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IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1029)

IRC: 2012 ANNUAL RESULTS

(Tuesday 12th March 2013 — Hong Kong) IRC Limited (“IRC” or the “Company”, stock code 1029) is pleased to announce its Annual Results for 2012 and Annual Report are now available.

Key Highlights

- Production targets exceeded at Kuranakh for second consecutive year
- Production cash cost at Kuranakh on a unit basis fell 15%, generating a segmental EBITDA of US\$16.3 million
- K&S construction on track for first production in early 2014
- General Nice and Minmetals Cheerglory US\$238 million subscriptions announced and approved by shareholders
- Garinskoye scoping study suggest low cost and fast build DSO operation
- Exploration portfolio boosted with acquisition of Bolshoi Seym Ilmenite Deposit and Molybdenum Exploration Portfolio

Commenting on the announcement, Jay Hambro, Executive Chairman of IRC said: “I am delighted to report another year of growth and consolidation at IRC. At our Kuranakh Mine we were 18% ahead of iron ore production targets and managed to reduce unit production cash cost by 15% which both helped generate a segmental EBITDA of c.US\$16 million. We also progressed our wider portfolio with solid construction progress at K&S and an encouraging development opportunity for Garinskoye.

IRC groupwide operations saw a financial performance in line with expectations and broader industry trends, generating a small loss that was in line with market consensus. Revenue increased 14% to US\$139.7 million with operating costs rising in line with increased volumes. However we managed to reduce both unit cash costs and administrative costs despite the increase in group activities. Like others in the resources sector, we have taken a prudent approach by impairing certain non-core assets. A total impairment charge of US\$27 million was recorded, mainly related to a coal development project that is

sadly not economic in this macro environment. These are non-cash items and conclude all potential impairments for the group at this point in time. Excluding these one-off impairment charges, the Group reported a loss of US\$26.2 million, which is 6% better than market consensus adjusting for the coal impairment.

Construction activities at K&S progressed to schedule during the year. During 2013 attention will be focused on the countdown to completing K&S as we prepare for first commercial production next year. K&S will quadruple IRC group production capacity in 2014.

We have received shareholder approval for General Nice and Minmetals to become strategic investors in IRC, cementing IRC's position as a Sino-Russian industrial commodity champion. Their deep experience and skills in trading iron ore in mainland China will facilitate our expanded production and provide greater offtake and cash flow security for our business as our earnings grow. I take this opportunity to formally welcome them to our business and look forward to building a mutually beneficial relationship with them."

The full results and annual report can be downloaded at www.ircgroup.com.hk

FINANCIAL HIGHLIGHTS

- Revenue increased by 14% to US\$139.7 million in 2012 from US\$122.2 million in 2011
- Kuranakh Mine achieved a segmental EBITDA of US\$16.3 million
- Production cash cost at Kuranakh on a unit basis fell 15%, with potential to reduce further due to efficiencies and increased by-product credits
- Loss for the year attributable to shareholders amounted to US\$53.2 million
- US\$340 million ICBC project financing facility drawn by US\$119.4 million; gearing ratio only 12.2%

OPERATING HIGHLIGHTS

- 969,436 tonnes of iron ore concentrate produced, 18% above target (820,000 tonnes) and 21% above 2011 production (800,291 tonnes)
- 125,095 tonnes of ilmenite concentrate produced, marginally above target (125,000 tonnes) and 97% above 2011 production (63,490 tonnes)
- Ore reserves maintained above extraction rates; falling marginally from 801 million tonnes to 799 million tonnes, due to operational addition of reserves despite the removal of 3.5 million tonnes.
- Acquisition of additional interest in Bolshoi Seym helped boost group's resources by 12% to 1,512 million tonnes
- Continued construction at K&S, targeted for commissioning in mid 2014

The Board of Directors of IRC Limited (the “Company”) is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2012, which have been reviewed by the Company's Audit Committee, comprising of independent non-executive directors.

CHAIRMAN'S STATEMENT

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

Long Term Strategy

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

Delivering on Our Promises

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

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

Establishing a Trusted Reputation for a Mining Company

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

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

Four Fold Increase in Annual Production

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

Iron Ore Market in Flux

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

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

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

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

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

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

Strengthened with New Partners

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

Thank You

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

Outlook

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

George Jay Hambro

Executive Chairman, IRC Limited

CEO'S STATEMENT

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

Delivering on Targets

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

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

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

Engineering Growth

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

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

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

Enhancing Productivity

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

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

Teamwork

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

YURY MAKAROV

Chief Executive Office, IRC Limited

CFO'S STATEMENT

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

Profit and Loss Account

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

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

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

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

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

Capital Structure

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

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

Shareholding Structure

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

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

Raymond Woo

Chief Financial Officer, IRC Limited

2012 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

For the year ended 31 December 2012

	NOTES	2012 US\$'000	2011 US\$'000
Revenue	6	139,687	122,208
Operating expenses	7	(163,809)	(131,274)
Impairment charges	8	<u>(27,051)</u>	<u>—</u>
		(51,173)	(9,066)
Share of results of an associate		(185)	87
Share of results of joint ventures		<u>(2,338)</u>	<u>(515)</u>
Net operating loss		(53,696)	(9,494)
Other gains and losses and other expenses	9	2,619	12,593
Financial income	10	412	716
Financial expenses	11	<u>(2,210)</u>	<u>(555)</u>
(Loss) profit before taxation		(52,875)	3,260
Taxation expense	12	<u>(168)</u>	<u>(1,684)</u>
(Loss) profit for the year		<u><u>(53,043)</u></u>	<u><u>1,576</u></u>
(Loss) profit for the year attributable to:			
Owners of the Company		(53,232)	1,001
Non-controlling interests		<u>189</u>	<u>575</u>
		<u><u>(53,043)</u></u>	<u><u>1,576</u></u>
(Loss) earnings per share (US cents)	14		
Basic		<u><u>(1.61)</u></u>	<u><u>0.03</u></u>
Diluted		<u><u>(1.61)</u></u>	<u><u>0.03</u></u>

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

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

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 US\$'000	2011 US\$'000 (restated)
NON-CURRENT ASSETS			
Exploration and evaluation assets	15	65,440	44,493
Property, plant and equipment	16	598,693	568,385
Land use right		—	6,061
Interest in an associate		—	703
Interests in joint ventures		4,887	7,086
Other non-current assets		171,479	98,360
Restricted bank deposit		<u>6,000</u>	<u>6,000</u>
		<u>846,499</u>	<u>731,088</u>
CURRENT ASSETS			
Inventories		42,966	41,301
Trade and other receivables	17	54,525	57,005
Time deposit		2,500	—
Cash and cash equivalents		<u>15,536</u>	<u>33,188</u>
		<u>115,527</u>	<u>131,494</u>
TOTAL ASSETS		<u>962,026</u>	<u>862,582</u>
CURRENT LIABILITIES			
Trade and other payables	18	(23,913)	(21,616)
Current income tax payable		(353)	(293)
Loan from a related party	19	(10,260)	—
Bank borrowings — due within one year	20	<u>(15,000)</u>	<u>(15,000)</u>
		<u>(49,526)</u>	<u>(36,909)</u>
NET CURRENT ASSETS		<u>66,001</u>	<u>94,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>912,500</u>	<u>825,673</u>

	<i>NOTES</i>	2012 <i>US\$'000</i>	2011 <i>US\$'000</i> (restated)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(1,868)	(2,160)
Provision for close down and restoration costs		(14,626)	(4,092)
Bank borrowings — due more than one year	20	<u>(108,491)</u>	<u>(6,343)</u>
		<u>(124,985)</u>	<u>(12,595)</u>
TOTAL LIABILITIES		<u>(174,511)</u>	<u>(49,504)</u>
NET ASSETS		<u>787,515</u>	<u>813,078</u>
CAPITAL AND RESERVES			
Share capital	21	4,500	4,330
Share premium		1,042,016	1,029,131
Treasury shares		(43,000)	(43,000)
Capital reserve		17,984	17,918
Reserves		42,770	35,209
Accumulated losses		<u>(288,367)</u>	<u>(235,135)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		775,903	808,453
NON-CONTROLLING INTERESTS		<u>11,612</u>	<u>4,625</u>
TOTAL EQUITY		<u>787,515</u>	<u>813,078</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 future liquidity and going concern of the Company and its subsidiaries (collectively referred to as the “Group”) in light of the Group’s loss for the year and the Group’s capital and other commitments (see note 16), against cash and cash equivalents maintained by the Group as at 31 December 2012. The directors of the Company have considered the expected cash proceeds for the Share Issue Transaction (as defined and disclosed in note 23) and are satisfied that the Group has sufficient financial resources and available funding to meet its financial obligations as they fall due for the foreseeable future.

3. Adjustments to Provisional Amounts

The fair value assessment in respect of the acquisition of Jiatai Titanium Project (see note 22(a)) was completed in April 2012, and the comparative 31 December 2011 consolidated statement of financial position has been restated to reflect the adjustment set out below:

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

4. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

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

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

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

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

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

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

² Effective for annual periods beginning on or after 1 January 2014.

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

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

HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). Under the interpretation, the costs from this waste removal activity (“stripping”) which provide improved access to ore is recognised as a non-current asset (“stripping activity asset”) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with HKAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. The Directors anticipated that the adoption of HK(IFRIC)-Int 20 in the future may affect the period in which the stripping costs is charged to profit or loss. Under the existing policy, during production phase, the Group would defer the portion of stripping costs in which the tonnage of the waste mined to the quantity of the ore mined exceeds the life-to-mine ratio to a subsequent period.

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

5. Segment Information

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

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region").
- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the K&S project, the Garinskoye project, the Bolshoi Seym project, the Molybdenum Exploration project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russian Far East region.
- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.
- Other segment ("Other") primarily includes the Jiatai Titanium project (as defined in note 22(a)) for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interest in other joint venture arrangements for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 5. Segment results represent the results earned by each segment without the allocation of central administration costs, central depreciation and amortisation, other gains and losses and other expenses, financial income and financial expenses.

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

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

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

For the year ended 31 December 2012

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

For the year ended 31 December 2011

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

Revenue from major products and services

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

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

Revenue by geographical location^(a)

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

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

Non-current assets by location of asset^(b)

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

(b) Excluding financial assets.

Information about major customers

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

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

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

6. Revenue

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

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

7. Operating Expenses

	2012 <i>US\$'000</i>	2011 <i>US\$'000</i>
Operating expenses		
Site operating expenses and service costs	137,612	104,677
Central administration expenses	<u>26,197</u>	<u>26,597</u>
	<u>163,809</u>	<u>131,274</u>

8. Impairment Charges

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

In 2011, the Group has successfully acquired the remaining 35% interest in Jiatai Titanium project (as defined in note 22(a)) from the joint venture partner and plan to proceed with the project while seeking a different joint venture partner. Please see note 22(a) for details. In June 2012, the Group was advised that the potential venture partner previously identified would not be proceeding with the investment in the Jiatai Titanium project. As a result, the directors of the Company decided to postpone the Jiatai Titanium project indefinitely. As the major long-lived assets relating to such project included land use right over a piece of land, and the usage of the parcel of land owned by Jiatai Titanium project is restricted and transfer of legal title is subject to approval by the municipal authorities, the Group's ability to recover the land use right was call into doubt. The directors of the Company concluded that the most appropriate course of action was to recognise a full impairment charge of US\$6,061,000. This impairment charge was recognised in the consolidated income statement for the year ended 31 December 2012.

9. Other Gains and Losses and Other Expenses

	2012 US\$'000	2011 US\$'000
Net foreign exchange gain	1,676	700
Reversal of listing expenses ^(a)	—	3,198
Gain on acquisition of an additional interest in Jiatai Titanium project (<i>note 22(a)</i>)		
— Provision gain on remeasurement of previously held equity interest	—	428
— Reclassification of foreign exchange translation gain of Jiatai Titanium project previously accumulated in translation reserve	—	882
Derecognition of financial liability ^(b)	—	7,500
Gain (loss) on disposal of property, plant and equipment	<u>943</u>	<u>(115)</u>
	<u>2,619</u>	<u>12,593</u>

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

(b) The amount represented derecognition of a third party payable relating to acquisition of a technology know-how. Effective on 31 December 2011, the Group and the third party entered into a novation agreement pursuant to which the obligations owed to each other was discharged and the Group surrendered its exclusive right in the technology know-how and was required to make a final payment of US\$448,000. Having considered the final payment, the payable of US\$7,500,000 was derecognised and credited to profit or loss.

10. Financial Income

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

11. Financial Expenses

	2012 US\$'000	2011 US\$'000
Interest expenses on bank borrowings:		
— wholly repayable within five years	1,537	264
— not wholly repayable within five years	2,475	—
Interest expenses on loan from a related party, wholly repayable within five years (<i>note 19</i>)	446	—
Less: Interest expenses capitalised	<u>(2,475)</u>	<u>—</u>
	1,983	264
Unwinding of discount on environmental obligation	<u>227</u>	<u>291</u>
	<u>2,210</u>	<u>555</u>

12. Taxation Expense

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

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

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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

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

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

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

(b) Amount in 2012 mainly related to the impairment charges for the year (see note 8) and the amount in 2011 mainly related to the non-deductible professional fees.

13. Dividends

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

14. Loss/Earnings Per Share

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

(Loss) Profit

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

Number of shares

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

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

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

15. Exploration and Evaluation Assets

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

Garinskoye and the Garinskoye and Kostengiskoye Flanks are classified as exploration and evaluation assets. Additions in both year 2012 and 2011 mainly related to exploration and evaluation expenses capitalised in exploration and evaluation assets. Bolshoi Seym Deposit and Molybdenum Exploration Project acquired during the year are also classified as exploration and evaluation assets. Please refer to note 22(b) and 22(c) for details.

16. Property, Plant and Equipment

	Mine development costs <i>US\$'000</i>	Mining assets <i>US\$'000</i>	Non-mining assets <i>US\$'000</i>	Capital construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
COST					
At 1 January 2011	842,545	83,960	59,106	14,636	1,000,247
Additions	82,177	839	320	4,588	87,924
Disposals	(701)	—	(203)	—	(904)
Transfers	(5,464)	6,850	419	(1,805)	—
Acquired on acquisition of a subsidiary (see note 22(a))	—	—	658	—	658
Exchange adjustments	—	—	(550)	—	(550)
At 31 December 2011 and 1 January 2012	918,557	91,649	59,750	17,419	1,087,375
Additions	56,653	5,095	751	9,466	71,965
Transfers	(3,846)	14,173	570	(10,897)	—
Disposals	(5,076)	—	(1,062)	—	(6,138)
Exchange adjustments	—	—	685	—	685
At 31 December 2012	966,288	110,917	60,694	15,988	1,153,887
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	(453,750)	(2,490)	(30,165)	(14,572)	(500,977)
Depreciation charge for the year	(2,792)	(13,519)	(2,206)	—	(18,517)
Eliminated on disposals	280	—	66	—	346
Exchange adjustments	—	—	158	—	158
At 31 December 2011 and 1 January 2012	(456,262)	(16,009)	(32,147)	(14,572)	(518,990)
Depreciation charge for the year	(4,487)	(9,779)	(1,996)	—	(16,262)
Impairment charge (note 8)	(20,911)	—	(79)	—	(20,990)
Eliminated on disposals	423	—	757	—	1,180
Exchange adjustments	—	—	(132)	—	(132)
At 31 December 2012	(481,237)	(25,788)	(33,597)	(14,572)	(555,194)
CARRYING AMOUNTS					
At 31 December 2012	<u>485,051</u>	<u>85,129</u>	<u>27,097</u>	<u>1,416</u>	<u>598,693</u>
At 31 December 2011	<u>462,295</u>	<u>75,640</u>	<u>27,603</u>	<u>2,847</u>	<u>568,385</u>

At 31 December 2012, cumulative capitalised borrowing costs of US\$3,982,000 (31 December 2011: US\$1,507,000) were included within mine development costs in the above table. Depreciation of US\$819,000 relating primarily to assets used in the construction of plant in LLC Olekminsky Rudnik and LLC KS GOK was capitalised during the year ended 31 December 2012 (31 December 2011: US\$968,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US\$6,320,000 and US\$1,318,000 during each of the years ended 31 December 2012 and 2011 respectively which relates to the removal of overburden at the Kuranakh mine.

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

At 31 December 2012 and 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$247,415,000 and US\$332,698,000 respectively. There were no authorized but not contracted commitments as at 31 December 2012 and 2011.

17. Trade and Other Receivables

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

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

Amounts included in trade receivables at 31 December 2012 and 2011 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

The Group has concentration of credit risk as 80.7% (31 December 2011: 81.3%) of the total trade receivables was due from the Group's largest customer as at 31 December 2012. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 97% (2011: 97%) of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records.

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

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

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

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

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

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

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

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

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

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

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

18. Trade and Other Payables

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

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

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

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

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

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

19. Loan From a Related Party

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

20. Bank Borrowings

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

21. Share Capital

As disclosed in note 22(b) and 22(c), the Company has acquired two subsidiaries during the year ended 31 December 2012 by issuance and allotment of the ordinary shares of the Company, details are as follows:

	Number	US\$'000
Authorised		
Ordinary shares of HK\$0.01 each at 31 December 2011 and 2012	<u>10,000,000,000</u>	<u>12,820</u>
Allotted, called up and fully paid		
At 1 January 2011, 31 December 2011 and 1 January 2012	3,362,000,000	4,330
Issued during the year for acquisition of Uralmining (note 22(b))	74,681,360	96
Issued during the year for acquisition of Caedmon Limited (note 22(c))	<u>57,352,941</u>	<u>74</u>
At 31 December 2012	<u><u>3,494,034,301</u></u>	<u><u>4,500</u></u>

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

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

22. Acquisitions

(a) Acquisition of Jiatai Titanium project

In accordance with the terms of a joint venture agreement entered into by the Group and a Chinese partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of Jiatai Titanium project, Heilongjiang Jiatai Titanium Limited (“Jiatai Titanium project”) was established in the PRC with 65% interest held by the Group and the remaining 35% held by the Chinese joint venture partner.

In 2010, the Group was advised that the joint venture partner had decided to withdraw from some of its non-core ventures and consequently no longer wished to proceed with the Jiatai Titanium project. With a view to proceeding with the project alone or with a different joint venture partner, the Group entered into an agreement with the joint venture partner on 25 August 2010 pursuant to which the Group bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for the joint venture partner’s stake in the Jiatai Titanium project.

On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US\$11.5 million pursuant to which the Jiatai Titanium project became a wholly-owned subsidiary of the Group. Pursuant to the equity transfer agreement, the joint venture partner waived and released the Jiatai Titanium project from its obligations to pay to a subsidiary of the joint venture partner an amount of US\$3.5 million relating to engineering design, management contracting and other services previously made to the project upon completion of the acquisition by the Group.

Consideration transferred

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

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

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

	2011 US\$'000 (restated)
Current assets	
Cash and cash equivalents	9,350
Other receivables	76
<i>Non-current assets</i>	
Property, plant and equipment	658
Land use right	6,061
<i>Current liabilities</i>	
Other payables	(4,479)
	<u>11,666</u>

Net cash outflow arising on acquisition

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

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

- (1) Jiatai Titanium project has changed from a joint venture to a subsidiary of the Group. An aggregate gain of US\$1,310,000 was recognised for the year ended 31 December 2011 as a result of remeasurement of the previously held equity interest (65%) and the reclassification of foreign translation gain of the project previously recognised in translation reserve (note 9).
- (2) Included in the profit for the year ended 31 December 2011 was a post-acquisition loss of US\$507,000 attributed to Jiatai Titanium project which has not yet started to generate revenue since the date of the acquisition.
- (3) Had the acquisition of the remaining 35% equity stake in Jiatai Titanium project been effected at 1 January 2011, the revenue of the Group for the year ended 31 December 2011 would have remained at US\$122,208,000, and the profit for the respective period would have been US\$904,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

(b) Acquisition of Bolshoi Seym Deposit

On 9 April 2012, the Group, through its wholly-owned subsidiary, Brasenose, concluded an agreement to acquire from Intergeo the remaining 51% interests in Uralmining not previously owned by the Group and the assignment of indebtedness owing by Uralmining to Intergeo. Uralmining becomes a subsidiary of the Group thereof. Uralmining holds the exploration and mining licenses of Bolshoi Seym Deposit.

The transaction was completed on 24 July 2012 and the consideration was satisfied through the issuance and allotment of 74,681,360 ordinary shares of the Company at market value of HK\$0.68 per share on 24 July 2012, with a nominal value of HK\$0.01 each to Intergeo. The transaction was accounted for as an asset acquisition rather than a business combination, as Uralmining did not have any operation activity.

Consideration transferred

	2012 <i>US\$'000</i>
Equity instruments issued	<u>6,546</u>

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

Assets acquired and liabilities assumed at the date of acquisition

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

Net cash inflow arising on acquisition

	2012 <i>US\$'000</i>
Cash and cash equivalent balances acquired	<u>896</u>

(c) *Acquisition of Molybdenum Exploration Project*

On 6 April 2012, the Group concluded an agreement to acquire from Sangritta Limited (“Sangritta”) and Lania Consulting Limited (“Lania”), 50% equity interest plus one share stake in Caedmon Limited (“Caedmon”), hence, gaining control in Caedmon. Caedmon holds the exploration and mining licenses of Molybdenum Exploration Project through its subsidiary, LLC Gorniy Park.

The transaction was completed on 11 July 2012 and the total consideration were satisfied through the issuance and allotment of 54,491,029 and 2,861,912 ordinary shares of the Company at market value of HK\$0.88 per share on 11 July 2012, with a nominal value of HK\$0.01 each to Sangritta and Lania, respectively. The transaction was accounted for as an asset acquisition rather than a business combination, as Caedmon did not have any operation activity.

Under the same agreement, the Group also acquired the related shareholder indebtedness and an option to acquire the remaining 50% equity interest minus one share stake in Caedmon (“Option”) from Sangritta. The Group may exercise the Option any time over a two-year period commencing on the date of completion of the transaction.

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

Consideration transferred

	2012 <i>US\$’000</i>
Equity instruments issued	<u>6,508</u>

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

Assets acquired and liabilities assumed at the date of acquisition

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

Cash and cash equivalent balances acquired

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23. Events After the Reporting Period

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

(i) General Nice Subscription

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

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

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

(ii) Minmetals Subscription

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

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

(iii) *Offtake Arrangement*

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

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

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

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

RESULTS OF OPERATIONS

Revenue

Iron ore concentrate

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

Ilmenite

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

Engineering service revenue

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

Operating Expenses

Site operating expenses and service costs

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

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

* net of tariff and other railway charges for ilmenite

Central Administration Expenses

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

Impairment Charges

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

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

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

Net Operating Loss

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

Other Gains and Losses and Other Expenses

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

Net Financial (Expense)/Income

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

(Loss) Profit for the Year Attributable to the Owners of the Company

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

Liquidity, Financial and Capital Resources

Cash position and capital expenditure

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

Expenditure Incurred on Exploration, Development and Mining Production Activities

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

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

Borrowings and Charges

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

Risk of Exchange Rate Fluctuation

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

Employees and Emolument Policies

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

OTHER INFORMATION

New JORC Findings

In conjunction with rule 18.14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), IRC commissioned a new report from an independent geologist. This report has found substantial material newly-accredited to the JORC standard. This presents the possibility of increased mine life and capacity at IRC’s major production sites. Further details of the resources are set out in IRC’s annual report.

Corporate Governance

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 Company has adopted the Code on Corporate Governance Practices (effective until 31 March 2012) (the “Code”) and Corporate Governance Code (effective from 1 April 2012) (the “Revised Code”) as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. For the year ended 31 December 2012, the Company has complied with the Code and the Revised Code save that (i) the Non-Executive Director, Mr. Simon Murray and an Independent Non-Executive Director, Mr. Jonathan Martin Smith, were unable to attend the annual general meeting of the Company held on 16 April 2012 (the “2012 AGM”) as provided for in code provision A.6.7 as they had overseas engagements and (ii) although in compliance with Company’s articles of association and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), the notice for the 2012 AGM was not sent to shareholders at least 20 clear business days before the meeting as provided for in code provision E.1.3 due to the late publication of the circular in relation to the meeting.

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.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). The 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.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and of the Company (www.ircgroup.com.hk). The annual report of the Company for the year ended 31 December 2012 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on or around the date of this announcement.

By Order of the Board
G. JAY HAMBRO
Executive Chairman

Hong Kong, People's Republic of China
Tuesday, 12th March 2013

As at the date of this announcement, the Executive Directors of the Company are Mr G. Jay Hambro, Mr Yury Makarov, and Mr Raymond Kar Tung Woo. The Non-Executive Director is Mr Simon Murray, CBE, Chevalier de La Legion d'Honneur. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith and Mr Chuang-Fei Li.

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