC 2013 Remuneration report.

This year, we have revised the format and content of the Remuneration report to provide a clear explanation of our rationale for determining remuneration policy, annual awards and longer-term incentives, a format that we believe is:

— clear and transparent;
— conforms to Hong Kong requirements; and
— is in line with best practice in the international markets.

2013 has been a year of particular significance for our shareholders due to the proposed investment from General Nice and MinMetals Cheerglory. However, the Remuneration Committee has considered and determined all elements of remuneration solely in the context of assessing the Group's achievements and, where relevant, individual performance on a standalone basis during 2013.

Our remuneration policy continues to aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance. As a result, performance-related pay represents a significant portion of total pay for all managers.

For executive directors, 'at risk' performance-related pay typically represents more than 50% of total available remuneration. We measure performance against a broad range of health and safety, sustainability, financial and operational criteria. We benchmark our remuneration against the global mining industry and our primary peer group, as well as global companies. Further detail regarding our remuneration policy is set out in the following pages. It is the Remuneration Committee's intention to continue to apply this remuneration policy in the future for as long as IRC remains an independent, listed company.

During 2013, we considered executive salary increases and individual performance bonuses with due consideration for a background of heightened focus on executive pay and current market conditions for global mining companies. We made awards under the Long Term Incentive Plan and administered vesting of awards under the Long Term Incentive Plan (the "LTIP") but did not make any changes to plan design of long term incentives arrangements. Full details regarding these activities during 2013 are set out in the following pages.

J.E. Martin Smith
Remuneration Committee Chairman
Remuneration Committee

Members

The Remuneration Committee is chaired by J.E. Martin Smith and its other members are C.F. Li and D.R. Bradshaw, all of whom are independent non-executive directors. Details of the Remuneration Committee's role, meetings and activities may be found on page 37 under the heading "Remuneration Committee".

The Remuneration Committee receives advice on pay and conditions across IRC from the Chairman and Chief Executive of IRC although they do not attend all meetings. An independent certified public accountant firm provided independent advice to the Remuneration Committee on certain areas of executive remuneration. Societe General provided an administration function for the Group's LTIP scheme. Norton Rose Fulbright provided legal advice on incentive plan rules (as well as providing legal advice to the Group).

Remuneration policy

Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance.

1. Over 50% of the potential executive pay package is performance-related and therefore 'at risk' (i.e. the contractual obligation to pay is dependent on satisfaction of performance criteria).

2. For exceptional performance, potential pay levels are positioned in the upper quartile in comparison to the global mining industry.

3. Performance is assessed on a holistic basis, taking into account a wide variety of factors that are aligned to the delivery of superior long-term returns to IRC's shareholders and continuous and sustainable improvements in the underlying operating and financial performance of IRC.

   — Individual performance criteria for annual bonus awards reflect health and safety, environment and sustainability performance; financial performance in both absolute and relative terms; and the effective delivery of strategic priorities including the project pipeline, and various lead performance indicators. The use of multiple factors ensures that bonuses cannot be earned on the basis of inappropriate or risky behaviour and avoids rewarding achievements against one or narrow objectives that come at the expense of performance in other areas.

   — The value of long-term incentives is dependent upon share price performance and vesting is subject to the satisfaction of stretching performance conditions. In the event that performance is below threshold, participants will receive no benefit from long-term incentives.

4. Pay arrangements are intended to remain in place, so far as is practicable, throughout the business cycle. We have therefore avoided making frequent changes to incentive arrangements or performance metrics. In determining policy and practice, the key factors we take into account include:

   — the HKEx Listing Rules;

   — the code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

   — the competitive environment for experienced personnel in the global extractive industries sector;

   — the guidance provided by a number of institutional investor representative bodies; and

   — feedback received from shareholders.

We also take into account pay and employment conditions across IRC when setting the remuneration of executive directors. We do not believe a ratio comparison between executive directors and non-Board employees is appropriate. A ratio comparison does not provide a useful measure of fairness or balance due to the vastly different costs of living in the countries where we have operations and fluctuations in exchange rates. However, on a regular basis we assess the fairness and balance of our remuneration policies and practice internally and benchmark against our competitors in the various regions in which we operate.

CORPORATE GOVERNANCE REPORT (Continued)

Base salary

Purpose	Attract and retain talented and experienced executives from an industry in which there is competition for talent. Reflect the individual's capabilities and experience. Reward leadership and direction of IRC on behalf of shareholders.
Policy	Reviewed annually. Set at a competitive level benchmarked against other global mining and major Hong Kong companies using independent external data. Consider the individual's skills, experience and influence over, and responsibility for, the success of the business. The impact of any salary increase awarded on the value of the total package is considered carefully prior to any change being made. Ensure that our approach to pay is consistent across the levels of management.
Link to strategy	Protect and generate shareholder value through the retention and attraction of high-calibre individuals.
Risk management	Enhance retention of key personnel to ensure business continuity. Structured and policy-driven approach to conducting salary reviews.

Salary review for 2013

Salary increases for executive directors mainly reflected inflation, foreign exchange fluctuations and living cost adjustments.

	For the year ended 31 December					
	2012			**2013**		
	Directors' fees US$'000	Salaries and other benefits US$'000	Total US$'000	**Directors' fees US$'000**	**Salaries and other benefits US$'000**	**Total US$'000**
Executive Directors						
George Jay Hambro[a]	—	780	780	—	**869**	**869**
Yury Makarov	—	694	694	—	**773**	**773**
Raymond Woo	—	520	520	—	**579**	**579**
Non-Executive Directors						
Simon Murray, *CBE, Chevalier de la Légion d'Honneur*	104	—	104	**104**	—	**104**
Cai Sui Xin[b]	—	—	—	—	—	—
Liu Qingchun[b]	—	—	—	—	—	—
Independent Non-Executive Directors						
Daniel Rochfort Bradshaw	144	—	144	**144**	—	**144**
Jonathan Eric Martin Smith	144	—	144	**144**	—	**144**
Chuang-fei Li	144	—	144	**144**	—	**144**
Total	536	1,994	2,530	**536**	**2,221**	**2,757**

(a) Certain amounts included in salaries and other benefits were paid to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the employee.

(b) As Cai Sui Xin and Liu Qingchun are nominated directors of General Nice, they do not receive any remuneration to act as Non-Executive Directors.

Executive Committee Bonus Plan

Purpose	Align executives' interests with the short-term goals of IRC and the drivers of long-term success. Reward the delivery of shareholder value through the effective execution of strategy, the profits delivered to shareholders and lead indicators of future success including safety and environmental sustainability.
Policy	Maximum bonus awarded for truly exceptional performance is 100% of salary. The overall bonus pool is determined according to budgeting analysis. Individual payments are determined with respect to a range of key financial and non-financial metrics. These metrics include health and safety, employee development, environment and sustainability, profit and cash generation, volume and project execution.
Link to strategy	Provides alignment among the executives' interests, the short-term financial success of IRC and the creation of shareholder value. The Remuneration Committee takes a comprehensive view of an appropriate level of award for each individual to ensure that bonus awards truly reflect IRC's performance and management's impact on this (rather than purely resultant from external market and cyclical factors).
Risk management	Bonus pool analysis alongside budgeting ensures affordability. Focus on a wide range of financial and non-financial metrics ensures that bonus awards reward sustainable, holistic performance. Bonus analysis alongside entire remuneration package, with particular reference to LTIP, ensures a focus on long-term sustainable performance and aligns management interests with shareholders. Determination process takes account of the extent to which performance has been driven by management activity and planning as opposed to external market and cyclical factors and response to events that were not anticipated at the start of the year.

Bonus review for 2013

	For the year ended 31 December	
	2012 US$'000	**2013 US$'000**
Executive Directors		
George Jay Hambro[a]	353	**585**
Yury Makarov	313	**520**
Raymond Woo	235	**390**
Non-Executive Directors		
Simon Murray, *CBE, Chevalier de la Légion d'Honneur*	—	**—**
Cai Sui Xin	—	**—**
Liu Qingchun	—	**—**
Independent Non-Executive Directors		
Danial Rochfort Bradshaw	—	**—**
Jonathan Eric Martin Smith	—	**—**
Chuang-fei Li	—	**—**
	901	**1,495**

(a) Certain amounts included in bonus were paid to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the employee.

Long-term incentive arrangements

Long-Term Incentive Plan (LTIP)

Purpose
: Align the financial interests of executives with those of shareholders.

Incentivise the creation of shareholder value through the absolute performance of the Company and its assets as well as the recognition of such creation in the public markets.

Provide a focus on long-term, sustainable performance.

Policy
: Awards granted through conditional shares.

Vesting is dependent upon pre-determined targets focussing on operations, development, profitability and HSE, normally over a three-year period, as set out below.

Link to strategy
: Targets aligned to strategic direction of shareholder value creation.

Risk management
: Share based awards ensure a focus on long-term sustainable performance and align management interests with shareholders.

Term and Expiry
: Two batches of shares are assigned, namely LTIP 1 and LTIP 2.

LTIP 1 was implemented in November 2010 and expired in November 2013. LTIP 2 was implemented in February 2014 and will expire in May 2014.

Awards that do not vest within the designated vesting periods will lapse.

Anyone voluntarily leaving the employment of IRC foregoes their participation in the LTIP.

Other conditions for release of award
: There are a number of other conditions of release or award that are normal for schemes of this kind. These include awards to vest or become exercisable in the event of a change in control, cessation of employment by reason of death, injury, ill health or disability.

No unvested awards will vest or become exercisable in the event of cessation by dismissal for cause.

Participants
: Executive directors and the other members of the Executive & Operations Committees and those employees with the ability to influence shareholder value.

Style of award
: An award under the LTIP comprises a conditional award of shares.

Performance conditions
: For executive directors in LTIP 1:

1. Operations: Kuranakh (25% of total)
   a. Mining Run Rate specific targets (33.3% of Operations)
   b. Throughput Run Rate specific targets (33.3% of Operations)
   c. Mill output specific targets for iron ore concentrate and ilmenite 1Q (33.3% of Operations)

2. Profitability: Kuranakh (25% of total)
   a. Cash cost specific targets (50% of Profitability)
   b. Throughput Run Rate specific targets (50% of Profitability)

3. Development (25% of total)
   a. Organic Growth — Exploration targets (50% of Development)
   b. Inorganic Growth — Conceptual and absolute targets (50% of Development)

4. Health Safety and Environment (25% of total)
   a. Maintain high standard of general operations, as judged by HSE Committee (50% of HSE)
   b. Present to the HSE Committee an annual programme of training, reporting and line-manager level responsibility for HSE best practice (50% of HSE)

For executive directors in LTIP 2:

1. Operations: Kuranakh (5% of total)
   — Sales volume specific target

2. Profitability: Kuranakh (5% of total)
   — Cash cost specific target

3. Development (85% of total)
   — Completion of the proposed investment from General Nice and MinMetals Cheerglory
   — Stage I completion (50% of Development)
   — Stage II completion (50% of Development)

4. Health Safety and Environment (5% of total)
   — Maintain high standard of general operations materially in line with 2012

For the portion of the award subject to Committee analysis there is zero vesting for below median performance, 50% vests for median performance and full vesting occurs for a performance ranking above the 80th percentile, with vesting between median performance and the 80th percentile assessed on a sliding scale basis.

Independent Review

The Remuneration Committee has commissioned one of the leading firms of certified public accountants to conduct two independent reviews of the IRC LTIP scheme. It is considered that the scheme motivates participants to achieve challenging yet realistic targets, which are crucial in adding significant value to the Company and are in the best interest of IRC shareholders. IRC is one of the pioneers in implementing the LTIP scheme in the industry and it is noted that similar plans are used by some of the comparable companies as an incentive scheme for employees.

The certified public accountants firm carried out the first review in 2011 and concluded that the scheme was well designed to attract, retain and incentivise key personnel. In 2013, they updated their review to include an analysis of the vesting process of LTIP 1 and the implementation and vesting criteria of LTIP 2 for the Remuneration Committee. They have reaffirmed their positive view of the scheme.

LTIP 1 awards vesting during 2013

The table below sets out the level of vesting for executive directors for the 2010 award series under the LTIP 1 which vested in 2013.

	Year ended 31 December 2011 Number of shares	Year ended 31 December 2012 Number of shares	**Year ended 31 December 2013 Number of shares**	Total Number of shares
Executive Directors				
George Jay Hambro[a]	10,634,760	7,709,040	**4,876,200**	23,220,000
Yury Makarov	9,305,415	6,745,410	**4,266,675**	20,317,500
Raymond Woo	6,646,725	4,818,150	**3,047,625**	14,512,500
TOTAL	26,586,900	19,272,600	**12,190,500**	58,050,000

(a) The shares were vested to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the employee.

The analysis on a per year basis is only shown for illustrative purposes as all vesting takes place following the third anniversary. The annual breakdown is as analysed by the Remuneration Committee. Of the total number of shares allocated to the LTIP in 2010, 70.1% vested in LTIP 1.

LTIP 2 awards appointed in 2014

For the executive directors under the LTIP 2, each of George Jay Hambro, Yury Makarov and Raymond Woo has been appointed with 4,874,539 shares in 2014. The vesting of these shares is subject to the vesting conditions and vesting period discussed above.

Retirement benefits

The Executive Directors participate in plans which target a retirement benefit. IRC makes contributions which are reassessed annually by the Remuneration Committee.

	For the year ended 31 December	
	2012 US$'000	**2013 US$'000**
Executive Directors		
George Jay Hambro[a]	98	**109**
Yury Makarov	87	**96**
Raymond Woo	65	**73**
	250	**278**

(a) Certain amounts included in retirement benefits were paid to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the employee.

Approved by the Board and signed on its behalf by
J.E. Martin Smith
Remuneration Committee Chairman

27 March 2014

Nomination Committee

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

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

During 2013, the Committee met once and the attendance of individual Directors is set out in the table on page 42.

Health, Safety and Environment Committee

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

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

During 2013, the Committee met once and the attendance of individual Directors is set out in the table below.

Board and Committee Meetings and Attendance

The number of meetings the Board, Audit and Remuneration Committees scheduled during 2013 are shown below together with attendance details:

	Meetings attended/held				
Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee
Executive Directors					
G. J. Hambro, *Chairman*	5/5			1/1	
Y.V. Makarov, *Chief Executive Officer*	5/5				
R.K.T. Woo, *Chief Financial Officer*	5/5				
Non-Executive Directors					
S. Murray, *CBE, Chevalier de la Légion d'honneur*	5/5				
Cai Sui Xin	2/3*				
Liu Qingchun	3/3*				
Independent Non-Executive Directors					
D.R. Bradshaw, *Senior Independent Non-Executive Director*	5/5	3/3	3/3	1/1	1/1
J.E. Martin Smith	5/5	3/3	3/3	1/1	1/1
C.F. Li	5/5	3/3	3/3		1/1

* Cai Sui Xin and Liu Qingchun were appointed as non-executive directors of the Company on 12 April 2013 and 3 Board of Directors meetings were held since then.

Dividend Policy

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

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

Auditors' Independence

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

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

Fees paid to the external auditor are disclosed in note 9 to the consolidated financial statements.

Shareholder Relations

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

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

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

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

AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website on the day of the AGM.

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

Compliance with Model Code

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

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

Directors' Responsibility Statement and Going Concern Assessment

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

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. In preparing the financial statements, the directors of the Company have assessed the going concern status of the Group after taking into account the following:

1) Under the ICBC Facility Agreement, the Company's ultimate parent, Petropavlovsk PLC, is required to respect certain financial covenants (see note 43 on page 117 for details). It announced in a press release dated 23 January 2014 that it was reviewing refinancing options in relation to convertible bonds it has issued. As part of this refinancing exercise, it will need to obtain agreement to temporarily relax its obligation to respect the ICBC Facility Agreement covenants. Petropavlovsk PLC expects to complete this process in first half of 2014; and

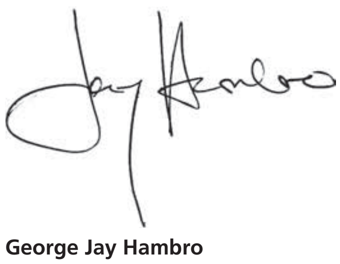
2) The expected cash proceeds from the remaining General Nice Further Shares Subscription (as defined in note 35 on page 105) of HK$451.5 million (approximately US$58.2 million) and share subscription by Minmetals Cheerglory Limited for HK$232.5 million (approximately US$30.0 million) in April 2014 (see note 35 for details on page 105).

As the sufficiency of working capital is dependent on the Group's and its ultimate holding company's ability to successfully implement the above measures, these conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group ability to continue as a going concern. The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due.

Please refer to the unqualified opinion on the Independent Auditor's Report and the "Emphasis of Matter" paragraph on page 58, indicating that the financial statements of the Company for the year ended 31 December 2013 have been prepared on a going concern basis.

The Group's annual results and interim results are announced in a timely manner.

On behalf of the Board



George Jay Hambro
Chairman

Hong Kong, 27 March 2014

DIRECTORS' REPORT

The Directors present their Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

Principal Activities

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

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2013 is set out in note 6 to the consolidated financial statements.

Results

The results of the Group are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 60 to 61 and in the accompanying notes to the consolidated financial statements. A discussion and analysis of the Group's performance during the year is set out in the Results of Operations section on pages 53 to 57 of this annual report.

Dividend

The Board of Directors does not recommend the distribution of a dividend for the year ended 31 December 2013.

Property, Plant and Equipment

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

Share Capital

During the year, the Company issued and allotted a total of 1,035,876,000 ordinary shares at an issue price of HK$0.94 per share to General Nice Development Limited. The ordinary shares issued rank *pari passu* in all respects with the existing issued shares.

Save as described above, there were no changes in the share capital of the Company in 2013. Particulars of the changes in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

Reserves

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

Directors

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

Executive Directors:

George Jay Hambro
Yury Makarov
Raymond Kar Tung Woo

Non-Executive Directors:

Simon Murray, *CBE, Chevalier de la Légion d'honneur*
Cai Sui Xin (appointed on 12 April 2013)
Liu Qingchun (appointed on 12 April 2013)

Independent Non-Executive Directors:

Daniel Rochfort Bradshaw
Jonathan Eric Martin Smith
Chuang-fei Li

Directors' Service Contracts

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

Directors' Interests

As at 31 December 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	Percentage of issued shares in the Company as at 31 December 2013
George Jay Hambro	Interest of a controlled corporation*	352,000	0.01%
	Beneficial interest**	23,220,000	0.51%
Yury Makarov	Beneficial interest	20,555,500	0.45%
Raymond Kar Tung Woo	Beneficial interest	14,632,500	0.32%
Sui Xin Cai***	Interest of a controlled corporation	1,035,876,000	22.87%

* These shares are beneficially owned by Mount F Consulting Limited, which is wholly owned by George Jay Hambro.

** Please refer to note (a) on page 41 under the heading "LTIP 1 awards vesting during 2013" in the Corporate Governance Report for more details.

*** 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")	Percentage of issued shares in Petropavlovsk as at 31 December 2013
George Jay Hambro	Beneficial interest	24,218	0.01%
Yury Makarov	Beneficial interest	75,278	0.04%

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	Beneficial interest	24,218
Yury Makarov	Petropavlovsk	Beneficial interest	75,278

Mr George Jay Hambro is the son of Mr Peter Hambro, the Chairman of Petropavlovsk PLC.

Directors' Interests in Competing Businesses

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

Petropavlovsk is the ultimate holding company of the Company. Petropavlovsk and its subsidiaries ("Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company. However, the Company and Petropavlovsk have entered into a Deed of Non-Competition (the "Deed") to ensure that their respective businesses do not compete.

The Deed shall continue in force until such time as the shares of the Company cease to be listed on the Stock Exchange of Hong Kong Limited or until Petropavlovsk controls less than 50% of the issued share capital of the Company.

The directors confirm that the Company was in compliance with the terms of the Deed during the year ended 31 December 2013.

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

Directors' Interests in Contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2013.

Appointment of Independent Non-Executive Directors

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

Substantial Shareholders' and other Persons' Interests

So far as is known to any Director or chief executive of the Company, as at 31 December 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 31 December 2013
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	48.70%
Cayiron Limited*	Beneficial owner	2,205,900,000	48.70%
Ming Chi Tsoi**	Interest of a controlled corporation	1,035,876,000	22.87%
General Nice Group Holdings Limited***	Interest of a controlled corporation	1,035,876,000	22.87%
General Nice Development Limited	Beneficial owner	1,035,876,000	22.87%

* 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 in this section, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 31 December 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.

Connected Transactions

Continuing Connected Transactions

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

	Continuing connected transactions	Connected Persons	Cap for 2013 US$'000	Actual amount for 2013 US$'000
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	940
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	6,000	44
C	Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	779
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	112
E	Aircraft Agreement	Millennium Implementation Limited	1,000	—
F	Banking Arrangements	OJSC Asian-Pacific Bank	30,000	24,417

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

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

A. Shared Services Agreement

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

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

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

B. Technical Services Agreement

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

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

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

C. Helicopter Lease Agreement

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

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

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

D. Helicopter Services Agreement

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

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

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

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

E. Aircraft Agreement

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

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

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

F. Banking Arrangements

The Group has an agreement with OJSC Asian-Pacific Bank ("Asian-Pacific Bank") to maintain bank deposits on commercial terms ("Banking Arrangements"). Entities associated with Mr. Peter Hambro, the father of a Director of the Company, and a deemed connected person of the Company indirectly hold interests in more than 30% of Asian Pacific Bank with the result that Asian-Pacific Bank is a connected person of the Company. Accordingly, the Banking Arrangements are classified as a continuing connected transaction for the purposes of the Listing Rules.

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

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

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

The current Banking Arrangements are for the period from 21 October 2011 to 20 October 2014, with an annual cap of US$30,000,000 per year for each of those three years.

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

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

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

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

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

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31 December 2013 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the respective caps.

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

One-off Connected Transaction

Petropavlovsk has provided the Group with a tax indemnity for any tax liability incurred by the Group: (i) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before listing, and (ii) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before Listing of the Company in 2010. Details of the tax indemnity are disclosed in the prospectus of the Company.

During 2013, US$771,000 has been recovered from Petropavlovsk in respect of the tax indemnity.

Emolument Policy

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements. The emolument policy of the employees of the Group is set up by the Remuneration and/or Executive Committees on the basis of their merit, qualifications and competence.

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

Detailed remuneration policy and practices of IRC in 2013 are set out on page 37.

A key element of senior management remuneration is the Long Term Incentive Plan ("LTIP"). The LTIP is designed to align the interests of management with those of shareholders, and to incentivise performance. Please refer to the paragraph "Remuneration Committee" in Corporate Governance Report on page 37 and Note 39 to the consolidated financial statements under "Share-Based Payments" on page 109 for more details.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers accounted for 93% of the total revenue for the year. The largest of them accounted for 75% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 48% of the Group's total purchases for the year. The largest supplier represented 15% of the Group's total purchases for the year.

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

Purchase, Sale or Redemption of Securities

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

Guarantee

The Group obtained a banking facility of US$340,000,000 which is guaranteed by Petropavlovsk, the controlling shareholder of the Company. The banking facility agreement contains certain covenants on Petropavlovsk, the details of which are set out in Note 43 to the consolidated financial statements.

Corporate Governance

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

Sufficiency of Public Float

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

Auditor

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

Review by the Audit Committee

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

On behalf of the Board

George Jay Hambro
Chairman

27 March 2014

RESULTS OF OPERATIONS

The following table sets out the consolidated statement of profit or loss for IRC for the year ended 31 December 2013 and 2012.

	2013 US$'000	2012 US$'000
Revenue		
Iron Ore Concentrate	**120,390**	109,953
Ilmenite	**31,549**	18,513
Engineering Services	**8,915**	11,221
Total Revenue	**160,854**	139,687
Site operating expenses and service costs*	**(156,142)**	(141,934)
Central administration expenses	**(19,039)**	(26,197)
Impairment charges	**(28,850)**	(27,051)
	(43,177)	(55,495)
Share of results of joint venture and associate	**(115)**	(2,523)
Net operating loss	**(43,292)**	(58,018)
Other gains and losses and other expenses	**(1,475)**	2,619
Financial expenses, net	**(2,331)**	(1,798)
Loss before taxation	**(47,098)**	(57,197)
Taxation expense	**(677)**	(168)
Loss for the year	**(47,775)**	(57,365)
Non-controlling interests	**6,162**	(189)
Loss for the year attributable to owners of the Company	**(41,613)**	(57,554)

* 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

Sales volumes for iron ore in 2013 set new records at 1,012,817 tonnes, a 3.3% increase compared to 980,543 tonnes in 2012. The average selling price of iron ore marginally improved from US$112.1 per tonne in 2012 to US$118.9 per tonne in 2013, representing a 6.1% increase. Total revenue from the sales of iron ore increased by US$10.4 million from US$110.0 million to US$120.4 million, an increase of 9.5%.

Ilmenite

Approximately 141,644 tonnes of ilmenite were sold in 2013, an increase of 16.8% as compared to 121,238 tonnes in 2012. The price of ilmenite was, however, weaker during the year, falling 19.5% to US$222.7 per tonne for 2013 compared to the same period in 2012. Since the second half of 2012, we considered ilmenite, which had previously been classified as a by-product, a more significant product due to the increase in its sales volume after the ramping up of ilmenite production circuit. As such, all ilmenite sales in 2013 were recognised as revenue while in the first half of 2012, ilmenite sales of US$15.2 million were treated as a by-product credit, netted off the cost of iron ore production.

Engineering services

Engineering service revenue from Giproruda, the Group's complementary mine design business, was marginally lower at US$8.9 million for 2013 compared to US$11.2 million 2012.

Site operating expenses and service costs

In 2013, production volumes of both iron ore and ilmenite ramped up at Kuranakh. Consequently the 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 2013 amounted to US$142.4 million (2012: US$126.4 million) which includes railway tariffs and related transportation costs for iron ore of US$35.7 million (2012: US$40.5 million).

During 2013, we produced 1,032,615 tonnes of iron ore concentrate for a cash cost of US$69.3 million. In accordance with general market practice and 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:

	2013		2012
	Total Cash Cost US$ million	**Cash cost per tonne US$/t**	Cash cost per tonne US$/t
Mining	**38.7**	**37.5**	31.1
Processing	**19.0**	**18.4**	18.7
Transportation to plant	**7.3**	**7.0**	8.0
Production overheads	**9.6**	**9.3**	10.8
Site administration and related costs	**13.4**	**13.1**	12.6
Contribution from sales of ilmenite* and others	**(18.7)**	**(18.2)**	(25.2)
Production cash cost	**69.3**	**67.1**	56.0

* net of tariff and other railway charges for ilmenite

The increase in production cash cost to US$67.1 per tonne is mainly due to the reduction in contribution from ilmenite sales by-product credits, following the softening of ilmenite market price in 2013; and the temporary rise in mining costs, as efforts were focussed on mining through lower-grade ore in order to increase the face availability of the potential higher-grade ore for the future in accordance with the mining plan.

Segmental information

Despite the significant drop in ilmenite selling prices achieved in 2013 and the rising mining costs, the Group's two income generating segments, "Mine in production" and "Engineering" segments, increased their segmental profits before impairment charges to US$9.5 million (2012: US$2.1 million) and US$1.0 million (2012: US$0.6 million) respectively. Segmental loss of the Group narrowed from US$31.8 million in 2012 to a loss of US$24.3 million in 2013.

Central administration expenses

In light of the challenging operating environment and reduction of ilmenite price, special attention was paid to controlling administrative costs. In 2013, administration expenses decreased by 27.3% from US$26.2 million in 2012 to US$19.0 million in 2013, primarily due to the implementation of certain cost savings initiatives.

Impairment charges

In 2013, a non-cash impairment charge of US$28.9 million was recorded (2012: US$27.1 million) relating to the write down carrying values of two of our projects. In 2013, we assessed the mining licenses and assets associated with the Molybdenum exploration project, which were capitalised as exploration and evaluation assets. Due to the overall depressed molybdenum price and the increasing costs that need to be incurred to ensure compliance with the mining licenses, we decided to suspend any further investment and development of the project in order to preserve capital. As a result, the Group's Molybdenum assets amounting to US$13.5 million are fully impaired (of which US$6.7 million was shared by the non-controlling interests). Further, when performing the impairment assessments, we are noting that the business model for the Kuranakh project is particularly sensitive to ilmenite and iron ore prices, especially after taking into consideration the weakened ilmenite prices in 2013. We considered a provision for impairment charge of US$15.4 million was sensible against the Kuranakh project.

RESULTS OF OPERATIONS (Continued)

Net operating loss

As a result of the above, the net operating loss before impairments in 2013 reduced by 53.4% from US$31.0 million to US$14.4 million, mainly resulted from the increase in production and sales volume of iron ore and ilmenite and a reduction of administrative costs. Taking into account the impairment provisions, net operating loss decreased by US$14.7 million to US$43.3 million.

Share of results of joint venture and associate

Share of loss of joint venture and associate narrowed from US$2.5 million in 2012 to US$0.1 million primarily due to the improved performance of the vanadium joint venture after the improved recovery rates of vanadium.

Other gains and losses and other expenses

In 2013, we recorded other losses of US$1.5 million, primarily attributable to net foreign exchange loss of US$1.8 million due to the depreciation of Russian Roubles against USD. In 2012, gains of US$2.6 million were booked, primarily due to a one-off gain on disposal of equipment and net foreign exchange gain attributable to appreciation of Russian Roubles.

Net financial expense

The Group reported a net financial expense of US$2.3 million in 2013, as compared to US$1.8 million in 2012, due to the increased drawdown of short-term working capital facilities for Kuranakh project.

Loss for the year attributable to the owners of the Company

Consequently, the Group recorded a loss of US$41.6 million attributable to the owners of the Company in 2013, a fall of 27.7% compared to the loss of US$57.6 million reported for 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 (equivalent to approximately 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 (equivalent to approximately 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. On 4 October 2013, we received an irrevocable notice from General Nice for exercising its right to further subscribe for 863,600,000 new shares of the Company for a cash consideration of approximately HK$811.8 million (equivalent to approximately US$104.7 million). Following the exercise and full completion of the General Nice further subscription, Minmetals would subscribe for 247,300,000 new shares of the Company for a cash consideration of HK$232.5 million (equivalent to approximately US$30 million).

As the exercise of the General Nice Further Subscription Right was after three months but within six months from the initial share subscription by General Nice, pursuant to the conditional subscription agreement with General Nice, 8,516,000 (25%) Deferred Subscription Shares were forfeited and the associated amount of approximately HK$8.0 million (equivalent to approximately US$1.0 million) received was retained by the Company for its benefit. The remaining 25,548,000 Deferred Subscription Shares, amounting to approximately HK$24.0 million (equivalent to approximately US$3.1 million) would be allotted and issued to General Nice at the same time as the allotment and issue of all the new shares of the Company upon full completion of General Nice Further Subscription Shares.

On 30 December 2013, General Nice subscribed 218,340,000 new shares of the Company for approximately HK$205.2 million (equivalent to approximately US$26.5 million) as partial subscription of the General Nice Further Subscription Shares. On 26 February 2014, the Group received subscription monies of HK$155.1 million (approximately US$20.0 million) from General Nice and accordingly has allotted and issued 165,000,000 new shares of the Company to General Nice as a further partial subscription of General Nice Further Subscription Shares.

It is expected that the remainder of General Nice Further Shares Subscription of HK$451.5 million (equivalent to approximately US$58.2 million); and share subscription in the Company by Minmetals for HK$232.5 million (equivalent to approximately US$30.0 million) will be completed by 22 April 2014.

RESULTS OF OPERATIONS (Continued)

Transaction costs of approximately US$4,231,000 directly attributable to the issuance of new shares in 2013 to General Nice were charged to the Share premium account.

The share placements not only provided a strong strategic Chinese investment partners, but also solidified our financial strength and derisked our offtake process.

Cash position and capital expenditure

As 31 December 2013, the carrying amount of the Group's cash and bank balances was approximately US$98.4 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$74.4 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$145.2 million (2012: US$220.6 million).

Exploration, Development and Mining Production Activities

During 2013, US$245.3 million (2012: US$255.9 million) was incurred on exploration, development and mining production activities, details of which are set out below:

The following table details the capital and operating expenditures in 2013 (US$' million):

	Operating expenses US$'m	Capital expenditure US$'m	For the year ended 31 December 2013 Total US$'m	For the year ended 31 December 2012 Total US$'m
Kuranakh, primarily sustaining capital expenditure	129.3	5.2	**134.5**	128.1
K&S development	0.9	107.2	**108.1**	123.7
Exploration projects and others	2.0	0.7	**2.7**	4.1
	132.2	113.1	**245.3**	255.9

While CNEEC remains as the main contractor for the construction and purchase of major equipment for K&S project under the US$400 million EPC contract, the below are the details of material new contracts and commitments entered into during the year on a by-project basis.

Projects	Nature	For the year ended 31 December 2013 US$'m	For the year ended 31 December 2012 US$'m
Kuranakh	Purchase of property, plant and equipment	**1.6**	2.0
K&S	Sub-contracting for mining works	**7.0**	—
	Sub-contracting for railways and related works	**2.8**	0.1
	Sub-contracting for excavation related works	**4.0**	—
	Purchase of property, plant and equipment	**0.8**	—
Others	Other contracts and commitments	**0.3**	—
		16.5	2.1

RESULTS OF OPERATIONS (Continued)

Borrowings and Charges

As 31 December 2013, the Group had a gross borrowing of US$214.8 million (31 December 2012: US$144.7 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US$20.0 million is unsecured bank borrowing repayable within one year while the remaining US$194.8 million represents long term borrowing drawn from the US$340 million ICBC loan facility which is guaranteed by Petropavlovsk. The Group has kept its borrowing costs at market level, with its weighted average interest rate at approximately 6.2% per annum. As of 31 December 2013, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, is 10.5% (31 December 2012: 12.3%).

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. In light of the political instability in Ukraine, Russian Roubles recently depreciated. As almost all of our income is denominated in US dollars while a major portion of our operating costs are in Russian Roubles, it is expected that the Group would benefit from a weaker Roubles on operational front. However, the depreciation in Roubles would result in unrealised foreign exchange loss arising from the mark-to-market effect of translating Roubles denominated assets to US dollars.

Employees and Emolument Policies

As at 31 December 2013, the Group employed a total of 2,492 employees (2012: 2,140 employees). The total staff costs excluding share based payments incurred were approximately US$54.0 million for 2013 (2012: US$55.2 million). Despite the fact that the headcounts increased in 2013, the Group managed to control staff cost 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.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

To the Members of IRC Limited
鐵江現貨有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 125, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates, the Group incurred loss for the year ended 31 December 2013, and the Group had significant capital and other commitments against the cash and cash equivalents and the credit facilities maintained by the Group. As a consequence, a series of measures are being taken which are disclosed in note 2 to the consolidated financial statements to ensure the Group's financing needs. Further, the Group's ability to continue as a going concern is also dependent on the ongoing availability of the financing under the existing ICBC Facility Agreement (as defined in note 33 to the consolidated financial statements) under which the Group's ultimate holding company is the guarantor and required to respect the relevant covenant obligations. The directors of the Company consider that, provided that (i) the Group's ultimate holding company is able to successfully obtain a temporary relaxation of the relevant covenant obligations under the ICBC Facility Agreement; and (ii) the additional financing measures of the Group are effective, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. The sufficiency of working capital is dependent on the Group's and its ultimate holding company's ability to successfully implement the measures as set out in note 2 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000 (restated)
Revenue	7	**160,854**	139,687
Operating expenses	8	**(175,181)**	(168,131)
Impairment charges	11	**(28,850)**	(27,051)
		(43,177)	(55,495)
Share of results of an associate		**—**	(185)
Share of results of a joint venture		**(115)**	(2,338)
		(43,292)	(58,018)
Other gains and losses and other expenses	12	**(1,475)**	2,619
Financial income	13	**988**	412
Financial expenses	14	**(3,319)**	(2,210)
Loss before taxation		**(47,098)**	(57,197)
Taxation expense	15	**(677)**	(168)
Loss for the year		**(47,775)**	(57,365)
(Loss) profit for the year attributable to:			
Owners of the Company		**(41,613)**	(57,554)
Non-controlling interests		**(6,162)**	189
		(47,775)	(57,365)
Loss per share (US cents)	17		
Basic		**(1.04)**	(1.74)
Diluted		**(1.04)**	(1.74)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 US$'000	2012 US$'000 (restated)
Loss for the year	**(47,775)**	(57,365)
Other comprehensive (expenses) income for the year:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1,240)**	1,158
Total comprehensive expenses for the year	**(49,015)**	(56,207)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	**(42,465)**	(56,686)
Non-controlling interests	**(6,550)**	479
	(49,015)	(56,207)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000 (restated)
Non-current assets			
Exploration and evaluation assets	19	**53,303**	65,440
Property, plant and equipment	20	**613,057**	594,371
Interests in a joint venture	23	**4,893**	4,887
Other non-current assets	24	**224,269**	171,479
Restricted bank deposit	33	**6,000**	6,000
		901,522	842,177
Current assets			
Inventories	25	**55,230**	42,966
Trade and other receivables	26	**46,544**	54,525
Time deposits	27	**2,740**	2,500
Cash and cash equivalents	29	**89,642**	15,536
		194,156	115,527
Total assets		**1,095,678**	957,704
Current liabilities			
Trade and other payables	30	**(22,042)**	(23,913)
Current income tax payable		**(274)**	(353)
Loans payable to a related party	31	**—**	(10,260)
Bank borrowings — due within one year	33	**(41,250)**	(15,000)
		(63,566)	(49,526)
Net current assets		**130,590**	66,001
Total assets less current liabilities		**1,032,112**	908,178
Non-current liabilities			
Deferred tax liabilities	32	**(1,986)**	(1,868)
Provision for close down and restoration costs	34	**(8,616)**	(14,626)
Bank borrowings — due more than one year	33	**(158,672)**	(108,491)
		(169,274)	(124,985)
Total liabilities		**(232,840)**	(174,511)
Net assets		**862,838**	783,193

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2013

	NOTES	**2013 US$'000**	2012 US$'000 (restated)
Capital and reserves			
Share capital	35	**5,834**	4,500
Share premium		**1,166,006**	1,042,016
Treasury shares	36	**(12,846)**	(43,000)
Capital reserve		**17,984**	17,984
Reserves		**15,100**	42,770
Accumulated losses		**(334,302)**	(292,689)
Equity attributable to owners of the Company		**857,776**	771,581
Non-controlling interests		**5,062**	11,612
Total equity		**862,838**	783,193

The consolidated financial statements on pages 60 to 125 were approved and authorised for issue by the Board of Directors on 27 March 2014 and are signed on its behalf by:

DIRECTOR

Raymond Woo.

DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000
Non-current assets			
Property, plant and equipment	20	**10**	6
Investment in subsidiaries	21	**1,086,008**	1,016,772
		1,086,018	1,016,778
Current assets			
Prepayment	26	**195**	139
Amounts due from subsidiaries	28	**604**	600
Cash and cash equivalents	29	**48,914**	822
		49,713	1,561
Total assets		**1,135,731**	1,018,339
Current liabilities			
Amounts due to subsidiaries	28	**(19,408)**	(1,214)
Accruals and other payables	30	**(2,471)**	(2,937)
		(21,879)	(4,151)
Net current assets (liabilities)		**27,834**	(2,590)
Net assets		**1,113,852**	1,014,188
Capital and reserves			
Share capital	35	**5,834**	4,500
Share premium		**1,166,006**	1,042,016
Capital reserve		**592**	592
Share-based payments reserve	39	**797**	14,578
Accumulated losses	37	**(59,377)**	(47,498)
Total equity		**1,113,852**	1,014,188

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Total attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Treasury shares US$'000	Capital reserve[b] US$'000	Share-based payments reserve US$'000	Translation reserve US$'000	Other reserve[a] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2012	4,330	1,029,131	(43,000)	17,918	18,993	(15,841)	32,057	(235,135)	808,453	4,625	813,078
Loss for the year (restated) (note 3)	—	—	—	—	—	—	—	(57,554)	(57,554)	189	(57,365)
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	—	—	—	—	—	868	—	—	868	290	1,158
Total comprehensive income (expenses) for the year (restated)	—	—	—	—	—	868	—	(57,554)	(56,686)	479	(56,207)
Share-based payments	—	—	—	66	6,693	—	—	—	6,759	—	6,759
Issue of new shares for acquisition of subsidiaries (note 42)	170	12,885	—	—	—	—	—	—	13,055	—	13,055
Non-controlling interests arising on acquisition of subsidiaries (note 42)	—	—	—	—	—	—	—	—	—	6,508	6,508
Balance at 31 December 2012 and 1 January 2013 (restated)	4,500	1,042,016	(43,000)	17,984	25,686	(14,973)	32,057	(292,689)	771,581	11,612	783,193
Loss for the year	—	—	—	—	—	—	—	(41,613)	(41,613)	(6,162)	(47,775)
Other comprehensive expenses for the year											
Exchange differences on translation of foreign operations	—	—	—	—	—	(852)	—	—	(852)	(388)	(1,240)
Total comprehensive expenses for the year	—	—	—	—	—	(852)	—	(41,613)	(42,465)	(6,550)	(49,015)
Share-based payments	—	—	—	—	3,336	—	—	—	3,336	—	3,336
Vesting of share-based awards	—	—	30,154	—	(17,117)	—	(13,037)	—	—	—	—
Issue of new shares (note 35)	1,334	124,093	—	—	—	—	—	—	125,427	—	125,427
Deferred Subscription Shares (defined in note 35)	—	3,096	—	—	—	—	—	—	3,096	—	3,096
Forfeiture of Deferred Subscription Shares	—	1,032	—	—	—	—	—	—	1,032	—	1,032
Transaction costs attributable to issue of new shares (note 35)	—	(4,231)	—	—	—	—	—	—	(4,231)	—	(4,231)
Balance at 31 December 2013	5,834	1,166,006	(12,846)	17,984	11,905	(15,825)	19,020	(334,302)	857,776	5,062	862,838

(a) The amount arose from 1) 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") and 2) transfer of share-based payments reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares.

(b) The amounts represent deemed contribution from ultimate holding company for 1) certain administrative expenses and tax expenses of the Group paid by the ultimate holding company in prior years and 2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of ultimate holding company.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 US$'000	2012 US$'000
Operating activities			
Net cash (used in) from operations	38	**(818)**	3,047
Interest expenses paid		**(7,082)**	(3,328)
Income tax paid		**(575)**	(597)
Net cash used in operating activities		**(8,475)**	(878)
Investing activities			
Purchases of property, plant and equipment and exploration and evaluation assets		**(113,614)**	(142,612)
Acquisition of a subsidiaries, net of cash acquired		**—**	920
Interest received		**988**	412
Proceeds on disposal of property, plant and equipment		**500**	5,706
Time deposits placed	27	**(240)**	(2,500)
Net cash used in investing activities		**(112,366)**	(138,074)
Financing activities			
Proceeds on issuance of new shares	35	**125,427**	—
Deferred Subscription Share (as defined in note 35)	35	**3,096**	—
Forfeiture of Deferred Subscription Shares	35	**1,032**	—
Proceeds from bank borrowings		**131,832**	151,229
Repayment of bank borrowings		**(51,500)**	(38,750)
(Repayment to) advanced from a related party		**(10,000)**	10,000
Transaction costs attributable to issuance of new shares	38(b)	**(2,668)**	—
Loan commitment fees paid		**(1,031)**	(1,500)
Net cash from financing activities		**196,188**	120,979
Net increase (decrease) in cash and cash equivalents for the year		**75,347**	(17,973)
Cash and cash equivalents at the beginning of year		**15,536**	33,188
Effect of foreign exchange rate changes		**(1,241)**	321
Cash and cash equivalents at the end of year		**89,642**	15,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. General

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 October 2010. Its immediate holding company is Cayiron Limited, which was incorporated in the Cayman Islands. The directors of the Company consider that its ultimate holding company is Petropavlovsk PLC. The Company together with its subsidiaries are hereinafter referred to as the "Group".

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

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

2. Basis of Preparation of Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the Company have given consideration to the going concern status of the Group in light of the Group's loss for the year, the Group's capital and other commitments (see note 20), against the cash and cash equivalents and the credit facilities maintained by the Group, and its ultimate holding company's loan covenant requirements under the ICBC Facility Agreement (as defined in note 33).

In order to ensure sufficient financial resources and maintain the Group's banking facilities, to provide liquidity and cash flows to sustain the Group as a going concern, the directors of the Company have taken account of the following:

(i) Under the ICBC Facility Agreement, the Company's ultimate parent, Petropavlovsk PLC, is required to respect certain financial covenants (see note 43). It announced in a press release dated 23 January 2014 that it was reviewing refinancing options in relation to convertible bonds it has issued. As part of this refinancing exercise, it will need to obtain agreement to temporarily relax its obligation to respect the ICBC Facility Agreement covenants. Petropavlovsk PLC expects to complete this process in first half of 2014; and

(ii) The expected cash proceeds from the remaining General Nice Further Subscription Shares (as defined in note 35) of HK$451.5 million (equivalent to approximately US$58.2 million) and share subscription by Minmetals Cheerglory Limited ("Minmetals") for HK$232.5 million (equivalent to approximately US$30.0 million) in April 2014 (see note 35 for details).

The directors of the Company consider that after taking into account the above, the Group will have 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. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

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") for the first time in the current year:

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

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

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 consolidated statement of comprehensive income is renamed as consolidated statement of profit or loss and other comprehensive income; while the consolidated income statement is renamed as 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.

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosure in the consolidated financial statements (please refer to notes 22, 23 and 44 for details).

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, and is subsequently charged to the profit or loss over the life of the mine on a units of production basis.

Prior to application of HK(IFRIC)-Int 20, production stripping costs are deferred based on the ratio obtained by dividing the tonnage of the waste mined by the quantity of the ore mined ("stripping ratio"). Production stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the life-of-mine ratio for each mine. Such deferred costs are then amortised in subsequent periods to the extent that the period's stripping ratio falls below the life-of-mine ratio. The life-of-mine ratio is based on the mineable reserves of the mine.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

The directors of the Company have assessed the impact of the application of HK(IFRIC)-Int 20 retrospectively and considered that the effect on the financial position of the Group at 1 January 2012 is insignificant as the stripping activity prior to 1 January 2012 were substantially providing improved access to ore instead of normal ongoing operational stripping activities that should be accounted for with HKAS 2 Inventories. The Group therefore did not present a third statement of financial position as at 1 January 2012 as required by HKAS 1.

The effect on the results for the current and preceding years by line items presented in the consolidated statement of profit or loss is as follows:

	2013 US$'000	2012 US$'000
Increase in site operating expenses and loss for the year	**(588)**	(4,322)

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 and 1 January 2013 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)

Impact on basic and diluted loss per share

	2013 US cents	2012 US cents
Basic and diluted loss per share before adjustments	**1.03**	1.61
Adjustments arising from application of HK(IFRIC)-Int 20	**0.01**	0.13
Reported basic and diluted loss per share	**1.04**	1.74

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 consolidated financial statements are authorised for issuance but are not yet effective. The directors do not anticipate that the application of these new or revised standards, amendments to standards or interpretation will have a material effect on the Group's consolidated financial statements.

4. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Acquisition of assets

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

Investments in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The results and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, an investment in joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of the joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

4. Significant Accounting Policies (Continued)

Investments in a joint venture (Continued)

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Investments in subsidiaries

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates, i.e. United States dollars) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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

Exploration and evaluation assets

Exploration and evaluation expenditure and mineral rights acquired

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

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;

4. Significant Accounting Policies (Continued)

Exploration and evaluation assets (Continued)

Exploration and evaluation expenditure and mineral rights acquired (Continued)

- Compiling pre-feasibility and feasibility studies; and

- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Property, plant and equipment

Non-mining assets

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

Mine development costs and mining assets

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

Deferred stripping costs in development phase

In open pit operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Such costs when incurred during the development of the mine are deferred on the statement of financial position as part of mine development costs, and charged to the profit or loss over the life of the mine on a unit of production basis.

Deferred stripping costs in production phase

During production phase, cost incurred in relation to stripping activity is capitalised and recorded on the consolidated statement of financial position to the extent the stripping activity improved access to ore, which is when the following conditions are satisfied:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

- the entity can identify the component of the ore body for which access has been improved; and

- the costs relating to the stripping activity associated with that component can be measured reliably.

To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the Group accounts for the costs of that stripping activity in accordance with the accounting policy of inventories (see accounting policy of inventories for details).

When the costs relating to improved access to ore (i.e. a stripping activity asset) and the costs of the inventory produced are not separately identifiable, production stripping costs are allocated between the stripping activity asset and inventory using a relevant production measure (i.e., actual vs. expected volume of waste extracted).

Production stripping costs capitalized are subsequently carried at cost and depreciated on a unit of production basis over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, less any impairment losses.

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

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Depreciation

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

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

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

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

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

THE GROUP

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

THE COMPANY

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

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

Impairment losses of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual assets, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

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

4. Significant Accounting Policies (Continued)

Impairment losses of tangible and intangible assets (Continued)

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

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

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

Provision for close down and restoration costs

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

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Loans and receivables

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

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities

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

Transaction costs on bank borrowings

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

Equity instruments

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

Derecognition

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

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

4. Significant Accounting Policies (Continued)

Inventories

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

Revenue recognition

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

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's policy for the recognition of revenue from engineering contracts is described in the accounting policy on engineering contracts below.

Engineering contracts

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

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

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

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

The Group as lessor

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

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

4. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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

Borrowing costs

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

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

Taxation

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

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

Share-based payments

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

4. Significant Accounting Policies (Continued)

Share-based payments (Continued)

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

Employee benefit trust ("EBT")

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

Retirement benefit costs

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

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, management has made the following key assumptions concerning future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of assets and assessment of cash generating units

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

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

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

Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the "JORC Code") or Canadian Institute of Mining, Metallurgy and Petroleum valuation standards ("CIM Standards"). The JORC Code and CIM Standards require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

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

5. Key Sources of Estimation Uncertainty (Continued)

Ore reserve estimates (Continued)

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

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

Exploration and evaluation costs

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

Provision for restoration, rehabilitation and environmental costs

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

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

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

Tax provisions and tax legislation

The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. Russian tax and currency control legislation is subject to varying interpretations. Fines and penalties for any errors and omissions could be significant. The directors of the Company believe that there have been no material breaches of Russian tax regulations and that these financial statements contain all necessary provisions in respect of the Group's tax liabilities in Russia.

Deferred tax

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

6. Segment Information

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

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region").

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the K&S project, the Garinskoye project, the Bolshoi Seym project, the Molybdenum Exploration project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russia Far East region.

- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.

- Other segment ("Other") primarily includes the Jiatai Titanium project (as defined in note 11) for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interests in a joint venture for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

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

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

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

- all assets are allocated to reportable segments other than central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax, loans payable to a related party and bank borrowings.

6. Segment Information (Continued)

For the year ended 31 December 2013

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	151,939	—	8,915	—	160,854
Segment revenue	151,939	—	8,915	—	160,854
Site operating expenses and service costs	(142,431)	(2,851)	(7,869)	(2,991)	(156,142)
Site operating expenses and service costs include:					
Depreciation and amortisation	(13,284)	(7,092)	(456)	(68)	(20,900)
Impairment charges	(15,395)	(13,455)	—	—	(28,850)
Share of results of a joint venture	—	—	—	(115)	(115)
Segment (loss) profit	(5,887)	(16,306)	1,046	(3,106)	(24,253)
Central administrative expenses					(18,826)
Central depreciation and amortisation					(213)
Other gains and losses and other expenses					(1,475)
Financial income					988
Financial expenses					(3,319)
Loss before taxation					(47,098)
Other segment information					
Additions to non-current assets:					
Capital expenditure	5,002	51,431	57	8	56,498
Exploration and evaluation expenditure capitalised	—	1,318	—	—	1,318
Segment assets	132,643	850,598	20,451	10,786	1,014,478
Central cash and cash equivalents					81,200
Consolidated assets					1,095,678
Segment liabilities	(11,385)	(9,673)	(1,136)	(8,738)	(30,932)
Bank borrowings					(199,922)
Deferred tax liabilities					(1,986)
Consolidated liabilities					(232,840)

6. Segment Information (Continued)

For the year ended 31 December 2012

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	128,466	—	11,221	—	139,687
Segment revenue	128,466	—	11,221	—	139,687
Site operating expenses and service costs (restated)	(126,370)	(1,265)	(10,610)	(3,689)	(141,934)
Site operating expenses and service costs include:					
Depreciation and amortisation (restated)	(14,204)	(4,644)	(480)	(86)	(19,414)
Impairment charges	—	(20,990)	—	(6,061)	(27,051)
Share of results of a joint venture	—	—	—	(2,338)	(2,338)
Share of results of an associate	—	(185)	—	—	(185)
Segment profit (loss) (restated)	2,096	(22,440)	611	(12,088)	(31,821)
Central administrative expenses					(25,843)
Central depreciation and amortisation					(354)
Other gains and losses and other expenses					2,619
Financial income					412
Financial expenses					(2,210)
Loss before taxation (restated)					(57,197)
Other segment information					
Additions to non-current assets:					
Capital expenditure	17,202	54,426	229	108	71,965
Exploration and evaluation expenditure capitalised	—	1,369	—	—	1,369
Exploration and evaluation assets acquired on acquisition of subsidiaries	—	19,578	—	—	19,578
Segment assets (restated)	166,226	756,677	20,942	11,880	955,725
Central cash and cash equivalents					1,979
Consolidated assets (restated)					957,704
Segment liabilities	(12,764)	(16,126)	(1,745)	(8,257)	(38,892)
Bank borrowings					(123,491)
Loans payable to a related party					(10,260)
Deferred tax liabilities					(1,868)
Consolidated liabilities					(174,511)

6. Segment Information (Continued)

Revenue from major products and services

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:

	2013 US$'000	2012 US$'000
Iron ore concentrate	**120,390**	109,953
Ilmenite	**31,549**	18,513
Engineering services	**8,915**	11,221
	160,854	139,687

Revenue by geographical location[a]

	2013 US$'000	2012 US$'000
Japan	**1,416**	—
Russia and the Commonwealth of Independent States ("CIS")	**8,915**	11,297
PRC	**150,523**	128,390
	160,854	139,687

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

Non-current assets by location of asset[b]

	2013 US$'000	2012 US$'000 (restated)
Russia	**889,300**	829,711
PRC	**5,240**	5,489
Hong Kong	**982**	977
	895,522	836,177

(b) Excluding financial assets.

6. Segment Information (Continued)

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and ilmenite and rendering engineering services to a number of individual third party customers during the years ended 31 December 2013 and 2012. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2013, sales were made to Heilongjiang Jianlong Steel Company Limited (US$120,390,000) attributable to the Mines in Production segment comprising 75% of the total revenue. There were no other customers that contributed over 10% on the total revenue of the Group during the year ended 31 December 2013.

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

7. Revenue

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

	2013 **US$'000**	2012 US$'000
Revenue		
Sales of goods	**151,939**	128,466
Rendering of services	**8,915**	11,221
	160,854	139,687

8. Operating Expenses

	2013 **US$'000**	2012 US$'000 (restated)
Operating expenses		
Site operating expenses and service costs	**156,142**	141,934
Central administration expenses	**19,039**	26,197
	175,181	168,131

8. Operating Expenses (Continued)

(a) Site operating expenses and service costs

	2013 US$'000	2012 US$'000 (restated)
Staff costs	**43,578**	44,398
Fuel	**17,026**	15,782
Materials	**25,343**	21,004
Depreciation	**20,900**	19,414
Electricity	**2,922**	2,762
Royalties	**3,387**	2,262
Railway tariff	**46,525**	45,479
Movement in finished goods and work in progress	**(11,130)**	(14,739)
Engineering services cost	**17,366**	13,469
Professional fees*	**302**	543
Bank charges	**463**	487
Insurance	**146**	33
Office rent	**1,126**	1,067
Business travel expenses	**322**	683
Office costs	**1,223**	2,565
Mine development costs capitalised in property, plant and equipment	**(26,938)**	(24,711)
(Reversal of) allowance for bad debts**	**(250)**	654
Property tax	**4,864**	—
Other expenses	**8,967**	10,782
	156,142	141,934

(b) Central administration expenses

	2013 US$'000	2012 US$'000
Staff costs	**10,458**	10,794
Depreciation	**213**	354
Professional fees*	**947**	3,499
Bank charges	**47**	53
Insurance	**428**	281
Office rent	**1,711**	1,802
Business travel expenses	**1,176**	1,435
Share-based payments	**3,336**	6,759
Office costs	**381**	779
Reversal of allowance for bad debts**	**(52)**	—
Property tax	**19**	—
Other expenses	**1,359**	1,092
Rental income less negligible outgoings	**(984)**	(651)
	19,039	26,197

* 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 year ended 31 December 2013 as a result of overprovision of professional fees in relation to share placement of the Company as detailed in note 35.

** Reversal of allowance for bad debts of approximately US$302,000 was recognised in profit or loss for the year ended 31 December 2013, and mainly represented partial recovery of trade debtors.

9. Auditors' Remuneration

The analysis of auditors' remuneration is as follows:

	2013 US$'000	2012 US$'000
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group's consolidated financial statements	**541**	514
Non-audit fees		
Other services	**139**	133
Total	**680**	647

10. Directors', Chief Executive's and Employees' Emoluments

The aggregate remuneration of employees (including directors) comprised:

	2013 US$'000	2012 US$'000
Wages and salaries	**42,053**	43,515
Social security and other benefits	**11,669**	11,404
Retirement benefit contribution	**314**	273
Share-based payments	**3,336**	6,759
	57,372	61,951

	2013 US$'000	2012 US$'000
Directors' Emoluments		
Emoluments for executive directors:		
— salaries and other benefits	**3,716**	2,895
— retirement benefit contribution	**278**	250
— share-based payments	**3,289**	4,066
Emoluments for non-executive directors:		
— directors' fees	**536**	536
	7,819	7,747

10. Directors', Chief Executive's and Employees' Emoluments (Continued)

	Directors' fees US$'000	Salaries and other benefits US$'000	Performance bonus[a] US$'000	Retirement benefit contribution US$'000	Share-based payments[b] US$'000	Total US$'000
Year ended 31 December 2013						
Executive directors of the Company:						
George Jay Hambro	—	**869[c]**	**585[c]**	**109**	**1,316**	**2,879**
Yury Makarov	—	**773**	**520**	**96**	**1,151**	**2,540**
Raymond Woo	—	**579**	**390**	**73**	**822**	**1,864**
Non-executive directors of the Company:						
Non independent non-executive directors						
Simon Murray	**104**	—	—	—	—	**104**
Cai Sui Xin	—	—	—	—	—	—
Liu Qinghcun	—	—	—	—	—	—
Independent non-executive directors						
Daniel Bradshaw	**144**	—	—	—	—	**144**
Jonathan Martin Smith	**144**	—	—	—	—	**144**
Chuang-fei Li	**144**	—	—	—	—	**144**
	536	**2,221**	**1,495**	**278**	**3,289**	**7,819**

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

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

(b) The share-based payments were recognised in accordance with the relevant accounting standards and for details, please refer to note 39.

(c) The amounts included in salaries and other benefits and performance bonus of US$1,340,000 (2012: US$115,000) and retirement benefit contribution of US$94,000 (2012: US$14,000) were paid to a service company which is an affiliated company of the director. This same service company also received the share-based award per decision of the Remuneration Committee of the Company.

10. Directors', Chief Executive's and Employees' Emoluments (Continued)

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

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

Five highest paid individuals

For the year ended 31 December 2013, the five highest paid individuals included three directors of the Company (2012: three directors of the Company). The emoluments of the remaining highest paid individuals for the years ended 31 December 2013 and 2012 are as follows:

	2013 US$'000	2012 US$'000
Employees		
— salaries and other benefits	**582**	564
— share-based payments	**526**	496
	1,108	1,060

Their emoluments were within the following bands:

	No.of individual 2013	No.of individual 2012
HK$3,000,001 to HK$3,500,000 (equivalent to approximately US$384,616 to US$448,718)	**1**	—
HK$3,500,001 to HK$4,000,000 (equivalent to approximately US$448,719 to US$512,820)	**—**	1
HK$4,000,001 to HK$4,500,000 (equivalent to approximately US$512,821 to US$576,923)	**—**	1
HK$5,000,001 to HK$5,500,000 (equivalent to approximately US$641,026 to US$705,128)	**1**	—
	2	2

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

11. 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 consolidated statement of profit or loss for the year ended 31 December 2012.

11. Impairment Charges (Continued)

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

In December 2013, the directors of the Company assessed that the mining licenses associated with the Molybdenum Exploration project, which were capitalized as exploration and evaluation assets, do not have commercial value as there is a number of non-compliances under the requirements of these mining licenses. Due to the funding constraints as described in note 2, the directors of the Company considered it is not cost effective to remediate these non-compliances and decided to suspend the development of this project indefinitely. In addition, taking into account these non-compliances as well as transfer of legal title of these mining licenses is subject to approval by the municipal authorities, which may be extremely cumbersome, the Group's ability to recover these assets through sales is uncertain. As a result, the directors of the Company recognised a full impairment charge of approximately US$13,455,000 on the exploration and evaluation assets relating to this project.

At 31 December 2013, the Group considered whether there were any indicators 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 developing stage and is located in the EAO Region. The Group identified that a provision for impairment charge of approximately US$15,395,000 (2012: nil) was required against the Kuranakh project due to weaker forecast iron ore and ilmenite prices mainly affected by the falling commodity prices across the globe. These impairment charges are allocated to mine development costs within property, plant and equipment. On the other hand, management concluded that neither further impairment charge nor reversal of impairment charge is required for the K&S project as its recoverable value and fair value less costs of disposal is higher than its carrying value after taking into account the drop in forecast iron ore price.

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:

	2013	2012
Real discount rate post-tax	**11.5% and 13.5%**	10.6% and 13.0%
Real discount rate pre-tax	**14.3% and 16.9%**	13.2% and 16.3%
Average Russian inflation rate from the year-end to 2043	**2.0%**	2.0%
Average Russian Rouble: US dollar exchange rate from the year-end to 2043	**33.5**	32.0
Average titanomagnetite concentrate prices from the year-end to 2043	**US$/tonne 116.3**	US$/tonne 115.0
Average ilmenite prices from the year-end to 2023	**US$/tonne 165.0**	US$/tonne 260.0

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 and ilmenite for the purpose of assessing impairments. The impairment assessments are particularly sensitive to changes in commodity prices. To put the impairment assessment model into perspective, with all other variables kept constant; a 5% drop in input average iron ore concentrate prices would result in the need to consider an additional impairment provision of approximately US$31,234,000 on Kuranakh project; while a 10% drop in input average ilmenite prices would result in the need to consider an additional impairment provision of approximately US$13,553,000 on Kuranakh project. 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.

12. Other Gains and Losses and Other Expenses

	2013 US$'000	2012 US$'000
Net foreign exchange (loss) gain	**(1,766)**	1,676
Gain on disposal of property, plant and equipment	**291**	943
	(1,475)	2,619

13. Financial Income

	2013 US$'000	2012 US$'000
Interest income on cash and cash equivalents	**853**	296
Interest income on time deposits	**70**	105
Others	**65**	11
	988	412

14. Financial Expenses

	2013 US$'000	2012 US$'000
Interest expenses on bank borrowings:		
— wholly repayable within five years	**1,899**	1,537
— not wholly repayable within five years	**7,249**	2,475
Interest expenses on loan from a related party, wholly repayable within five years (note 31)	**406**	446
Less: Interest expenses capitalised to property, plant and equipment	**(7,249)**	(2,475)
	2,305	1,983
Unwinding of discount on environmental obligation	**1,014**	227
	3,319	2,210

15. Taxation Expense

	2013 US$'000	2012 US$'000
Russia current tax	**(412)**	(580)
Cyprus current tax	**(3)**	(4)
Current tax expense	**(415)**	(584)
Deferred tax (expense) credit (note 32)	**(262)**	416
	(677)	(168)

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

Cypriot corporation tax is calculated at a rate of 12.5% and 10% of the estimated assessable profit for the year ended 31 December 2013 and 2012, respectively.

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 jurisdictions during both years ended 31 December 2013 and 2012.

	2013 US$'000	2012 US$'000 (restated)
Loss before taxation (restated)	**(47,098)**	(57,197)
Tax at the Russian corporation tax rate of 20%[a]	**(9,420)**	(11,439)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	**666**	(3,716)
Tax effect of share of results of a joint venture	**29**	468
Tax effect of share of results of an associate	**—**	37
Tax effect of tax losses not recognised	**16,417**	14,208
Tax effect of expenses that are not deductible in determining taxable profit[b]	**10,939**	6,502
Tax effect of income that is not taxable in determining taxable profit	**(9,243)**	(5,439)
Tax effect of utilisation of deductible temporary differences previously not recognised	**(8,711)**	(453)
Taxation expense for the year	**677**	168

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

(b) Amount in 2013 and 2012 mainly related to the impairment charges (see note 11).

16. Dividends

No dividend was paid or proposed during 2013 and 2012, nor has any dividend been proposed since the end of the reporting period.

17. Loss Per Share

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

Loss

	2013 US$'000	2012 US$'000 (restated)
Loss for the purposes of basic and diluted loss per ordinary share being loss attributable to owners of the Company	**(41,613)**	(57,554)

Number of shares

	2013 Number '000	2012 Number '000
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	**3,996,445**	3,305,821

The computation of weighted average number of ordinary shares for the purposes of basic loss per ordinary share for the years ended 31 December 2013 does not take into account the Company's 34,684,875 (2012: 116,100,000) treasury shares after vesting of 81,415,125 share-based awards (note 39).

The computation of diluted loss per share for the year ended 31 December 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 35) since assuming their issuance would result in a decrease in loss per share.

18. Operating Lease Arrangements

The Group as a lessee

	2013 US$'000	2012 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	**7,526**	9,982

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

	2013 US$'000	2012 US$'000
Within one year	**7,126**	6,684
In the second to fifth years inclusive	**208**	7,334
	7,334	14,018

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

18. Operating Lease Arrangements (Continued)

The Group as a lessor

The Group earned property rental income of approximately US$984,000 during the year ended 31 December 2013 (2012: US$651,000), relating to the sub-let of part of the floor spaces of buildings owned by OJSC Giproruda and LLC Petropavlovsk – Iron Ore, subsidiaries of the Group. The lease contracts are at fixed rates for a period not exceeding eleven months as at 31 December 2013 and 2012. At the end of both reporting periods, the Group had contracted with tenants for minimum lease payments due within eleven months. The total minimum lease payment is approximately US$871,000 and US$657,000 as at 31 December 2013 and 2012 respectively. This rental income is shown net of the associated cost within operating expenses.

19. Exploration and Evaluation Assets

The Group

	2013 US$'000	2012 US$'000
At the beginning of the year	**65,440**	44,493
Additions	**1,318**	1,369
Acquired through acquisitions of subsidiaries	**—**	19,578
Impairment loss recognised (note 11)	**(13,455)**	—
At the end of the year	**53,303**	65,440

Garinskoye, the Garinskoye and Kostengiskoye Flanks, Bolshoi Seym Deposit and Molybdenum Exploration Project are classified as exploration and evaluation assets. Additions in both year 2013 and 2012 mainly related to exploration and evaluation expenses capitalised in exploration and evaluation assets.

20. Property, Plant and Equipment

The Group

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress US$'000	Total US$'000
Cost					
At 1 January 2012	918,557	91,649	59,750	17,419	1,087,375
Additions	56,653	5,095	751	9,466	71,965
Transfers	(3,846)	14,173	570	(10,897)	—
Disposals	(5,076)	—	(1,062)	—	(6,138)
Exchange adjustments	—	—	685	—	685
At 31 December 2012 and 1 January 2013	966,288	110,917	60,694	15,988	1,153,887
Additions	55,997	—	—	501	56,498
Transfers	(5,532)	6,151	(152)	(467)	—
Disposals	—	—	(769)	—	(769)
Exchange adjustments	—	—	(603)	—	(603)
At 31 December 2013	1,016,753	117,068	59,170	16,022	1,209,013
Accumulated depreciation and impairment					
At 1 January 2012	(456,262)	(16,009)	(32,147)	(14,572)	(518,990)
Depreciation charge for the year (restated)	(8,809)	(9,779)	(1,996)	—	(20,584)
Impairment charge (note 11)	(20,911)	—	(79)	—	(20,990)
Eliminated on disposals	423	—	757	—	1,180
Exchange adjustments	—	—	(132)	—	(132)
At 31 December 2012 and 1 January 2013 (restated)	(485,559)	(25,788)	(33,597)	(14,572)	(559,516)
Depreciation charge for the year	(6,600)	(13,150)	(1,833)	—	(21,583)
Impairment charge (note 11)	—	(15,395)	—	—	(15,395)
Eliminated on disposals	—	—	560	—	560
Exchange adjustments	—	—	(22)	—	(22)
At 31 December 2013	(492,159)	(54,333)	(34,892)	(14,572)	(595,956)
Carrying amounts					
At 31 December 2013	524,594	62,735	24,278	1,450	613,057
At 31 December 2012 (restated)	480,729	85,129	27,097	1,416	594,371

20. Property, Plant and Equipment (Continued)

The Company

	Leasehold improvements US$'000	Computer equipment US$'000	Fixtures and equipment US$'000	Office equipment US$'000	Total US$'000
COST					
At 1 January 2012	9	16	3	46	74
Additions	—	—	—	—	—
At 31 December 2012 and 1 January 2013	9	16	3	46	74
Additions	—	—	10	—	10
At 31 December 2013	9	16	13	46	84
ACCUMULATED DEPRECIATION					
At 1 January 2012	(6)	(5)	(2)	(33)	(46)
Depreciation charge for the year	(3)	(5)	(1)	(13)	(22)
At 31 December 2012 and 1 January 2013	(9)	(10)	(3)	(46)	(68)
Depreciation charge for the year	—	(4)	(2)	—	(6)
At 31 December 2013	(9)	(14)	(5)	(46)	(74)
CARRYING AMOUNTS					
At 31 December 2013	—	2	8	—	10
At 31 December 2012	—	6	—	—	6

At 31 December 2013, cumulative capitalised borrowing costs of US$11,231,000 (31 December 2012: US$3,982,000) were included within mine development costs in the above table. Depreciation of US$4,706,000 relating primarily to assets used in the construction of plant in LLC Olekminsky Rudnik and LLC KS GOK was capitalised during the year ended 31 December 2013 (31 December 2012: US$819,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US$2,951,000 and US$2,739,000 (restated) during each of the years ended 31 December 2013 and 2012 respectively which relates to the removal of overburden at the Kuranakh Mine.

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

At 31 December 2013 and 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$179,118,000 and US$247,415,000 respectively. The authorised but not contracted commitments as at 31 December 2013 amounted to US$50,465,000 (31 December 2012: US$21,160,000).

21. Investments in Subsidiaries

The Company

	2013 US$'000	2012 US$'000
Unlisted shares at costs	**1,086,008**	1,016,772

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

22. Interest in an Associate

The Group

	2012 US$'000
At the beginning of the year	703
Share of results of an associate	(185)
Transfer to investment in a subsidiary upon acquisition of remaining interests in an associate (note 42(a))	(518)
At the end of the year	—

LLC Uralmining ("Uralmining") is incorporated and principally carries out its mining and project development activities in Russia, where it holds the licence to develop the Bolshoi Seym Deposit. It was a 49% owned associate of the Group.

On 9 April 2012, the Group, through its wholly-owned subsidiary, Brasenose Services Limited ("Brasenose"), concluded an agreement to acquire from LLC Intergeo Managing Company ("Intergeo") the remaining 51% interests in Uralmining not previously owned by the Group. The transaction was completed on 24 July 2012 and Uralmining becomes a subsidiary of the Group from an associate thereof. Please refer to note 42(a) for details.

Summarised financial information in respect the Group's associate immediately before it became a subsidiary of the Group is set out below. The summarized financial information below represents amount shown in the associate's financial statements prepared in accordance with HKFRSs.

	2012 US$'000
Current assets	946
Current liabilities	(5)
Loss and total comprehensive expenses for the year	(378)

22. Interest in an Associate (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

	2012 US$'000
Net assets of an associate	941
Proportion of the Group's ownership interest in an associate	49%
Effect of fair value adjustment at acquisition	57
Transfer to investment in a subsidiary upon acquisition of remaining interests in an associate (note 42(a))	(518)
Carrying amount of the Group's interest in an associate	—

23. Interests in Joint Venture

The Group

	2013 US$'000	2012 US$'000
At the beginning of the year	**4,887**	7,086
Share of results of joint venture	**(115)**	(2,338)
Exchange adjustments	**121**	139
At the end of the year	**4,893**	4,887

On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, which was established in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control as the strategic financial and operating decisions relating to the Vanadium Joint Venture require the unanimous consent from the three parties.

According to the legal form and terms of the contractual agreements, each of the three joint venturers that have joint control of the arrangement have rights to the net assets of the arrangement, hence it is regarded as a joint venture. The joint venture is accounted for using the equity method in these consolidated financial statements.

23. Interests in Joint Venture (Continued)

Summarised financial information in respect the Group's joint venture is set out below. The summarised financial information below represents amount shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	2013 US$'000	2012 US$'000
Current assets	**19,946**	33,435
Non-current assets	**45,970**	44,745
Current liabilities	**(43,296)**	(53,154)
Non-current liabilities	**(11,983)**	(14,402)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**668**	49
Current financial liabilities (excluding trade and other payable and provision)	**(940)**	(1,377)
Non-current financial liabilities (excluding trade and other payable and provision)	**(11,237)**	(14,360)

	2013 US$'000	2012 US$'000
Revenue	**76,448**	16,748
Loss and total comprehensive expenses for the year	**(250)**	(5,083)
The above loss for the year includes the followings:		
Interest income	**—**	33
Interest expense	**(946)**	(967)
Depreciation and amortisation	**(2,044)**	(1,331)

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2013 US$'000	2012 US$'000
Net assets of a joint venture	**10,637**	10,624
Proportion of the Group's ownership interest in a joint venture	**46%**	46%
Carrying amount of the Group's interest in a joint venture	**4,893**	4,887

24. Other Non-Current Assets

The Group

	2013 US$'000	2012 US$'000
Deferred insurance premium for bank facilities	**9,619**	14,608
Prepayments for property, plant and equipment	**209,642**	150,280
Deferred loan arrangement fee	**4,726**	6,059
Cash advances to employees	**282**	532
	224,269	171,479

25. Inventories

The Group

	2013 US$'000	2012 US$'000
Stores and spares	**33,925**	32,746
Work in progress	**12,777**	4,921
Finished goods	**8,528**	5,299
	55,230	42,966

No inventories had been pledged as security or written down to the net realisable value during the years ended 31 December 2013 and 2012.

The cost of inventory charged to the consolidated statement of profit or loss and included in site operating expenses and service costs was approximately US$44,628,000 for the year ended 31 December 2013 (2012: US$34,012,000).

26. Trade and Other Receivables

The Group

	2013 US$'000	2012 US$'000
VAT recoverable	**29,910**	24,848
Advances to suppliers	**6,647**	8,724
Amounts due from customers under engineering contracts	**2,524**	1,267
Trade receivables	**4,372**	14,496
Other debtors	**3,091**	5,190
	46,544	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.

26. Trade and Other Receivables (Continued)

Amounts included in trade receivables at 31 December 2013 and 2012 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

The Group has concentration of credit risk as 61.3% (31 December 2012: 80.7%) of the total trade receivables was due from the Group's largest customer as at 31 December 2013. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 99% (2012: 97%) of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records.

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

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

	2013 **US$'000**	2012 US$'000
Less than one month	**4,267**	11,990
One month to three months	**1**	2,186
Over three months to six months	**53**	—
Over six months	**51**	320
Total	**4,372**	14,496

The Group allows credit periods ranging from 5 days to 45 days (2012: 10 days to 45 days) to individual third party customers. The directors of the Company considered that the carrying value of trade and other receivables is approximately equal to their fair value.

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

	2013 **US$'000**	2012 US$'000
Less than one month	**12**	26
One to three months	**—**	67
Over three months to six months	**—**	—
Over six months	**49**	320
Total	**61**	413

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

26. Trade and Other Receivables (Continued)

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

	2013 **US$'000**	2012 US$'000
At the beginning of the year	**2,550**	2,168
Changes in allowance for doubtful debts	**(302)**	654
Amounts written off as uncollectible	**(175)**	(496)
Exchange adjustments	**(293)**	224
At the end of the year	**1,780**	2,550

Included in the allowance for doubtful debts were impaired trade receivables of US$1,780,000 and US$2,550,000 as at 31 December 2013 and 2012, respectively. The amount mainly represented impairment for trade debtors at Giproruda and Olekma for the years ended 31 December 2013 and 2012 who are in severe financial difficulties and the probability for these trade debtors to settle the receivables is remote. The Group did not hold any collateral over these balances.

The Company

	2013 **US$'000**	2012 US$'000
Prepayment	**195**	139

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

27. Time Deposits

Time deposits of the Group comprised short-term bank deposits with an original maturity of six to nine months. The carrying amounts of the assets approximate their fair value. Time deposits carrying interest at prevailing market rate ranging from 3.0% to 5.0% (2012: 3.2% to 5.0%) per annum.

28. Amounts Due from (to) Subsidiaries

The Company

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

29. Cash and Cash Equivalents

Cash and cash equivalents of the Group and the Company comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Cash at banks carry interest at prevailing market rates ranging from 0.01% to 8.19% (2012: 0.1% to 1.0%) per annum for the years ended 31 December 2013 and 2012.

30. Trade and Other Payables

The Group

	2013 US$'000	2012 US$'000
Trade creditors	**9,349**	10,214
Advances from customers	**986**	819
Accruals and other payables	**11,707**	12,880
	22,042	23,913

For related party and individual third party trade creditors, the average credit period on purchases of goods and services for the year was 38 days (2012: 39 days).

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

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

	2013 US$'000	2012 US$'000
Less than one month	**6,384**	5,476
One month to three months	**275**	192
Over three months to six months	**271**	341
Over six months	**2,419**	4,205
Total	**9,349**	10,214

The Company

	2013 US$'000	2012 US$'000
Accruals and other payables	**2,471**	2,937

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

31. Loan Payable to a Related Party

The Group

In July 2012, the Group obtained a US$15,000,000 loan facility from Peter Hambro Mining Treasury UK Limited ("PHM"), a subsidiary of Petropavlovsk PLC and drew down a loan of US$10,000,000 from such facility. The loan borne an annual interest of 10.30% and was repayable on 31 December 2012. 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 year ended 31 December 2013. As at 31 December 2013, the Group did not have any outstanding credit facilities from PHM (31 December 2012: US$5,000,000 undrawn loan facility from PHM).

32. Deferred Tax Liabilities

The Group

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

	Property, plant and equipment US$'000	Engineering contracts US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2012	(1,361)	117	(916)	(2,160)
Credit to the profit or loss	30	111	275	416
Exchange adjustments	(95)	27	(56)	(124)
At 31 December 2012 and 1 January 2013	(1,426)	255	(697)	(1,868)
Credit (charge) to profit or loss	36	(147)	(151)	(262)
Exchange adjustments	(125)	245	24	144
At 31 December 2013	(1,515)	353	(824)	(1,986)

At 31 December 2013 and 2012, the Group had unused tax losses of US$280.2 million and US$248.3 million respectively, majority of which will expire from 2016 to 2022. For the tax losses as at 31 December 2013 and 2012, no deferred tax asset was recognised as there was not sufficient certainty that there will be sufficient taxable profit against which to offset these losses.

The Group had deductible temporary difference of US$19.6 million and US$37.3 million as at 31 December 2013 and 2012 respectively, in respect of temporary differences that arose on certain expense capitalised within "mine development costs" of property, plant and equipment when under development in prior years. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams.

The Group did not record a deferred tax liability in respect of withholding tax that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. These subsidiaries are incorporated in Russia and subjected to Russia tax rate at 20%. Unremitted earnings that would be subject to taxation comprised an aggregate of US$41.7 million and US$44.3 million at 31 December 2013 and 2012 respectively.

Temporary differences arising in connection with the Group's interests in a joint venture are insignificant.

33. Bank Borrowings

	2013 US$'000	2012 US$'000
Bank loans		
Asian Pacific Bank	**20,000**	15,000
Industrial and Commercial Bank of China ("ICBC")	**179,922**	108,491
Total	**199,922**	123,491
Secured	**179,922**	108,491
Unsecured	**20,000**	15,000
Total	**199,922**	123,491
Carrying amount repayable		
Within one year	**41,250**	15,000
More than one year, but not exceeding two years	**38,864**	21,258
More than two years, but not exceeding five years	**119,808**	87,233
Total	**199,922**	123,491

Bank loan from Asian Pacific Bank

In August 2012, the Group entered into US$15,000,000 term-loan facility with Asian Pacific Bank. The loan bears an annual interest of 11.0% which is repayable monthly. The principal of the loan is repayable on 21 August 2013. On 22 July 2013, the US$15,000,000 term-loan facility had been renewed for another 12-months period and with an annual interest of 9.0% for the period from 22 July 2013 to 2 December 2013 and 10.60% for the period from 3 December 2013 to the repayment date. As at 31 December 2013, the whole loan amount was drawn down under the loan facility.

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. On 21 November 2013, the US$10,000,000 term-loan facility had been renewed for another 12-months period with an annual interest of 10.60% repayable monthly and the loan principal is repayable by 20 November 2014. As at 31 December 2013, US$5,000,000 was drawn down from such facility.

In 2013, the Group drew down US$56,500,000 from these facilities from Asian Pacific Bank in several tranches on a rolling basis and US$51,500,000 were repaid in aggregate during the year.

As at 31 December 2013, the Group had US$5,000,000 (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.

Bank loan from Industrial and Commercial Bank of China

On 6 December 2010, LLC KS GOK ("K&S"), a wholly owned subsidiary of the Company, had entered into an US$400 million Engineering Procurement and Construction Contract with 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.

33. Bank Borrowings (Continued)

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

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. Further, additional drawn downs amounting to US$75,332,000 were made by the Group during the current year. The loan is carried at amortised cost with effective interest rate at 5.63% per annum. The outstanding loan principals were US$194,769,000 as at 31 December 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 2018.

As at 31 December 2013 and 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 years ended 31 December 2013 and 2012.

As at 31 December 2013, the Group had US$145,231,000 (31 December 2012: US$220,563,000) undrawn financing 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 43.

34. Provision for Close Down and Restoration Costs

The Group

	2013 **US$'000**	2012 US$'000
At the beginning of year	**14,626**	4,092
Addition	**—**	10,732
Unwinding of discount	**1,014**	227
Exchange adjustments	**(1,111)**	240
Change in estimates	**(5,913)**	(665)
At the end of year	**8,616**	14,626

The account represents provision recognised in relation to mine closure, site and environmental restoration costs which are based on estimates provided by in-house engineers and geologists.

The amount shown in 2013 and 2012 represents the provision recognised for Kuranakh project discounted at 8.1% (2012: 7.0%) per annum which the expected timing of cash outflow on the closure of mining operations to be after 2021; and K&S project discounted at 8.6% (2012: 7.4%) per annum which the expected timing of cash outflow on the closure of mining operation to be after 2028.

35. 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 Development Limited ("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 (equivalent to 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.

35. Share Capital (Continued)

The allotment and issue of the remaining 34,064,000 new shares ("Deferred Subscription Share") is conditional upon, among other things, the further subscription by General Nice within six months after the completion date of initial share subscription by General Nice. On 4 October 2013, the Company received an irrevocable notice from General Nice for exercising its right to further subscribe for 863,600,000 new shares of the Company ("General Nice Further Subscription Shares") for a cash consideration of approximately HK$811,800,000 (equivalent to approximately US$104,700,000) ("General Nice Further Subscription Right"). Following the exercise of the General Nice Further Subscription Right, Minmetals would subscribe for 247,300,000 new shares of the Company for a cash consideration of HK$232,500,000 (equivalent to approximately US$30,000,000). The completion of the General Nice and Minmetals subscriptions was expected to take place on 18 November 2013.

As the exercise of the General Nice Further Subscription Right was after three months but within six months from the initial share subscription by General Nice, pursuant to the conditional subscription agreement with General Nice, 8,516,000 (25%) Deferred Subscription Shares were forfeited and the associated amount of approximately HK$8,005,000 (equivalent to approximately US$1,032,000) received was retained by the Company for its benefit. The remaining 25,548,000 Deferred Subscription Shares, amounting to approximately HK$24,015,000 (equivalent to approximately US$3,096,000) would be allotted and issued to General Nice at the same time as the allotment and issue of all General Nice Further Subscription Shares. These amounts are included in share premium of these consolidated financial statements.

On 18 November 2013, the Company agreed with General Nice that the General Nice Further Subscription Shares shall be deferred and taken place on or before 30 December 2013. As completion of the Minmetals subscription could only take place after completion of General Nice Further Subscription Shares, the Company also agreed that the Minmetals subscription shall take place on or before 30 December 2013.

On 30 December 2013, General Nice informed the Company that it is not in a position to complete the General Nice Further Subscription Shares in full. Instead, General Nice subscribed 218,340,000 new shares of the Company for approximately HK$205,200,000 (equivalent to approximately US$26,469,000) as partial subscription of the General Nice Further Subscription Shares. Consequently, Minmetals subscription did not take place as planned.

On 29 January 2014, the Group signed a supplemental agreement to the conditional share subscription agreements dated 17 January 2013 with General Nice that the remaining General Nice Further Subscription Shares will be completed as follows:

(a) a payment of at least HK$155.1 million (equivalent to approximately US$20.0 million) on or before 24 February 2014; and

(b) the balance, being HK$606.6 million (equivalent to approximately US$78.2 million) less the amount paid in (a) above, on or before 22 April 2014.

Further, in light of the arrangements between the Company and General Nice as described above, the Company and Minmetals have agreed that the Minmetals subscription shall complete upon full completion of General Nice Further Subscription Shares taking place as described above.

On 26 February 2014, pursuant to the aforesaid arrangement albeit a little delayed, the Group received subscription monies of HK$155.1 million (equivalent to approximately US$20.0 million) from General Nice and has allotted and issued 165,000,000 new shares of the Company to General Nice as a further partial subscription of General Nice Further Subscription Shares accordingly.

Transaction costs of approximately US$4,231,000 directly attributable to the issuance of new shares to General Nice were charged to the share premium account.

35. Share Capital (Continued)

Details of allotment and issuance of ordinary shares by the Company during the year ended 31 December 2013 are as follows:

	Number	US$'000
Authorised		
Ordinary shares of HK$0.01 each at 31 December 2012 and 2013	10,000,000,000	12,820
Allotted, called up and fully paid		
At 1 January 2012	3,362,000,000	4,330
Issued during the year for acquisition of LLC Uralmining (note 42(a))	74,681,360	96
Issued during the year for acquisition of Caedmon Limited (note 42(b))	57,352,941	74
At 31 December 2012 and 1 January 2013	3,494,034,301	4,500
Issued to General Nice during the year	1,035,876,000	1,334
At 31 December 2013	4,529,910,301	5,834

Details of the ordinary shares of the Company issued during the year ended 31 December 2012 and 2013, and ordinary shares of the Company in issue at the end of 31 December 2013 and 2012 are given in the table below. The shares issued by the Company rank pari passu and do not carry pre-emptive rights.

Date	Description	Price HK$	No. of shares
1 January 2012	Issued share capital	0.01	3,362,000,000
11 July 2012	Issue of share capital	0.01	57,352,941
24 July 2012	Issue of share capital	0.01	74,681,360
5 April 2013	Issue of share capital	0.01	817,536,000
30 December 2013	Issue of share capital	0.01	218,340,000
31 December 2013	Number of ordinary shares in issue at the end of the reporting period	0.01	4,529,910,301

36. Treasury Shares

The Group

	2013 US$'000	2012 US$'000
Treasury shares	**43,000**	43,000
Vesting of share-based awards	**(30,154)**	—
At 31 December 2013	**12,846**	43,000

Treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). During the year ended 31 December 2013, approximately 81,415,125 shares were vested to the employees of the Group under the LTIP as detailed in note 39. Approximately 34,684,875 (2012: 116,100,000) shares were held under the EBT as at the end of the reporting period.

37. Accumulated Losses

The Company

	US$'000
As at 1 January 2012	30,053
Loss for the year	17,445
As at 31 December 2012 and 1 January 2013	47,498
Loss for the year	11,879
As at 31 December 2013	59,377

38. Notes To The Cash Flow Statements

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

	2013 US$'000	2012 US$'000 (restated)
Loss before taxation	**(47,098)**	(57,197)
Adjustments for:		
Depreciation of property, plant and equipment	**21,113**	19,768
Financial income	**(988)**	(412)
Financial expenses	**3,319**	2,210
Gain on disposal of property, plant and equipment	**(291)**	(943)
Impairment charges	**28,850**	27,051
Share-based payments and LTIP expense (defined in note 39)	**3,336**	6,759
Share of results of an associate	**—**	185
Share of results of a joint venture	**115**	2,338
Net foreign exchange loss (gain)	**1,766**	(1,676)
(Reversal of) allowance for doubtful debts	**(302)**	654
Other non-cash adjustments	**(435)**	183
Operating cash flows before movements in working capital	**9,385**	(1,080)
Increase in inventories	**(12,256)**	(510)
Decrease in trade and other receivables	**93**	4,392
Increase in trade and other payables	**1,960**	245
Net cash (used in) from operations	**(818)**	3,047

(b) Major non-cash transactions

As disclosed in note 35, transaction costs of approximately US$4,231,000 was incurred for issuance of new shares to General Nice, of which approximately US$1,563,000 has not yet been settled at 31 December 2013.

Further, property, plant and equipment of approximately US$849,000 were acquired but the amount has not yet been settled at 31 December 2013.

In addition, as disclosed in notes 35, 42(a) and 42(b) in which the Group acquired Uralmining which holds the exploration and mining licenses of Bolshoi Seym Deposit and Caedmon Limited, which holds the exploration and mining licenses of Molybdenum Exploration Project by issuing ordinary shares of the Company.

There were no other major non-cash transactions during the years ended 31 December 2013 and 2012.

39. Share-Based Payments

Under the Company's Long-term Incentive Plan (the "Company's LTIP"), which was established on 11 August 2010, selected employees and directors of the Group (the "Selected Grantees") are to be awarded shares of the Company. These shares have been purchased by the Group's trustee. Upon the management's recommendation, the Board will determine the number of shares awarded to the Selected Grantees, with the vesting dates for various tranches. Any shares under the Company's LTIP awarded to a Selected Grantee who is also a director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee.

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

Vesting conditions for those shares granted in 2012

— 25% of the award vesting is relating to the achievement of certain production targets;

— 25% of the award vesting is relating to profitability;

— 25% of the award vesting is relating to the growth and development of the Group; and

— 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

Vesting conditions for those shares granted in 2011

— 20% of the award vesting is relating to the achievement of certain production targets;

— 20% of the award vesting is relating to profitability;

— 20% of the award vesting is relating to the growth and development of the Group;

— 20% of the award vesting is relating to the meeting of certain health, safety and environmental requirements; and

— 20% of the award vesting is relating to the share price performance of the Company.

Vesting conditions for those shares granted in 2010

— 25% of the award vesting is relating to the achievement of certain production targets;

— 25% of the award vesting is relating to profitability;

— 25% of the award vesting is relating to the growth and development of the Group; and

— 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

On 3 November 2010, 91,138,500 shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of US$19.2 million (determined based on the closing share price of the Company as of 3 November 2010 of HK$1.64 per share) which is recognised to the consolidated statement of profit or loss over the vesting period. No shares being awarded during the year 2010 was vested or forfeited and the outstanding number of shares under the Company's LTIP were 91,138,500 as at 31 December 2010.

On 1 August 2011, another 2,322,000 shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of approximately US$536,000 (determined based on the closing share price of the Company as of 1 August 2011 of HK$1.79 per share) which is recognised to the consolidated statement of profit or loss over the vesting period. No shares being awarded was vested or forfeited and the outstanding number of shares under the Company's LTIP were 93,460,500 as at 31 December 2011.

39. Share-Based Payments (Continued)

On 1 July 2012, another 1,000,000 shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of approximately US$108,000 (determined based on the closing share price of the Company as of 1 July 2012 of HK$0.84 per share) which is recognised to the consolidated statement of profit or loss over the vesting period. No shares being awarded was vested or forfeited and the outstanding number of shares under the Company's LTIP were 94,460,500 as at 31 December 2012.

On 2 November 2013, the vesting period for the shares awarded in 2010 ended and the Company assessed that all the vesting conditions were fulfilled. Accordingly, other than 9,723,375 shares awarded in 2010 were forfeited during the year, the remaining 81,415,125 shares of the Company arising from the shares awarded granted in 2010 were fully vested. Save as aforesaid, there were no new shares awarded, vested or forfeited during the current year and the outstanding number of shares under the Company's LTIP were 3,322,000 as at 31 December 2013.

The amount expensed during the year was US$3,336,000 (2012: US$6,693,000).

In addition to the Company's LTIP, certain employees of the Group are also entitled to participate in the Petropavlovsk PLC's Long Term Incentive Plan ("Petropavlovsk PLC LTIP"). The Group recognised total expenses of US$66,000 relating to the Petropavlovsk PLC LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2012. As the Petropavlovsk PLC LTIP was fully vested in 2012, no additional expense was incurred in 2013.

40. Retirement Benefit Schemes

The Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The contributions charged to the consolidated statement of profit or loss for the year ended 31 December 2013 amounted to US$109,000 (2012: US$112,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2013, contributions of US$11,000 (31 December 2012: US$9,000) due in respect of the year ended 31 December 2013 (2012) had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

41. Financial Instruments

Capital and liquidity risk management

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

The capital structure of the Group consists of net debt, which includes cash and cash equivalents, bank borrowings, loans payable to a related party and equity attributable to owners of the Company, comprising issued capital and reserves.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements except for the restriction disclosed in note 33 in relation to the bank credit facilities.

Significant accounting policies

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

41. Financial Instruments (Continued)

Categories of financial instruments

The Group

	Carrying value as at 31 December 2013 US$'000	Carrying value as at 31 December 2012 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**106,127**	44,254
Financial liabilities		
Amortised cost	**(209,905)**	(145,854)

The Company

	Carrying value as at 31 December 2013 US$'000	Carrying value as at 31 December 2012 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**49,540**	1,422
Financial liabilities		
Amortised cost	**(20,355)**	(2,359)

Financial risk management objectives

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

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units.

Foreign currency risk management

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

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

41. Financial Instruments (Continued)

Foreign currency risk management (Continued)

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

The Group

	Assets		Liabilities	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Russian Roubles	**35,119**	39,208	**13,717**	16,688
US Dollars	**2,754**	128	**20**	25
Renminbi	**—**	—	**96**	1,868
Pounds Sterling	**37**	810	**10**	520
Kazakh Tenge	**2**	1	**—**	—
Euro	**1**	7	**—**	—
Hong Kong Dollars ("HK$")	**26,616**	211	**55**	106

The Company

	Assets		Liabilities	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Russian Roubles	**—**	—	**1,326**	249
HK$	**26,594**	93	**33**	27
Pounds Sterling	**3**	6	**27**	168
Euro	**28**	18	**—**	—

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US Dollars and Russian Roubles. The following table details the Group's sensitivity to a 25% (2012: 25%) change in exchange rates of functional currency (i.e. US Dollars) of the group entities and of the Company against the relevant foreign currency (i.e. Russian Roubles) for the year. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

A negative number below indicates an increase in post tax loss in both 2013 and 2012 where the functional currencies of the group entities strengthen 25% (2012: 25%) against the relevant foreign currency of Russian Roubles. For a 25% (2012: 25%) weakening of functional currency the group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss and the balances below would be positive.

The Group

	Russian Rouble currency impact	
	2013	2012
	US$'000	US$'000
Profit or loss	**(4,280)**	(4,504)

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

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

41. Financial Instruments (Continued)

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans payable to a related party and borrowings (see notes 31 and 33 for details) and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 33 for details of these borrowings). The group's policy is to maintain bank borrowing at variable rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings. The Group did not enter into any interest rate swaps to hedge against its exposure to changes in fair values of the borrowings.

The Group and the Company are exposed to interest rate risk through the holding of cash and cash equivalents. The interest rates attached to these instruments are at floating rates. The exposures to interest rates on these financial assets and financial liabilities of the Group and the Company are detailed below.

The interest rate exposure to cash equivalents, restricted bank deposit and time deposit of the Group and the Company are considered to be insignificant by the management. The borrowing costs of the variable-rate bank borrowings are capitalised to the property, plant and equipment (see note 20), and therefore, no sensitivity analysis on interest rate exposure to variable-rate bank borrowings is presented.

Credit risk management

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

The principal financial assets of the Group and the Company are restricted bank deposit, cash and cash equivalents, time deposits, and trade and other receivables. Cash equivalents, restricted bank deposit and time deposits represent amounts held on deposit with financial institutions.

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

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 43. Amounts held on deposit as at 31 December 2013 and 2012 with these banks located in Russia were approximately US$41,137,000 and approximately US$11,972,000, representing 45% and 22% of total monetary assets held by the Group respectively.

Trade receivables consist mostly of amounts outstanding from the sales of iron ores and ilmenite and service provided under engineering contracts held by a subsidiary in Russia. A credit evaluation was performed on these customers prior to the commencement of these contracts. An analysis of balances past due at 31 December 2013 is included in note 26.

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2013, the Group's and the Company's principal financial liabilities were trade and other payables and bank borrowings. The management of the Company monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

41. Financial Instruments (Continued)

Liquidity risk management (Continued)

The following tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

The Group

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2013 US$'000
As at 31 December 2013					
Trade and other payables	**9,983**	**—**	**—**	**9,983**	**9,983**
Bank borrowings	**43,370**	**42,500**	**131,019**	**216,889**	**199,922**
	53,353	**42,500**	**131,019**	**226,872**	**209,905**
As at 31 December 2012					
Trade and other payables	12,103	—	—	12,103	12,103
Bank borrowings	16,650	21,250	98,187	136,087	123,491
Loan from a related party	10,603	—	—	10,603	10,260
	39,356	21,250	98,187	158,793	145,854

The Company

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2013 US$'000
As at 31 December 2013					
Other payables	**947**	**—**	**—**	**947**	**947**
Amount due to subsidiaries	**19,408**	**—**	**—**	**19,408**	**19,408**
	20,355	**—**	**—**	**20,355**	**20,355**
As at 31 December 2012					
Other payables	1,145	—	—	1,145	1,145
Amount due to subsidiaries	1,214	—	—	1,214	1,214
	2,359	—	—	2,359	2,359

Fair value

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

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

42. Acquisitions

(a) Acquisition of Bolshoi Seym Deposit

On 9 April 2012, the Group, through its wholly-owned subsidiary, Brasenose, concluded an agreement to acquire from Intergeo the remaining 51% interests in Uralmining not previously owned by the Group and the assignment of indebtedness owing by Uralmining to Intergeo. Uralmining becomes a subsidiary of the Group thereof. Uralmining holds the exploration and mining licenses of Bolshoi Seym Deposit.

The transaction was completed on 24 July 2012 and the consideration was satisfied through the issuance and allotment of 74,681,360 ordinary shares of the Company at market value of HK$0.68 per share on 24 July 2012, with a nominal value of HK$0.01 each to Intergeo. The transaction was accounted for as an asset acquisition rather than a business combination, as Uralmining did not have any operation activity.

Consideration transferred

	2012 US$'000
Equity instruments issued	6,546

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

Assets acquired and liabilities assumed at the date of acquisition

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

Net cash inflow arising on acquisition

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

42. Acquisitions (Continued)

(b) Acquisition of Molybdenum Exploration Project

On 6 April 2012, the Group concluded an agreement to acquire from Sangritta Limited ("Sangritta") and Lania Consulting Limited ("Lania"), 50% equity interest plus one share stake in Caedmon Limited ("Caedmon"), hence, gaining control in Caedmon. Caedmon holds the exploration and mining licenses of Molybdenum Exploration Project through its subsidiary, LLC Gorniy Park.

The transaction was completed on 11 July 2012 and the total consideration were satisfied through the issuance and allotment of 54,491,029 and 2,861,912 ordinary shares of the Company at market value of HK$0.88 per share on 11 July 2012, with a nominal value of HK$0.01 each to Sangritta and Lania, respectively. The transaction was accounted for as an asset acquisition rather than a business combination, as Caedmon did not have any operation activity.

Under the same agreement, the Group also acquired the related shareholder indebtedness and an option to acquire the remaining 50% equity interest minus one share stake in Caedmon ("Option") from Sangritta. The Group may exercise the Option any time over a two-year period commencing on the date of completion of the transaction.

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

Consideration transferred

	2012 US$'000
Equity instruments issued	6,508

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

Assets acquired and liabilities assumed at the date of acquisition

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

Net cash inflow arising on acquisition

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

43. Related Party Disclosures

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

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

Related parties

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

Asian Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have indirect ownership interests and has practical ability to 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.

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

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

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

Trading transactions

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

	Services provided[a]		Services received[b]	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**22**	28	**174**	287
OJSC Irgiredmet	**—**	—	**16**	340
LLC NPGF Regis	**46**	45	**10**	73
LLC Albinskiy Rudik	**—**	5,737[c]	**—**	—
CJSC Peter Hambro Mining Engineering	**—**	—	**684**	260
CJSC Pokrovsky Rudnik	**3**	34	**—**	—
Dalgeologia	**—**	30	**165**	41
MC Petropavlovsk	**852**	857	**300**	496
CJSC YamalZoloto	**—**	339	**—**	—
OJSC ZDP Koboldo	**—**	8	**—**	—
LLC Karagay	**—**	6	**—**	—
Gidrometallurgia	**181**	165	**—**	—
OOO Helios	**—**	—	**12**	—
Trading transactions with other related parties				
Apatit	**18**	17	**—**	—
Asian Pacific Bank	**83**	90	**—**	—
Millennium Implementation Ltd.	**—**	—	**—**	—

43. Related Party Disclosures (Continued)

Trading transactions (Continued)

(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 consideration from the disposal of property, plant and equipment.

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

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

	Amounts owed by related parties[a]		Amounts owed to related parties[b]	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**985**	203	**814**	102
OJSC Irgiredmet	**—**	13	**—**	—
LLC NPGF Regis	**2**	5	**192**	237
CJSC Peter Hambro Mining Engineering	**—**	164	**4**	444
CJSC Pokrovsky Rudnik	**—**	—	**1**	1
Dalgeologia	**—**	184	**43**	26
Kapstroy	**—**	1,906	**—**	—
MC Petropavlovsk	**232**	46	**2,096**	2,132
Gidrometallurgia	**2**	2	**—**	—
OOO Helios	**6**	—	**—**	—
Outstanding balances with other related parties				
Apatit	**—**	1,071	**—**	—
Asian Pacific Bank	**8**	10	**—**	—
	1,235	3,604	**3,150**	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.

43. Related Party Disclosures (Continued)

Banking arrangements

Other than the related party transaction as disclosed in note 33, the Group has bank accounts with Asian Pacific Bank.

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

	2013 US$'000	2012 US$'000
Asian Pacific Bank	**24,417**	5,798

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

	2013 US$'000	2012 US$'000
Interest income from cash and cash equivalents	**295**	4

Guarantee arrangements

In relation to the ICBC loan as described in note 33, 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 under relevant financial reporting standards. In the event that Petropavlovsk PLC ceases to be the parent company of the Company under the relevant financial reporting standards as agreed with Petropavlovsk PLC, 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 31 December 2013, Petropavlovsk PLC beneficially owns approximately 48.70% (31 December 2012: 63.13%) of the issued share capital of the Company and its shareholding in the Company is further diluted to 46.98% upon further share subscription by General Nice in February 2014 (note 35). Though Petropavlovsk PLC has less than a majority of the voting rights of the Company, its voting rights are sufficient to give it the practical ability to direct the relevant activities of the Company unilaterally and retains control over the Company. Accordingly, the Company is still considered as a subsidiary of Petropavlovsk PLC. 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 will become immediately due and payable: (i) Petropavlovsk PLC must retain a not less than 30% direct or indirect interest in the Company; (ii) Petropavlovsk PLC has an obligation to maintain a minimum tangible net worth of not less than US$750,000,000, a minimum interest cover ratio of 3.5:1 and a maximum leverage ratio of 4:1; and (iii) there are also certain limited restrictions on the ability of the Petropavlovsk PLC to grant security over its assets, make disposals of its assets or enter into merger transactions. As at 31 December 2012 and 2013, the Group does not have any non-compliance on the above covenants.

Key Management Compensation

During the year ended 31 December 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 year ended 31 December 2013, upon completion of the initial share subscription by General Nice as described in note 35, 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 in note 10.

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

44. Particulars of Principal Subsidiaries

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital[d]	Equity interest attributable to the Group 2013[c]	2012[c]	Principal activities
Arfin Limited	Cyprus 22 August 2005	US$10,000	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US$2,912	100%	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$6,080	100%	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$2,502	100%	100%	Investment holding
Expokom Limited	Cyprus 22 December 2005	US$158,808	100%	100%	Investment holding
Guiner Enterprises Ltd	Cyprus 25 August 2007	US$271,080	100%	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US$32,500	100%	100%	Investment holding
Lapwing Limited	Cyprus 9 August 2006	EUR28,795	99.58%	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US$22,740	100%	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US$3,640	100%	100%	Investment holding
Rumier Holdings Ltd	Cyprus 3 October 2007	US$270,945	100%	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$197	100%	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$4,650	100%	100%	Investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,315,864	100%	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP241,481,039	100%	100%	Investment holding
Heilongjiang Jiatai Titanium Limited	PRC 11 February 2009	RMB219,024,974	100%	100%	Development of Titanium Sponge
Ariti HK Limited	Hong Kong 11 February 2008	HK$1	100%	100%	Inactive
Ariva HK Limited	Hong Kong 11 March 2008	HK$1	100%	100%	Investment holding

44. Particulars of Principal Subsidiaries (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital[(d)]	Equity interest attributable to the Group 2013[(c)]	2012[(c)]	Principal activities
Thorholdco Limited	Cayman Islands 18 May 2010	US$7,308	100%	100%	Investment holding
Thorrouble Limited	Cayman Islands 18 May 2010	RUR290,860	100%	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US$9,157	100%	100%	Provision of financing services for the Group
LLC Petropavlovsk – Iron Ore (formerly LLC Aricom)	Russia 25 August 2004	RUR10,000,000	100%	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUR141,514,865	100%	100%	Exploration and mining — K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUR1,378,664,935	100%	100%	Exploration and mining — Kuranakh project
LLC Rubicon	Russia 9 January 2007	RUR100,000	100%	100%	Development of bridge and other infrastructure projects for the Group
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")[(a)]	Russia 30 August 2005	RUR1,000,000	100%	100%	Development of port for the Group
LLC TOK	Russia 3 April 2007	RUR10,000	100%	100%	Dormant
OJSC Giproruda[(b)]	Russia 8 December 1992	RUR4,639	70.28%	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUR780,000,000	100%	100%	Exploration and mining — Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUR10,000	100%	100%	Exploration and mining — Kostenginskoye project
LLC Orlovsko-Sokhatinsky Rudnik	Russia 3 April 2007	RUR10,000	100%	100%	Exploration and mining — Garinskoye Flanks
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUR1,000,000	100%	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUR10,000,000	99.9%	99.9%	Procurement services
LLC Karier Ushumunskiy	Russia 15 March 2007	RUR1,000,000	100%	100%	Coal production
LLC Uralmining	Russia 12 October 2008	RUR1,000,000	100%	100%	Exploration and mining — Bolshoi Seym
Caedmon Limited	Cyprus 29 September 2011	US$1,232	50.1%	50.1%	Financing and investment holding
LLC Gorniy Park	Russia 25 October 2010	RUR10,000	50.1%	50.1%	Exploration and mining — Molybdenum Exploration Project

44. Particulars of Principal Subsidiaries (Continued)

(a) CJSC is a Closed Joint Stock Company in Russia. CJSC issued shares cannot be freely traded.

(b) OJSC is an Open Joint Stock Company in Russia. OJSC issued shares can be freely traded.

(c) As at 31 December 2013 and 2012, except for Thorholdco Limited, which was directly held by the Company, all of the interests in remaining subsidiaries are indirectly attributable to the Group.

(d) Apart from Heilongjiang Jiatai Titanium Co. Limited, a wholly foreign-owned enterprise established in the PRC with registered capital of RMB219,024,974, class of shares held by all other subsidiaries is ordinary shares.

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

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests for the year ended 31 December		Balance of non-controlling interests as at 31 December	
		2013	2012	**2013**	2012	**2013**	2012
				US$'000	US$'000	**US$'000**	US$'000
OJSC Giproruda	Russia	**29.72%**	29.72%	**356**	205	**4,957**	4,989
Caedmon Limited	Cyprus	**49.9%**	49.9%	**(6,508)**	(4)	**—**	6,508
An individual immaterial subsidiary with non-controlling interest						**105**	115
						5,062	11,612

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

44. Particulars of Principal Subsidiaries (Continued)

Summarised financial information extracted from the consolidated financial statements prepared in accordance with Internation Financial Reporting Standards before intragroup eliminations in respect of these two subsidiaries that has material non-controlling interests is set out below.

	2013 US$'000	2012 US$'000
OJSC Giproruda		
Current assets	**12,049**	11,581
Non-current assets	**8,522**	9,589
Current liabilities	**(1,136)**	(1,745)
Non-current liabilities	**(1,986)**	(1,868)
Equity attributable to owners of OJSC Giproruda	**12,492**	12,568
Non-controlling interests	**4,957**	4,989
Revenue	**8,915**	11,221
Expenses	**(7,718)**	(10,530)
Profit for the year	**1,197**	691
Profit attributable to owners of OJSC Giproruda	**841**	486
Profit attributable to non-controlling interests	**356**	205
Profit for the year	**1,197**	691
Other comprehensive (expenses) income attributable to owners of OJSC Giproruda	**(918)**	686
Other comprehensive (expenses) income attributable to non-controlling interests	**(388)**	290
Other comprehensive (expenses) income for the year	**(1,306)**	976
Total comprehensive (expenses) income attributable to owners of OJSC Giproruda	**(77)**	1,172
Total comprehensive (expenses) income attributable to non-controlling interests	**(32)**	495
Total comprehensive loss for the year	**(109)**	1,667
Net cash (used in) from operating activities	**(375)**	2,059
Net cash from (used in) investing activities	**140**	(2,479)
Effect of foreign exchange rate changes	**(494)**	379
Net decrease in cash and cash equivalents	**(729)**	(41)

44. Particulars of Principal Subsidiaries (Continued)

	2013 US$'000	2012 US$'000
Caedmon Limited		
Current assets	**311**	24
Non-current assets	**—**	13,455
Current liabilities	**(11)**	(8)
Equity attributable to owners of Caedmon Limited	**300**	6,963
Non-controlling interests	**—**	6,508
Other income	**320**	—
Expenses and impairment charges	**(13,468)**	(9)
Loss and total comprehensive expenses for the year	**(13,148)**	(9)
Loss and total comprehensive expenses attributable to owners of Caedmon Limited	**(6,587)**	(5)
Loss and total comprehensive expenses attributable to non-controlling interests	**(6,508)**	(4)
Unrecognised share of losses of non-controlling interests	**(53)**	—
Loss and total comprehensive expenses for the year	**(13,148)**	(9)
Net cash used in operating activities	**(10)**	(1)
Net cash used in investing activities	**—**	(297)
Net cash from financing activities	**—**	322
Net (decrease) increase in cash and cash equivalents	**(10)**	24

45. Events After the Reporting Period

On 26 February 2014, 165,000,000 new shares of the Company was alloted and issued to General Nice after the Group received subscription monies of HK$155.1 million (equivalent to approximately US$20.0 million) from General Nice. Please refer to note 35 for details.

On 28 February 2014, the Group has renewed the US$15,000,000 and US$10,000,000 term loan facilities from Asian Pacific Bank and extended both repayment dates to 31 December 2015. Further, the annual interest rate of the US$15,000,000 term loan facility is reduced to 9.0% while the annual interest rate for the US$10,000,000 term loan facility remains at 10.6%.

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2009	2010	2011	2012	**2013**
	US$'000	US$'000	US$'000	US$'000 (restated)	**US$'000**
Revenue	8,260	25,792	122,208	139,687	**160,854**
(Loss) profit attributable to shareholders	(139,291)	(82,358)	1,001	(57,554)	**(41,613)**
(Loss) earnings per share (US cents)					
— Basic	(7.66)	(3.62)	0.03	(1.74)	**(1.04)**
— Diluted	(7.66)	(3.62)	0.03	(1.74)	**(1.04)**

	Assets and liabilities of the Group as at 31 December				
	2009	2010	2011	2012	**2013**
	US$'000	US$'000	US$'000	US$'000 (restated)	**US$'000**
Total assets	886,867	867,519	862,582	957,704	**1,095,678**
Less: Total liabilities	(287,527)	(62,901)	(49,504)	(174,511)	**(232,840)**
Total net assets	599,340	804,618	813,078	783,193	**862,838**

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
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

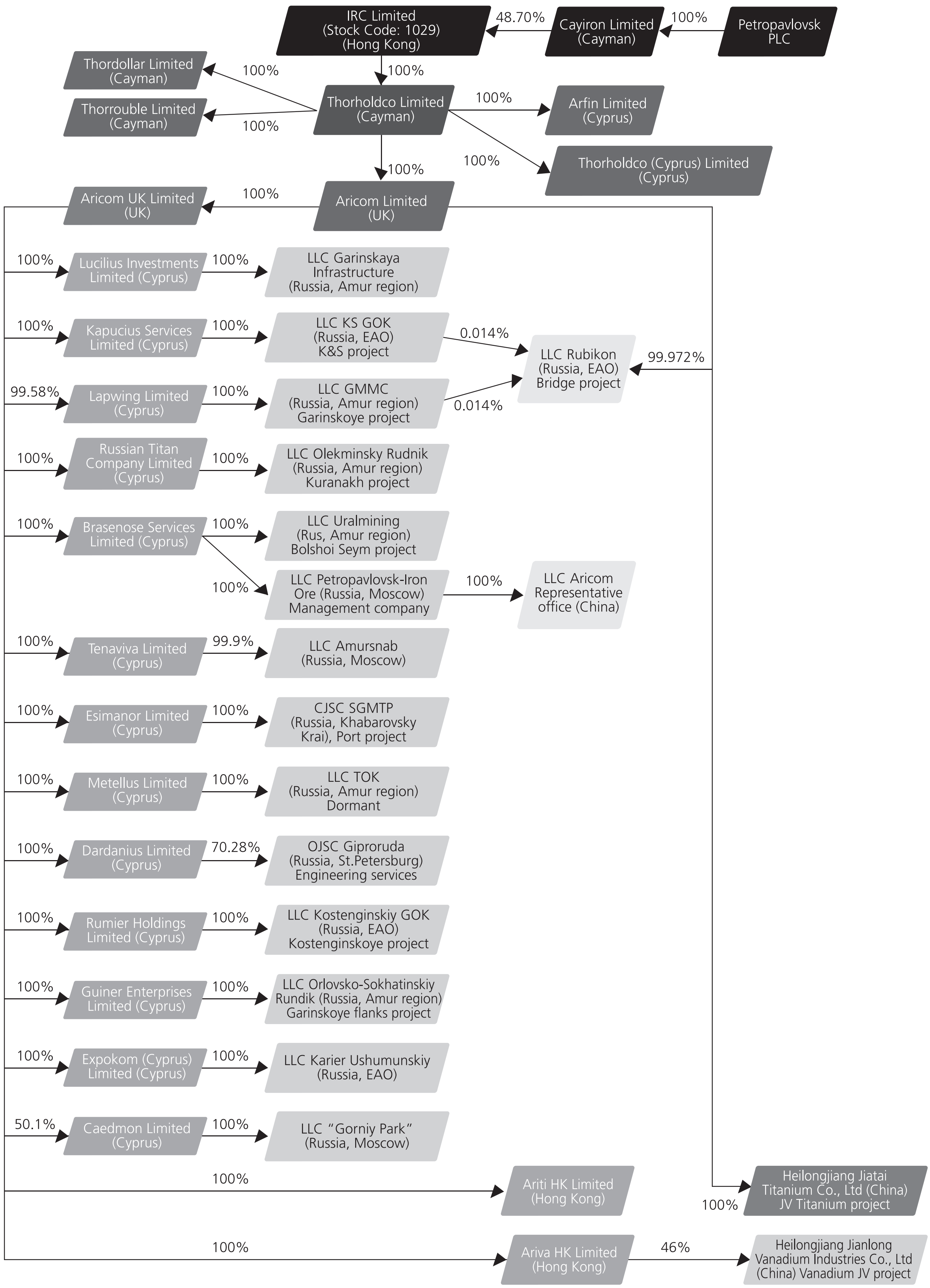
GLOSSARY (Continued)

LIST OF ABBREVIATIONS

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

All dollars refer to United States Dollars unless otherwise stated.

CORPORATE STRUCTURE



CORPORATE INFORMATION

IRC Limited — 鐵江現貨有限公司

Stock Exchange of Hong Kong: 1029

Corporate Information

Headquarters, registered address and principal place of business in Hong Kong:

6H, 9 Queen's Road Central, Central District
Hong Kong Special Administrative Region of the People's Republic of China

Telephone: +852 2772 0007
Facsimile: +852 2772 0329
Corporate Website: http://www.ircgroup.com.hk

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

Principal Place of Business in Russia

21/3, Building 1
Stanislavskogo
Business Center "Fabrika Stanislavskogo"
109004 Moscow
Russia
(LLC Petropavlovsk-Iron Ore)

Executive Directors:

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

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

Emeritus Director:

Senator Dr P.A. Maslovskiy

Committees of the Board:

Audit Committee

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

Remuneration Committee

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

Health, Safety and Environmental Committee

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

Nomination Committee

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

Authorised Representatives for the Purposes of the Stock Exchange of Hong Kong Limited

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

RISK FACTORS

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

The Group's view of the principal risks that could impact it for the 2014 financial year and beyond are substantially unchanged from those of the previous years. A summary of these key risks is set out below:

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

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

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

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

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

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

DISCLAIMER

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

Design And Produced By: EDICO Financial Press Services Limited

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

The annual report this year has once again been printed on paper certified by the Forest Stewardship Council. Reductions in the document size and print run have also been achieved for the fourth year in a row.

If a printed copy is preferred, it is available free of charge from the Company, by writing to:

Investor Relations
IRC Ltd
6H, 9 Queen's Road Central
Hong Kong SAR

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

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ircgroup.com.hk
Facebook (facebook.com/pages/IRC-limited)
LinkedIn (linkedin.com/pub/irc-limited)
Twitter (@IRCLimited)

Institutional Investor 2012+2013
Investor Relations Professional Asia Survey (Third Place)

The Asset 2012
The Asset Corporate Awards (Titanium)

Mines & Money 2012
Deal of the Year

Galaxy Awards 2011
Galaxy Awards (Gold)

LACP 2012
Top 100 Annual Reports Worldwide

LACP 2012
Platinum Award

LACP 2012
Top 50 Chinese Annual Report

LACP 2012
Top 50 Annual Reports Asia-Pacific Region

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