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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: 2014 ANNUAL RESULTS

Wednesday 25 March 2015: IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to announce its Annual Results for 2014.

Shareholders are encouraged to read the Company’s full Annual Report, which is available at www.ircgroupp.com.hk. Hard copies are available on request.

Key Highlights

- Iron ore and ilmenite production exceeded targets by 12%
- Iron ore production 12% over capacity and delivering in excess of one million tonnes for the second year running
- K&S commissioning commenced; IRC’s production capacity set to quadruple in 2015
- Cost-cutting measures effective with reduction in operating expenses despite increased sales volumes
- 12% reduction in general and administrative expenses for 2014. Significant further savings forecast for 2015 from broad programme including personnel changes and 15% cut in Directors and Senior Management salaries
- Loss excluding impairments of US\$56.8 million, in line with consensus. Non-Cash impairments of US\$260.8 million due to negative move in iron ore prices
- Strong year-end cash position of US\$75 million, in addition to recent further support from ICBC with project finance facility and two shareholder subscriptions to be completed

Commenting on the results, Jay Hambro, Executive Chairman of IRC, said: *“The iron market witnessed dramatic change during 2014. The price of iron ore halved from US\$135 per tonne for the benchmark 62% product for delivery to China at the start of the year to US\$71 per tonne at the end of the year. At IRC, the change in the supply dynamics has resulted in decisive and conservative actions. The smaller Kuranakh Mine, was quick to respond to the falling prices, and is a rare example of a junior mine that is able to produce at marginally above break-even today. Cost savings and revisions to the mining plan have resulted in a 30% cost saving, whilst Rouble depreciation has provided a further 25% saving to costs. This is a positive outcome that temporarily secures the future of Kuranakh.*

In the coming months, K&S will complete the commissioning process and start full-scale commercial production. It has taken a Herculean effort from our workforce, contractors and stakeholders to get this far, and we are delighted that K&S will soon be operational and establish its place as the one of the lowest cost international producers of high quality iron ore, uniquely located on the Chinese border.

Despite exceeding our production forecasts, revenue for the year fell to US\$122.4 million due to lower commodity prices. As we already announced, the lower prices have resulted in the need to take a non-cash impairment of US\$260.8 million. Consequently, despite improvements in our cost performance, this has resulted in a loss of US\$317.6 million. However, we are in a good position. At the end of December 2014, we held approximately US\$75 million of cash and bank deposits and US\$56 million of undrawn credit available under the ICBC and other facilities, in addition to US\$68 million still due from the General Nice and Minmetals share subscriptions. ICBC recently extended the availability period for our project finance facility and we are grateful for their continued support. We realised a 12% saving in corporate costs in 2014 and have set a number of programmes in place to significantly expand on this in 2015, including key personnel changes and a 15% cut in Board and Senior Management salaries.

IRC’s current position, provides a firm foundation to build on as K&S commences production and cash flows grow significantly into 2015, and I am confident that our shareholders’ patience will soon be rewarded.”

A teleconference call to discuss the results will be held today at 08h00 Hong Kong time. The number is +852 2112 1700, the passcode is 3929525#. A replay of the conference call will be available at www.ircgroup.com.hk tomorrow (26 March 2015). Copies of the Annual Report and presentation slides are available www.ircgroup.com.hk.

The Board of Directors of IRC Limited 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 2014, which have been reviewed by the Company’s Audit Committee, comprising of independent non-executive directors.

EXECUTIVE CHAIRMAN & CHIEF EXECUTIVE OFFICER REVIEW

IMMINENT REWARDS EXPECTED FROM A QUADRUPLING OF PRODUCTION CAPACITY

Dear Shareholders and Stakeholders,

IRC Faces Challenges Of Commissioning New Project In Volatile Markets

Whilst it is over four years since we listed on the Hong Kong Stock Exchange, and around 8 years since we commenced works at K&S, there is much anticipation for first production. Some of the world’s largest and most experienced fund managers in the natural resources space, along with many local and international private investors bought shares in IRC. We also have benefitted from the considerable support of the world’s largest bank, ICBC, providing us a project finance loan which is further supported by SinoSure, the Chinese export credit agency. K&S has a number of potential customers eagerly awaiting offtake of our high grade premium product. This audience has been awaiting patiently for first production and we were delighted to recently celebrate the start of the commissioning process. Furthermore K&S will soon start trial production. In the coming months, K&S will complete the commissioning process and start full-scale commercial production. It has taken a Herculean effort from our workforce, contractors and stakeholders to get this far, and we are delighted that K&S will soon be operational and establish its place as the one of the lowest cost international producers of high quality iron ore, uniquely located on the Chinese border. We thank you for your patience and look forward to sharing the benefits that will accrue, at this, the most exciting time in IRC’s evolution.

The global macro situation has generated considerable challenges for planning and logistics. The collapse of the iron ore price from US\$135/t to below US\$60/t has distracted focus at K&S and resulted in critical strategic analysis for the future of Kuranakh. Fortunately for IRC’s operations the impact of rouble weakness is a significant positive for reducing our costs. The net effect of these two variables to cashflow projections has been to strengthen IRC’s position versus some of our fellow iron ore producers. However the volatility in these two key determinants for both our short and long term planning has sadly had a negative impact for IRC’s share price.

Sino-Russian Champion and Supplier of Choice

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 lately and IRC is perfectly-positioned to capitalise on this. It has always been our stated mission to be a Sino-Russian champion and with the arrival of K&S we are truly delivering on this objective. We were happy to report in 2014 that we sold our Amur River Bridge project to a Russian infrastructure fund and more recently to see that the Chinese side of the border now has most of the bridge piers in place and

construction of the bridge deck. Although Russia and China share a border that is over 3,000 kilometres long, the two most significant trade crossings are located at the two extremes. The new link proposed by IRC across the Amur River literally bridges this, and shortens the distance for supplying iron ore from K&S to customers in Heilongjiang from over a 1,000 kilometres to just under 250 kilometres. Not only does the bridge provide a shorter and lower cost route to customers in China helping us and them to lower transportation costs, it will also deliver working capital benefits because deliveries can be undertaken more frequently, resulting in shorter payment times for IRC and lower inventory costs for our customers. K&S is already recognised for its high quality products and short delivery times and the bridge will serve to improve this further, reinforcing our position as a supplier of choice and our mission as a Sino-Russian champion.

A Deepening Relationship with China

Today it is estimated that China accounts for almost two thirds of the global trade in seaborne iron ore. As China's importance increases, we have deliberately steered our business to be more China focussed to benefit from this. With a listing and headquarters in Hong Kong, we believe that we are the leading Chinese domiciled iron ore producer. We also believe that we have some good Chinese strategic partners. General Nice, one of the largest Chinese private steel raw material traders has invested US\$170 million and we hope that soon Minmetals, China's largest SOE metals and minerals companies respectively will complement this. Both investors are already represented on our Board, are involved in our operations and plan to share offtake and marketing arrangements for the K&S mine. This level of real day-to-day involvement provides us with tremendous benefits and a superior insight into the Chinese domestic iron ore market which we believe is unmatched by any other non-Chinese producer. Together with our ICBC loan, this level of involvement and Chinese commitment is strong and demonstrates IRC's position as a real leader in benefiting from opportunities to cooperate with the best Chinese companies for the long-term.

Superior Business Model Set to Deliver Value

The iron market witnessed dramatic change during 2014. The price of iron ore halved from US\$135 per tonne for the benchmark 62% product for delivery to China at the start of the year to US\$71 per tonne at the end of the year. For the year as a whole, the price averaged US\$97 per tonne, some 29% lower than the average US\$136 per tonne in 2013.

The fall in price is attributed to an Australian led supply surge despite continued growth in steel demand. The injudicious growth in Australian producer supply is premised on their need to increase scale to expand and preserve margins. In turn, the boost in supplies has forced many smaller and higher cost producers, notably in China, out of the market. This displacement cycle will continue into 2015 as we see high-cost international suppliers that lost margins in 2014 eventually close operations, in addition to the cancelling of many new projects.

At IRC, the change in the supply dynamics has resulted in decisive and conservative actions. The smaller Kuranakh Mine, was quick to respond to the falling prices, and is a rare example of a junior mine that is able to produce at marginally above break-even today. Cost savings and revisions to the mining plan have resulted in a 30% cost saving, whilst Rouble depreciation has provided a further 25% saving to costs. This is a positive outcome that temporarily secures the future of Kuranakh.

With volatility and construction nearing completion we are making conservative statements for the future of K&S. As a larger operation with the benefits of scale and a location much closer to China, K&S remains capable of generating good margins despite the current low price environment. It is in the hard times like today when operations like K&S prove their mettle, and we are rewarded for being one of a handful of international producers that can prosper in such times. Admittedly, the margins that we will enjoy are lower than the market anticipated when iron ore enjoyed a better price, though we are reminded that we operate in a cyclical business, and consequently, our Board of Directors has recommended a substantial impairment to the carrying value of the operations. Following conversations with our contractors, we are also lowering our production target of K&S for 2015 to 1.0 to 1.2 million tonnes but are still confident of our ability to reach full capacity during the fourth quarter. As a result of this delay we are expecting significant liquidated damages from the contractor and are already engaging in constructive negotiations. **We believe K&S can produce high quality iron ore, delivered to the Chinese border for under US\$50 per tonne, placing it firmly in the lower-quartile on the global cost curve, and with significant volumes, generating a good return for IRC shareholders.**

An Established Reputation and Trust

During 2014 we continued to win local and international awards for our corporate governance standards and efforts to communicate with shareholders. As we start to generate significant returns from K&S, we hope that shareholders, old and new, will take comfort and trust in our commitments to the highest standards and a track-record.

The goals that we set for 2014 on the whole were delivered. We delivered on production targets and despite some small setbacks outside of our control, we are all delighted to forecast that K&S will be running at full production capacity later this year.

As we turn our attention to 2015, we have a clear set of goals that will help us deliver on our strategy, namely:

1. Complete the commissioning at K&S
2. Meet a production target of 1.0 to 1.2 million tonnes of iron ore from K&S
3. Progress our broader expansion and exploration projects and when market conditions are appropriate, proceed with financing and construction

Thank you

2014 was without any doubt the most challenging year yet for IRC as we battled against market headwinds and worked tirelessly to complete the new K&S operation so that we can secure our place on the leader board of iron ore producers. These challenges have not abated but I think IRC is well positioned for consolidating our future. We would like to thank and congratulate our 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 and look forward to sharing the rewards of a stronger and profitable IRC with you soon.

CFO & INTERIM CFO'S STATEMENT

Dear Shareholders and Stakeholders,

2014 was a year full of challenges. In China, the GDP growth has slowed to 7.4%, the lowest level in 24 years. We also saw a significant slowdown in credit markets, and consequently a tighter funding environment. This had a negative impact on the wider economy, and for us in particular, due to the lower investments in the real estate and infrastructure sectors, which adversely affected iron ore and ilmenite demand. With the backdrop of a slower economy and weaker demand for commodities, iron ore and ilmenite prices fell 47% and 32% respectively. Unfortunately the down trend in iron ore price has continued into 2015, with the spot price dropping approximately 20% more by mid-March 2015.

On a brighter note, we have made significant progress on the development of K&S and we anticipate reporting more positive results as a result of this world class and low-cost operation in next year's annual results.

Profit & Loss Account

For the year, the Group reported revenue of US\$122.4 million, a 23.9% decrease compared to 2013. This is due to a significant decrease in the iron ore price in the second half of 2014, despite us achieving higher sales volumes of both iron ore and ilmenite by 2% and 17% respectively. Unit cash costs at the Kuranakh Mine increased slightly to US\$69.5 per tonne. This increase is mainly due to the smaller ilmenite by-product credit contribution resulting from the price decrease. Rail freight costs for iron ore fell by approximately US\$5.9 per tonne to US\$30.7 per tonne in 2014. Consequently, Kuranakh reported a segmental EBITDA loss before impairment of US\$18.0 million. In light of this issue, we have already responded by implementing the most serious cost optimisation programme ever at Kuranakh following the strategic mine review in the second half of 2014, combined with the positive impact arising from the depreciation of Rouble, which will be seen in 2015.

We continue to work hard to reduce costs across the Group. This is reflected in a significant reduction in our general administrative costs of US\$2.3 million to US\$16.8 million. As part of a wider cost-cutting measures implemented by the Group, the Board has decided to implement a severe salary reduction programme. This includes the Board fees, the majority of the Executive Committee members and Senior Management reducing remuneration levels by 15%. It is expected that the overall cost-cutting measures in 2015 will generate significant savings.

In 2014, a total impairment charge of US\$260.8 million was recorded primarily due to weaker iron ore and ilmenite prices. During the first half of 2014, we announced a full non-cash impairment provision had been made for the Kuranakh Mine. However, due to further negative movements in the iron ore market in the second half of 2014 and the first quarter of 2015, a partial non-cash impairment provision for the K&S Mine of US\$197.3 million has been provided. It is important to note that these are non-cash charges for the current financial year. We consider it is appropriate to act in a prudent manner to drive our business on a long-term basis, especially taking into account the iron ore spot price which recently hit a 6-year low.

Whilst the negative movement in the iron ore price has caused an impairment and affected cash flows, the decline in the Rouble has had a positive effect. Towards the end of the year, the Rouble depreciated significantly resulting in a non-cash net-exchange loss of approximately US\$13.4 million, due to the mark-to-market effect of monetary assets held in Roubles, primarily VAT refunds from Russian State budget. However the lower Rouble levels have also helped to reduce local costs at Kuranakh and are enhancing K&S's position as a low-cost mine.

Cash Flow, Capital Structure & Shareholdings

At the end of December 2014, we held approximately US\$75 million of cash and bank deposits, including pledged deposits with ICBC. Net of receiving the additional US\$40 million new share subscription from General Nice, cash and bank deposits reduced from US\$98.4 million at end of 2013. This movement was mainly due to the continuous deployment of capital to support K&S construction as well as an operating loss at the Kuranakh project, and the general administrative costs of the Group. During the year, we continued to drawdown on the US\$340 million ICBC facility as we complete K&S Mine. Although the loan was suspended for a short period at the year end as the availability period expired, ICBC has extended the availability period for another 6 months and we thank ICBC and in particular our project team there for their support. We recommenced drawing down from the ICBC facility in March 2015. At the end of 2014, we had approximately US\$52 million of undrawn credit available under the facility.

To date, our strategic partner and second largest shareholder, General Nice has invested approximately US\$170 million at HK\$0.94 per share. This represents more than 80% of their total subscription obligation under the strategic investment agreement entered into in 2013. Although full-completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US\$38 million from December 2014 onwards. We are currently in discussion with both General Nice and Minmetals to find an amicable, practical and mutually constructive solution to the situation and we will keep the market informed as soon as practicable. Both Minmetals and General Nice have confirmed to the Board of IRC that they wish to invest further in IRC.

2015 & Beyond

As a company that has largely been in a development phase since listing more than 4 years ago, the financials of IRC have primarily reflected the smaller operations of our Kuranakh Mine, while we continued to focus our efforts delivering our new K&S Mine, and the larger rewards that this will generate for our shareholders. As K&S comes on stream, our financial outlook changes, with the hope of returns anticipated on the horizon. Although our financial position remains sound, we nonetheless need to be prepared for any potential unfavourable market conditions ahead of us. We will continue to exercise caution managing our expenditure and any future investment decision, while we look forward to the commencement of operations at K&S in the very near-future.

2014 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2014

	<i>Notes</i>	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Revenue	5	122,414	160,854
Operating expenses	6	(164,750)	(175,181)
Impairment charges	7	(260,828)	(28,850)
		(303,164)	(43,177)
Share of results of a joint venture		2,900	(115)
		(300,264)	(43,292)
Other gains and losses and other expenses	8	(10,170)	(1,475)
Financial income	9	1,667	988
Financial expenses	10	(2,543)	(3,319)
Loss before taxation		(311,310)	(47,098)
Taxation expense	11	(6,020)	(677)
Loss for the year		(317,330)	(47,775)
Loss for the year attributable to:			
Owners of the Company		(317,644)	(41,613)
Non-controlling interests		314	(6,162)
		(317,330)	(47,775)
Loss per share (US cents)	13		
Basic and diluted		(6.69)	(1.04)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2014

	2014 US\$'000	2013 US\$'000
Loss for the year	(317,330)	(47,775)
Other comprehensive expenses for the year:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>(7,974)</u>	<u>(1,240)</u>
Total comprehensive expenses for the year	<u>(325,304)</u>	<u>(49,015)</u>
Total comprehensive expenses attributable to:		
Owners of the Company	(323,458)	(42,465)
Non-controlling interests	<u>(1,846)</u>	<u>(6,550)</u>
	<u>(325,304)</u>	<u>(49,015)</u>

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	14	54,790	53,303
Property, plant and equipment	15	462,860	613,057
Interests in a joint venture		7,294	4,893
Other non-current assets	16	199,123	224,269
Restricted bank deposit	22	<u>27,250</u>	<u>6,000</u>
		<u>751,317</u>	<u>901,522</u>
CURRENT ASSETS			
Inventories	17	49,178	55,230
Trade and other receivables	18	25,993	46,544
Time deposits	19	2,700	2,740
Cash and cash equivalents	20	<u>45,040</u>	<u>89,642</u>
		<u>122,911</u>	<u>194,156</u>
TOTAL ASSETS		<u>874,228</u>	<u>1,095,678</u>
CURRENT LIABILITIES			
Trade and other payables	21	(14,800)	(22,042)
Current income tax payable		(478)	(274)
Bank borrowings — due within one year	22	<u>(63,500)</u>	<u>(41,250)</u>
		<u>(78,778)</u>	<u>(63,566)</u>
NET CURRENT ASSETS		<u>44,133</u>	<u>130,590</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>795,450</u>	<u>1,032,112</u>

	<i>Notes</i>	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(6,471)	(1,986)
Provision for close down and restoration costs		(4,022)	(8,616)
Bank borrowings — due more than one year	22	<u>(205,052)</u>	<u>(158,672)</u>
		<u>(215,545)</u>	<u>(169,274)</u>
TOTAL LIABILITIES		<u>(294,323)</u>	<u>(232,840)</u>
NET ASSETS		<u>579,905</u>	<u>862,838</u>
CAPITAL AND RESERVES			
Share capital	23	1,211,231	5,834
Share premium		—	1,166,006
Treasury shares		(11,986)	(12,846)
Capital reserve		17,984	17,984
Reserves		11,752	15,100
Accumulated losses		<u>(651,946)</u>	<u>(334,302)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		577,035	857,776
NON-CONTROLLING INTERESTS		<u>2,870</u>	<u>5,062</u>
TOTAL EQUITY		<u>579,905</u>	<u>862,838</u>

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2014

	Total attributable to owners of the Company								Non-controlling interests	Total equity
	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		
Balance at 1 January 2013	4,500	1,042,016	(43,000)	17,984	25,686	(14,973)	32,057	(292,689)	771,581	783,193
Loss for the year	—	—	—	—	—	—	—	(41,613)	(41,613)	(47,775)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	—	—	—	—	—	(852)	—	—	(852)	(1,240)
Total comprehensive expenses for the year	—	—	—	—	—	(852)	—	(41,613)	(42,465)	(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 23)	1,334	124,093	—	—	—	—	—	—	125,427	125,427
Deferred Subscription Shares (defined in note 23)	—	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 23)	—	(4,231)	—	—	—	—	—	—	(4,231)	(4,231)
Balance at 31 December 2013 and 1 January 2014	5,834	1,166,006	(12,846)	17,984	11,905	(15,825)	19,020	(334,302)	857,776	862,838
Loss for the year	—	—	—	—	—	—	—	(317,644)	(317,644)	(317,330)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	—	—	—	—	—	(5,814)	—	—	(5,814)	(7,974)
Total comprehensive expenses for the year	—	—	—	—	—	(5,814)	—	(317,644)	(323,458)	(325,304)
Share-based payments	—	—	—	—	3,326	—	—	—	3,326	3,326
Vesting of share-based awards	—	—	860	—	(533)	—	(327)	—	—	—
Issue of new shares (note 23)	20,209	19,782	—	—	—	—	—	—	39,991	39,991
Transaction costs attributable to issue of new shares (note 23)	(300)	(300)	—	—	—	—	—	—	(600)	(600)
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	1,185,488	(1,185,488)	—	—	—	—	—	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(346)
Balance at 31 December 2014	1,211,231	—	(11,986)	17,984	14,698	(21,639)	18,693	(651,946)	577,035	579,905

(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 2014

	Notes	2014 US\$'000	2013 US\$'000
OPERATING ACTIVITIES			
Net cash used in operations		(25,598)	(818)
Interest expenses paid		(9,818)	(7,082)
Income tax paid		<u>(642)</u>	<u>(575)</u>
NET CASH USED IN OPERATING ACTIVITIES		<u>(36,058)</u>	<u>(8,475)</u>
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and exploration and evaluation assets		(100,990)	(113,614)
Interest received		1,667	988
Proceeds on disposal of property, plant and equipment		450	500
Time deposits withdrawn (placed)	19	40	(240)
Restricted bank deposits placed		(21,250)	—
Disposal of subsidiaries		<u>3,150</u>	<u>—</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(116,933)</u>	<u>(112,366)</u>
FINANCING ACTIVITIES			
Proceeds from bank borrowings		154,007	131,832
Proceeds on issuance of new shares	23	39,991	125,427
Repayment of bank borrowings		(81,050)	(51,500)
Transaction costs attributable to issuance of new shares		(1,120)	(2,668)
Loan commitment fees paid		(467)	(1,031)
Dividends paid		(346)	—
Deferred Subscription Shares (<i>as defined in note 23</i>)	23	—	3,096
Forfeiture of Deferred Subscription Shares	23	—	1,032
Repayment to a related party		<u>—</u>	<u>(10,000)</u>
NET CASH FROM FINANCING ACTIVITIES		<u>111,015</u>	<u>196,188</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(41,976)	75,347
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		89,642	15,536
Effect of foreign exchange rate changes		<u>(2,626)</u>	<u>(1,241)</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		<u><u>45,040</u></u>	<u><u>89,642</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Hong Kong Companies Ordinance.

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group’s loss for the year, the significant decline in iron ore price since the middle of 2014, the Group’s outstanding bank borrowings due for repayment in 2015 and the Group’s capital and other commitments as at 31 December 2014, against the cash and cash equivalents and the credit facilities maintained by the Group. Further, the Company anticipates that iron ore prices will remain under pressure in 2015, which will continue to impact the Group’s margins and liquidity.

As part of this consideration, the directors of the Company have performed an assessment of the Group’s future liquidity and cash flows, taking into account the following relevant matters:

- (i) The Group expects to renew the existing loan facilities of US\$15 million and US\$10 million, with Asian Pacific Bank, upon their expiry in April 2015 and October 2015, respectively, for another twelve months;
- (ii) The Group is implementing active cost-saving measures to improve operating cash flows and financial position;
- (iii) The Group is anticipating full-scale operations of K&S project which will generate sales in the second half of 2015;
- (iv) The very substantial volatility in the Russian Rouble/US Dollar exchange rate which may continue in 2015, given that a significant percentage of the Group’s costs are denominated in Russian Roubles, whilst a substantial portion of the Group’s sales are denominated in US Dollars; and

- (v) The substantial drop in the iron ore price may continue to have an impact on the Group as the Group's financial position is materially dependent on the price at which it can sell its iron ore production. The Group's financial position has been materially and adversely affected by the substantial drop in the iron ore price over the year.

In respect of the measures described in (i) to (iii) above, after making enquiries and based on progress to date, the directors of the Company expect that each will be concluded successfully within the designated time frame.

In respect of the assumptions referred to in (iv) and (v) above, the directors of the Company have performed sensitivity analyses taking into account what they consider to be reasonably possible adverse fluctuations in the Russian Rouble/US Dollar exchange rate and iron ore price in the foreseeable future.

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 in the foreseeable future and are satisfied that all covenant obligations will be met accordingly. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

However, if the Group were unable to successfully implement the measures described above or the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and its financial liquidity may be adversely impacted.

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 HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

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 year and/or disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 1	Disclosure Initiative ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle ⁶
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁵
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 July 2014

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets (e.g. the impairment on trade and other receivables). It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except as described above, the directors of the Company do not anticipate that the application of the new and revised HKFRSs in issue but not yet effective will have a material impact on the Group's consolidated financial statements.

4. 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 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 and bank borrowings.

For the year ended 31 December 2014

	Mines in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Revenue					
External sales	<u>117,972</u>	<u>—</u>	<u>4,442</u>	<u>—</u>	<u>122,414</u>
Segment revenue	117,972	—	4,442	—	122,414
Site operating expenses and service costs	<u>(141,634)</u>	<u>(335)</u>	<u>(4,176)</u>	<u>(1,818)</u>	<u>(147,963)</u>
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation	(5,614)	(8,909)	(310)	(14)	(14,847)
Impairment charges	(63,563)	(197,265)	—	—	(260,828)
Share of results of a joint venture	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,900</u>	<u>2,900</u>
Segment (loss) profit	<u>(87,225)</u>	<u>(197,600)</u>	<u>266</u>	<u>1,082</u>	(283,477)
Central administrative expenses					(16,577)
Central depreciation and amortisation					(210)
Other gains and losses and other expenses					(10,170)
Financial income					1,667
Financial expenses					<u>(2,543)</u>
Loss before taxation					<u>(311,310)</u>
Other segment information					
Additions to non-current assets:					
Capital expenditure	749	41,665	2	—	42,416
Exploration and evaluation expenditure capitalised	<u>—</u>	<u>845</u>	<u>—</u>	<u>—</u>	<u>845</u>
Segment assets	33,674	780,260	12,483	9,888	836,305
Central cash and cash equivalents					<u>37,923</u>
Consolidated assets					<u>874,228</u>
Segment liabilities	(5,589)	(4,092)	(826)	(8,793)	(19,300)
Bank borrowings					(268,552)
Deferred tax liabilities					<u>(6,471)</u>
Consolidated liabilities					<u>(294,323)</u>

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	<u>151,939</u>	<u>—</u>	<u>8,915</u>	<u>—</u>	<u>160,854</u>
Segment revenue	151,939	—	8,915	—	160,854
Site operating expenses and service costs	<u>(142,431)</u>	<u>(2,851)</u>	<u>(7,869)</u>	<u>(2,991)</u>	<u>(156,142)</u>
<i>Site operating expenses and service costs include:</i>					
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	<u>—</u>	<u>—</u>	<u>—</u>	<u>(115)</u>	<u>(115)</u>
Segment (loss) profit	<u>(5,887)</u>	<u>(16,306)</u>	<u>1,046</u>	<u>(3,106)</u>	(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					<u>(3,319)</u>
Loss before taxation					<u>(47,098)</u>
Other segment information					
Additions to non-current assets:					
Capital expenditure	5,002	51,431	57	8	56,498
Exploration and evaluation expenditure capitalised	<u>—</u>	<u>1,318</u>	<u>—</u>	<u>—</u>	<u>1,318</u>
Segment assets	132,643	850,598	20,451	10,786	1,014,478
Central cash and cash equivalents					<u>81,200</u>
Consolidated assets					<u>1,095,678</u>
Segment liabilities	(11,385)	(9,673)	(1,136)	(8,738)	(30,932)
Bank borrowings					(199,922)
Deferred tax liabilities					<u>(1,986)</u>
Consolidated liabilities					<u>(232,840)</u>

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2014 US\$'000	2013 US\$'000
Iron ore concentrate	92,917	120,390
Ilmenite	25,055	31,549
Engineering services	4,442	8,915
	<u>122,414</u>	<u>160,854</u>

Revenue by geographical location^(a)

	2014 US\$'000	2013 US\$'000
Japan	1,140	1,416
Russia and the Commonwealth of Independent States ("CIS")	4,442	8,915
PRC	114,253	150,523
Hong Kong	2,579	—
	<u>122,414</u>	<u>160,854</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)

	2014 US\$'000	2013 US\$'000
Russia	715,726	889,300
PRC	7,365	5,240
Hong Kong	976	982
	<u>724,067</u>	<u>895,522</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 independent third party customers during the years ended 31 December 2014 and 2013. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2014, sales were made to Heilongjiang Jianlong Steel Company Limited amounting US\$92,917,000 and Ningbo Xinfu Titanium Dioxide Co., Ltd. amounting US\$14,127,000 attributable to the Mines in Production segment comprising 76% 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 2014.

For the year ended 31 December 2013, sales were made to Heilongjiang Jianlong Steel Company Limited amounting 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.

5. REVENUE

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

	2014 US\$'000	2013 US\$'000
Revenue		
Sales of goods	117,972	151,939
Rendering of services	<u>4,442</u>	<u>8,915</u>
	<u>122,414</u>	<u>160,854</u>

6. OPERATING EXPENSES

	2014 US\$'000	2013 US\$'000
Operating expenses		
Site operating expenses and service costs	147,963	156,142
Central administration expenses	<u>16,787</u>	<u>19,039</u>
	<u>164,750</u>	<u>175,181</u>

7. IMPAIRMENT CHARGES

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 during the year ended 31 December 2013.

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 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 mining assets 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.

In December 2014, 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 related Property, plant and equipment of the Kuranakh project has been fully impaired by approximately US\$63,563,000, due to its higher cash costs of production, lower purity of the ore concentrates and the weaker forecast iron ore and ilmenite prices mainly affected by the falling commodity prices across the globe. These impairment charges are charged mainly against mining assets within property, plant and equipment.

For the purpose of the impairment testing of the Kuranakh project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2013: 11.5%).

In addition, management concluded that impairment charge was necessary for the K&S project as at 31 December 2014 as its recoverable value is lower than its carrying value. Due to falling spot iron ore prices and forecast inflation, the carrying value of the K&S project has been impaired by approximately US\$197,265,000. This impairment charge is allocated against property, plant and equipment amounting to US\$138,127,000 and prepayments for property plant and equipment amounting to US\$59,138,000. The directors of the Group will continue to monitor the latest market trends and assess impairment on an on-going basis.

For the purpose of the impairment testing of the K&S project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2013: 13.5%).

The key assumptions and considerations used for the purpose of impairment tests for both Kuranakh and K&S projects take into account the recent USD/RUB exchange rate, the inflation rate over the expected life of the mine and iron ore prices over the expected life of the mine.

Forecast inflation rates and sales prices for iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management has estimated the long term forecast sales prices for iron ore concentrate prices which take into account their views of the market, recent volatility and other external sources of information. Judgment has then been applied by management in determining a long-term price of iron ore concentrate for the purpose of assessing impairments.

8. OTHER GAINS AND LOSSES AND OTHER EXPENSES

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Net foreign exchange loss	(13,407)	(1,766)
Net gain on disposal of property, plant and equipment	110	291
Net gain on disposal of subsidiaries	3,127	—
	<u>(10,170)</u>	<u>(1,475)</u>

9. FINANCIAL INCOME

	2014 US\$'000	2013 US\$'000
Interest income on cash and cash equivalents	1,410	853
Interest income on time deposits	133	70
Others	<u>124</u>	<u>65</u>
	<u>1,667</u>	<u>988</u>

10. FINANCIAL EXPENSES

	2014 US\$'000	2013 US\$'000
Interest expenses on bank borrowings:		
— wholly repayable within five years	1,918	1,899
— not wholly repayable within five years	13,002	7,249
Interest expenses on loan from a related party, wholly repayable within five years (<i>Note</i>)	—	406
Less: Interest expenses capitalised to property, plant and equipment	<u>(13,002)</u>	<u>(7,249)</u>
	<u>1,918</u>	<u>2,305</u>
Unwinding of discount on environmental obligation	<u>625</u>	<u>1,014</u>
	<u>2,543</u>	<u>3,319</u>

Note: 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%. 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 and 2014, the Group did not have any outstanding credit facilities from PHM.

11. TAXATION EXPENSE

	2014 US\$'000	2013 US\$'000
Russia current tax	(821)	(412)
Cyprus current tax	<u>—</u>	<u>(3)</u>
Current tax expense	(821)	(415)
Deferred tax expense	<u>(5,199)</u>	<u>(262)</u>
	<u>(6,020)</u>	<u>(677)</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 12.5% of the estimated assessable profit for the years ended 31 December 2014 and 2013. No current tax was provided for the year ended 31 December 2014 as there was no assessable profit.

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 2014 and 2013.

12. DIVIDENDS

No dividend was paid or proposed during 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

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

Loss

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Loss for the purposes of basic and diluted loss per ordinary share being loss attributable to owners of the Company	<u>(317,644)</u>	<u>(41,613)</u>

Number of shares

	2014 <i>Number '000</i>	2013 <i>Number '000</i>
Weighted average number of ordinary shares for the purpose of basic loss per ordinary share	<u>4,746,185</u>	<u>3,996,445</u>

The computation of weighted average number of ordinary shares for the purposes of basic loss per ordinary share for the years ended 31 December 2014 and 2013 does not take into account the Company's 32,362,875 (2013: 34,684,875) treasury shares.

The computation of diluted loss per share for the years ended 31 December 2014 and 2013 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 23) since assuming their issuance would result in a decrease in loss per share.

14. EXPLORATION AND EVALUATION ASSETS

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
At the beginning of the year	53,303	65,440
Additions	1,487	1,318
Impairment loss recognised (<i>note 7</i>)	<u>—</u>	<u>(13,455)</u>
At the end of the year	<u>54,790</u>	<u>53,303</u>

Garinskoye, the Garinskoye and Kostenginskoye Flanks, Bolshoi Seym Deposit and Molybdenum Exploration Project are classified as exploration and evaluation assets. Additions in both year 2014 and 2013 mainly related to expenses capitalised in exploration and evaluation assets.

15. PROPERTY, PLANT AND EQUIPMENT

	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 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 and 1 January 2014	1,016,753	117,068	59,170	16,022	1,209,013
Additions	69,610	422	573	388	70,993
Transfers	(2,496)	3,385	10	(899)	—
Disposals	(115)	—	(1,132)	—	(1,247)
Disposals of a subsidiary	(17,519)	—	(326)	—	(17,845)
Exchange adjustments	—	—	(4,463)	—	(4,463)
At 31 December 2014	1,066,233	120,875	53,832	15,511	1,256,451
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2013	(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 (<i>note 7</i>)	—	(15,395)	—	—	(15,395)
Eliminated on disposals	—	—	560	—	560
Exchange adjustments	—	—	(22)	—	(22)
At 31 December 2013 and 1 January 2014	(492,159)	(54,333)	(34,892)	(14,572)	(595,956)
Depreciation charge for the year	(8,091)	(5,552)	(1,404)	—	(15,047)
Impairment charge (<i>note 7</i>)	(139,283)	(60,990)	(548)	(869)	(201,690)
Eliminated on disposals	90	—	620	—	710
Eliminated on disposals of a subsidiary	17,100	—	237	—	17,337
Exchange adjustments	—	—	1,055	—	1,055
At 31 December 2014	(622,343)	(120,875)	(34,932)	(15,441)	(793,591)
CARRYING AMOUNTS					
At 31 December 2014	<u>443,890</u>	<u>—</u>	<u>18,900</u>	<u>70</u>	<u>462,860</u>
At 31 December 2013	<u>524,594</u>	<u>62,735</u>	<u>24,278</u>	<u>1,450</u>	<u>613,057</u>

At 31 December 2014, cumulative capitalised borrowing costs of US\$24,233,000 (31 December 2013: US\$11,231,000) were included within mine development costs in the above table. Depreciation of US\$4,714,000 relating primarily to assets used in the construction of plant in LLC KS GOK was capitalised during the year ended 31 December 2014 (31 December 2013: US\$4,706,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US\$2,951,000 during the year ended 31 December 2013 (2014: nil) which relates to the removal of overburden at the Kuranakh Mine.

Property, plant and equipment with a net book value of US\$6,000,000 (2013: nil) have been pledged to secure borrowings of the Group.

At 31 December 2014 and 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$68,259,000 and US\$179,118,000 respectively. The authorized but not contracted commitments as at 31 December 2014 amounted to US\$9,701,000 (31 December 2013: US\$50,465,000).

16. OTHER NON-CURRENT ASSETS

	2014 US\$'000	2013 US\$'000
Deferred insurance premium for bank facilities	3,446	9,619
Prepayments for property, plant and equipment (<i>Note</i>)	194,076	209,642
Deferred loan arrangement fee	1,490	4,726
Cash advances to employees	<u>111</u>	<u>282</u>
	<u>199,123</u>	<u>224,269</u>

Note: There is an impairment amounting US\$59,138,000 during the year ended 31 December 2014 (see note 7).

17. INVENTORIES

	2014 US\$'000	2013 US\$'000
Stores and spares	25,796	33,925
Work in progress	18,370	12,777
Finished goods	<u>5,012</u>	<u>8,528</u>
	<u>49,178</u>	<u>55,230</u>

No inventories had been pledged as security during the year ended 31 December 2014 and 2013. Work in progress and finished goods were written down by US\$1,635,000 to its net realisable value during the year ended 31 December 2014 (no inventories had been written down during the year ended 31 December 2013).

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\$44,587,000 for the year ended 31 December 2014 (2013: US\$44,628,000).

18. TRADE AND OTHER RECEIVABLES

	2014 US\$'000	2013 US\$'000
VAT recoverable	14,974	29,910
Advances to suppliers	3,466	6,647
Amounts due from customers under engineering contracts	399	2,524
Trade receivables	4,930	4,372
Other debtors	<u>2,224</u>	<u>3,091</u>
	<u>25,993</u>	<u>46,544</u>

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

Amounts included in trade receivables at 31 December 2014 and 2013 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 at 31 December 2014 as 64.3% (31 December 2013: 61.3%) of the total trade receivables was due from the Group's largest customer. 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. 98% and 99% of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records for the years ended 31 December 2014 and 2013 respectively.

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.

	2014 US\$'000	2013 US\$'000
Less than one month	4,245	4,267
One month to three months	650	1
Over three months to six months	21	53
Over six months	<u>14</u>	<u>51</u>
Total	<u>4,930</u>	<u>4,372</u>

The Group allows credit periods ranging from 10 days to 90 days (2013: 5 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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
Less than one month	9	12
One to three months	42	—
Over three months to six months	21	—
Over six months	14	49
Total	86	61

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:

	2014 <i>US\$'000</i>	2013 <i>US\$'000</i>
At the beginning of the year	1,780	2,550
Changes in allowance for doubtful debts	44	(302)
Amounts written off as uncollectible	(2)	(175)
Exchange adjustments	(835)	(293)
At the end of the year	987	1,780

Included in the allowance for doubtful debts were impaired trade receivables of US\$987,000 and US\$1,780,000 as at 31 December 2014 and 2013, respectively. The amount at 31 December 2014 mainly represented impairment for trade debtors at LLC Petropavlovsk — Iron Ore (trade debtors at OSJC Giproruda and LLC Olekma for the year ended 31 December 2013) who are in severe financial difficulties and the probability for them to settle the receivable is remote. The Group did not hold any collateral over these balances.

19. TIME DEPOSITS

Time deposits of the Group comprised short-term US Dollars denominated 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 0.7% to 8.15% (2013: 3.00% to 5.00%) per annum.

20. 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 0.05% to 23.00% (2013: 0.01% to 8.19%) per annum for the years ended 31 December 2014 and 2013.

21. TRADE AND OTHER PAYABLES

	2014 US\$'000	2013 US\$'000
Trade creditors	4,525	9,349
Advances from customers	443	986
Accruals and other payables	<u>9,832</u>	<u>11,707</u>
	<u>14,800</u>	<u>22,042</u>

For related party and individual third party trade creditors, the average credit period on purchases of goods and services for the year was 20 days (2013: 38 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.

	2014 US\$'000	2013 US\$'000
Less than one month	1,524	6,384
One month to three months	25	275
Over three months to six months	779	271
Over six months	<u>2,197</u>	<u>2,419</u>
Total	<u>4,525</u>	<u>9,349</u>

22. BANK BORROWINGS

	2014 US\$'000	2013 US\$'000
Bank loans		
Asian Pacific Bank	21,000	20,000
Industrial and Commercial Bank of China ("ICBC")	<u>247,552</u>	<u>179,922</u>
Total	<u>268,552</u>	<u>199,922</u>
Secured	253,522	179,922
Unsecured	<u>15,000</u>	<u>20,000</u>
Total	<u>268,552</u>	<u>199,922</u>
Carrying amount repayable		
Within one year	63,500	41,250
More than one year, but not exceeding two years	38,864	38,864
More than two years, but not exceeding five years	<u>166,188</u>	<u>119,808</u>
Total	<u>268,552</u>	<u>199,922</u>

Bank loan from Asian Pacific Bank

In July 2013, the Group entered into US\$15,000,000 loan facility with Asian Pacific Bank. The loan bears 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 and is repayable monthly. The principal of the loan was repayable by 21 July 2014. On 23 April 2014, the US\$15,000,000 term-loan facility had been renewed for another 12-month period with an annual interest of 9.0% repayable on the last day of credit period. As at 31 December 2014, the whole loan amount was drawn down under the loan facility.

In November 2013, the Group entered into US\$10,000,000 loan facility with Asian Pacific Bank. The loan bears an annual interest of 10.60% which is repayable monthly. The principal of the loan was repayable by 20 November 2014. On 23 October 2014, the US\$10,000,000 term-loan facility had been renewed for another 12-month period with an annual interest of 10.60% repayable on the last day of credit period. As at 31 December 2014, the Group had drawn down US\$6,000,000 from the loan facility.

In 2014, the Group drew down US\$60,800,000 from these facilities from Asian Pacific Bank in several tranches on a rolling basis and US\$59,800,000 were repaid in aggregate during the year.

As at 31 December 2014, the Group had US\$4,000,000 (31 December 2013: US\$5,000,000) 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, a wholly owned subsidiary of the Company, had entered into the HK\$3.11 billion (equivalent to US\$400 million) Engineering Procurement and Construction Contract with the China National Electric Engineering Corporation, contractor at the twin deposits of K&S project for the construction of the Group's mining operations at K&S.

On 13 December 2010, the Group entered into a project finance facility agreement with the ICBC (the "ICBC Facility Agreement") pursuant to which ICBC would lend US\$340,000,000 (equivalent to HK\$2.64 billion) to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The whole facility amount is repayable semi-annually in 16 installments of US\$21,250,000 each, starting from December 2014 when the whole facility amount is expected to be drawn down and is fully repayable by June 2022.

On 14 December 2011, the Group made the first drawdown amounting to US\$6,958,000. During the years ended 31 December 2013 and 2012, the Group made further drawdowns amounting to US\$187,811,000. Additional drawn downs amounting to US\$93,207,000 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 first installment of US\$21,250,000 was repaid in December 2014. The outstanding loan principal was US\$266,726,000 as at 31 December 2014 (31 December 2013: US\$194,769,000), which is repayable semi-annually starting from December 2014 and is expected to be fully repaid by June 2021.

As at 31 December 2014 and 2013, US\$27,250,000 and US\$6,000,000, respectively, were deposited with ICBC under a security deposits agreement related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets. The deposit carries interest at prevailing market rate at around 1.0% per annum for the years ended 31 December 2014 and 2013.

As at 31 December 2014, the Group had approximately US\$52,024,000 (2013: US\$145,231,000) undrawn financing facility in relation to the ICBC Facility Agreement. On 15 February 2015, ICBC granted a conditional extension to the availability period of this undrawn amount by six months to 8 June 2015 and all relevant condition precedents have been satisfied subsequently on 27 February 2015.

Details of guarantee granted by Petropavlovsk PLC in relation to the ICBC Facility Agreement are set out below.

Guarantee arrangements

In relation to the ICBC loan, 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 right to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk PLC's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

As at 31 December 2014, Petropavlovsk PLC beneficially owns approximately 45.39% (31 December 2013: 48.70%) of the issued share capital of the Company. 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 by the directors of the Company. Under the ICBC Facility Agreement, each of the following will constitute a covenant; and noncompliance with any covenant will constitute an event of default upon which the ICBC Facility Agreement will become immediately due and payable: (i) Petropavlovsk PLC must retain a not less than 30% ("Minimal Holding") 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 the group entity holding K&S Project has an obligation to maintain a minimum Debt Service Cover Ratio as defined in the ICBC Facility Agreement of 1.1x; (the "Financial Covenants") and (iii) there are also certain limited restrictions on the ability of Petropavlovsk PLC to grant security over its assets, make disposals of its assets or enter into merger transactions. As at 31 December 2014 and 2013 and during the years then ended, the Group does not have any non-compliance on the above covenants.

According to a waiver letter of 30 December 2014, ICBC has agreed to grant a waiver of the Financial Covenants until 31 December 2015 (or an earlier date of Petropavlovsk PLC and the group entity holding K&S Project manage to comply with their respective Financial Covenants), subject to the fulfillment of certain conditions precedent which were subsequently satisfied on 6 February 2015. ICBC has also agreed to amend the Minimal Holding from 30% to 15%.

23. SHARE CAPITAL

As disclosed in note 35 to the Group's 2013 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 Cheerglory Limited ("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.

As at 31 December 2013, a total of 1,035,876,000 new shares of the Company have been allotted and issued to General Nice, following the receipt of partial subscription monies of approximately HK\$1,005.7 million (equivalent to approximately US\$129.6 million).

Since the remaining commitment of General Nice to further subscribe for 863,600,000 new shares of the Company ("General Nice Further Subscription Shares") has only been partially fulfilled with 218,340,000 new shares subscribed as of 31 December 2013, the Group signed a supplemental agreement to the conditional share subscription agreements on 29 January 2014 with General Nice that the remaining commitment of the 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) a payment of 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.

The Company had received assurances from General Nice that it would have access to resources to complete the General Nice Further Subscription and had received a personal guarantee of General Nice's obligations from Mr. Cai Sui Xin, the controlling shareholder and chairman of General Nice.

On 26 February 2014, pursuant to the aforesaid arrangement albeit a delay, the Company received subscription monies of HK\$155.1 million (equivalent to approximately US\$20 million) from General Nice and 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.

On 23 April 2014, General Nice informed the Company whilst it remained committed to completing the General Nice Further Subscription, it was not in a position to complete the remainder of the General Nice Further Subscription and as such the Company has not received the scheduled receipt of HK\$451.5 million (equivalent to approximately US\$58.2 million).

On 30 April 2014, the Company received subscription monies of HK\$155.1 million (equivalent to approximately US\$20.0 million) from General Nice and allotted and issued 165,000,000 new shares (the "Partial Further Subscription Shares") of the Company to General Nice as a further partial subscription of General Nice Further Subscription Shares (the "Partial Further Subscription"). The Company agreed with General Nice to complete the remainder of the General Nice Further Subscription by payment to the Company of the remaining amount of HK\$296.4 million (equivalent to approximately US\$38.2 million) on or before 25 June 2014 ("General Nice Further Subscription Completion"). Upon the Company receiving full payment of HK\$296.4 million (equivalent to approximately US\$38.2 million) on or before 25 June 2014, the Company shall allot and issue to General Nice 315,260,000 new Shares as General Nice Further Subscription Shares and shall also allot and issue 25,548,000 Shares to General Nice as Deferred Subscription Shares. The Company has also agreed with General Nice that, in the event full payment of HK\$296.4 million (equivalent to approximately US\$38.2 million) was not made on or before 25 June 2014, no General Nice Deferred Subscription Shares shall be issued to General Nice.

On 25 June 2014, the General Nice Further Subscription Completion did not take place as planned. Accordingly, none of the 25,548,000 General Nice Deferred Subscription Shares was issued to General Nice.

On 17 November 2014, the Company agreed with General Nice that General Nice Further Subscription Completion would take place on or before 18 December 2014. As part of General Nice's commitment to the transaction and investment, in addition to the personal guarantee already received from Mr. Cai Sui Xin, the Company had also agreed with General Nice that, in the event that the full payment was not made on or before 18 December 2014 and General Nice sought, and the Company agreed to, a further deferral of General Nice Further Subscription Completion, General Nice would pay interest on a monthly basis on the outstanding balance to the Company, calculated on the following escalating interest schedule:

- (a) 6% per annum from 19 December 2014 to 18 March 2015;
- (b) 9% per annum from 19 March 2015 to 18 June 2015; and
- (c) 12% per annum from 19 June 2015 and thereafter.

Further, in accordance with the original subscription agreements, the shares subscription of Minmetals ("Minmetals Subscription") would complete upon full completion of General Nice Further Subscription Shares taking place on or before 18 December 2014.

On 18 December 2014, the extension of the General Nice Further Subscription Completion as agreed on 17 November 2014 did not happen. The Company and General Nice had agreed that General Nice would commence paying interest in accordance with the above schedule while the Company considered to permit a further deferral of the General Nice Further Subscription Completion. As General Nice Further Subscription did not occur on or before 18 December 2014, the completion of the Minmetals Subscription would be subject to further agreement between the parties.

The Company is in discussions with General Nice, Mr. Cai Sui Xin and Minmetals about a further deferred completion and other available options.

At 31 December 2014, a cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK\$1,315.9 million (equivalent to approximately US\$169.6 million).

During the year ended 31 December 2014, transaction costs of approximately US\$600,000 (31 December 2013: US\$4,231,000) directly attributable to the issuance of new shares to General Nice were debited against equity.

Details of the allotment and issuance of ordinary shares by the Company during the year ended 31 December 2014 are as follows:

	<i>Number of shares</i>	<i>US\$'000</i>
Authorised		
At 1 January 2013, 31 December 2013 and 1 January 2014		
— Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>12,820</u>
At 31 December 2014	<i>Note</i>	<i>Note</i>
<i>Note:</i> Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.		
Issued and fully paid		
At 1 January 2013		
— Ordinary shares of HK\$0.01 each	3,494,034,301	4,500
Issue of new ordinary shares of HK\$0.01 each to General Nice in April 2013	817,536,000	1,053
Issue of new ordinary shares of HK\$0.01 each to General Nice in December 2013	<u>218,340,000</u>	<u>281</u>
At 31 December 2013 and 1 January 2014		
— Ordinary shares of HK\$0.01 each	4,529,910,301	5,834
Issue of new ordinary shares of HK\$0.01 each to General Nice in February 2014	165,000,000	213
Transfer from share premium upon abolition of par value	—	1,185,488
Issue of new ordinary shares to General Nice in April 2014	165,000,000	19,996
Transaction costs attributable to issue of new ordinary shares in April 2014	<u>—</u>	<u>(300)</u>
At 31 December 2014		
— Ordinary shares with no par value	<u>4,859,910,301</u>	<u>1,211,231</u>

Details of the ordinary shares of the Company issued during the year ended 31 December 2013 and 2014, and ordinary shares of the Company in issue at the end of 31 December 2014 and 2013 are given in the table below.

Date	Description	Price HK\$	No of shares
1 January 2013	Issued share capital	0.01	3,494,034,301
5 April 2013	Issue of share capital	0.01	817,536,000
30 December 2013	Issue of share capital	0.01	218,340,000
26 February 2014	Issue of share capital	0.01	165,000,000
30 April 2014	Issue of share capital	N/A	<u>165,000,000</u>
31 December 2014	Number of ordinary shares in issue at the end of the reporting period		<u>4,859,910,301</u>

The shares issued by the Company rank *pari passu* with the then existing issued shares and do not carry pre-emptive rights.

RESULTS OF OPERATIONS

Revenue

Iron ore concentrate

During 2014, IRC sold all of the iron ore it produced and increased its iron ore sales volume by 1.5% year on year, suggesting good demand for IRC's iron ore concentrate product. However, the significant increase in iron ore supply in the market, and commensurate fall in iron ore prices, have resulted in a 23.5% decrease in selling price from US\$119 per tonne to US\$91 per tonne. Iron ore revenue therefore decreased by 22.8% from US\$120.4 million to US\$92.9 million in 2014.

Ilmenite

165,716 tonnes of ilmenite were sold in 2014, a 17% increase as compared to 141,644 tonnes in 2013. This positive contribution was, however, fully absorbed by the weak market demand for ilmenite in 2014 with a 32.2% fall in price. As a result, revenue from ilmenite sales dropped by US\$6.5 million to US\$25.1 million.

Despite the market adversity, IRC has been proactive in seeking ways to improve profit margins. During 2014, IRC started a programme of Chinese domestic ilmenite sales from Chinese ports under which the Group could offer customers a range of delivery options and prices for material from the Kuranakh Mine, Russian port or Chinese ports. It is hopeful that this new marketing strategy and delivery channel could give IRC a competitive advantage in the long run under this challenging market.

Engineering Services

Revenue from Giproruda, the engineering services division of the Group, reduced by US\$4.5 million to US\$4.4 million, due to decreased billing for its consulting services.

Site Operating Expenses And Service Costs

Site Operating Expenses and Service Costs mainly represent the mining and operating expenses incurred by the Group's sole mine in production, the Kuranakh mine. The expenses decreased by 5.2% from US\$156.1 million to US\$148.0 million.

Included in the expenses was a non-cash impairment provision for inventory at Kuranakh of US\$1.6 million, due to the falling iron ore price. Excluding this one-off non-cash provision, the underlying Site Operating Expenses and Service Costs decreased by 6.2% year-on-year. Considering that the iron ore sales volume increased by 1.5%, and also taking into account the relatively high inflation in Russia, the 6.2% cut in cost is a good achievement and demonstrates the Group's continuous efforts to control costs.

During 2014, 1,010,360 tonnes (2013: 1,032,615 tonnes) of iron ore concentrate and 178,426 tonnes (2013: 150,458 tonnes) of ilmenite were produced, ahead of the Group's 2014 production targets by 12.3% and 11.5% respectively. In accordance with the general market practice and for presentation and analysis purposes, the table below classifies ilmenite sales as a by-product credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore. The details of the key cash cost components are as follows:

	2014		2013
	Total cash	Cash cost	Cash cost per
	cost	per tonne	tonne
	US\$ million	US\$/t	US\$/t
Mining	29.9	29.6	37.5
Processing	17.3	17.1	18.4
Transportation to plant	8.4	8.3	7.0
Production overheads, site administration and related costs	26.7	26.4	22.4
Transportation to customers	31.5	30.7	36.6
Movements in inventories and finished goods	7.1	6.9	(8.0)
Contribution from sales of ilmenite* and others	(12.1)	(11.9)	(18.2)
Net cash cost	<u>108.8</u>	<u>107.1</u>	<u>95.7</u>

* net of tariff and other railway charges for ilmenite

The increase in net cash cost in 2014 was mainly due to reduced contribution from sales of ilmenite following the falling ilmenite prices and the sale of inventory produced in the previous year with higher production costs.

As widely reported in the press, the Russian Roubles depreciated significantly in December 2014. While the Group's income is mainly US dollar denominated and therefore unaffected by the Roubles depreciation, the Group's operating costs, which are mostly denominated in Roubles, are expected to reduce significantly in 2015 if Roubles continues to be weak. It is expected that this factor, coupled with the continuation of the Group's cost reduction program, would further bring down the cash cost in 2015.

SEGMENT INFORMATION

Despite the Group's effort to reduce operating costs, the decrease in selling prices of iron ore and ilmenite in 2014 had resulted in the "Mine in production" segment reporting a segmental EBITDA loss before impairment of US\$18.0 million (2013: profit of US\$22.8 million). The "Engineering" segment contributed a profit of US\$0.3 million (2013: US\$1.0 million) following a decrease in consultancy billings.

CENTRAL ADMINISTRATION EXPENSES

In light of the challenging market and operating environments, special attention continues to be given to controlling administrative costs. The successful implementation of the cost savings initiatives continued to provide benefits, with the Group's central administration costs reducing 11.8% to US\$16.8 million.

IMPAIRMENT CHARGES

As operating costs and efficiencies of the Kuranakh mine are at near optimal levels, the business model for this project is particularly sensitive to iron ore and ilmenite prices. Given the significant reductions in these prices, especially in the second half of 2014, it is considered appropriate to record a one-off non-cash impairment provision of US\$63.6 million against the full carrying value of the mine (2013: partial impairment provision of US\$15.4 million).

The softening of the iron ore price also affected the impairment assessment of the K&S mine and a one-off non-cash impairment provision of US\$197.3 million (2013: nil) had been recorded to partially write down the carrying value of the project.

SHARE OF RESULTS OF JOINT VENTURE

The vanadium joint venture, 46% owned by IRC, continued to report good operating results following significant decrease of purchase price for vanadium slack and improved recovery rates of vanadium. During 2014, the Group recorded a share of profit of the joint venture of US\$2.9 million (2013: share of loss of US\$0.1 million).

NET OPERATING LOSS

The net operating loss, before taking into account the impairments of Kuranakh and K&S, increased from US\$14.4 million to US\$39.4 million, primarily due to the reduction in prices of iron ore and ilmenite. The non-cash impairments increased the net operating loss to US\$300.3 million.

OTHER GAINS AND LOSSES AND OTHER EXPENSES

The Other Gains and Losses and Other Expenses of US\$10.2 million (2013: US\$1.5 million) mainly represents the gain on disposal of the Group's Amur River bridge subsidiary LLC Rubicon of US\$3.3 million offset by the exchange losses of US\$13.4 million following the depreciation of Russian Roubles.

NET FINANCIAL EXPENSES

Net financial expenses decreased from US\$2.3 million in 2013 to US\$0.9 million in 2014, mainly due to the increase in interest income following the equity injections from General Nice. The outstanding commitment from General Nice was also interest bearing with effect from December 2014.

TAXATION

Tax charge increased significantly from US\$0.7 million to US\$6.0 million. In 2014, a deferred tax liability of US\$5.2 million was recognised, and hence tax charge of the same amount was booked as a non-cash item, primarily due to the depreciation of Russian Roubles against US Dollars, which gave rise to temporary differences between the value of non-monetary fixed assets and the tax base of such non-monetary fixed assets.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As a result of the above, the loss attributable to the owners of the Company in 2014 increased to US\$317.6 million (2013: US\$41.6 million). The increase is mainly due to the non-cash impairments of US\$260.8 million and the reduction in revenue of US\$38.4 million, being partially offset by the Group's continuous effort to control costs.

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2014 and 31 December 2013:

<i>US\$'000</i>	For the year ended	
	31 December	
	2014	2013
Net cash used in operations	(25,598)	(818)
Interest paid	(9,818)	(7,082)
Capital expenditure	(100,990)	(113,614)
Proceeds on issuance of shares, net of transaction costs	38,871	126,887
Proceeds from bank borrowings, net of repayment	72,957	80,332
Repayment of loan from Petropavlovsk	—	(10,000)
Disposal of subsidiaries	3,150	—
Other payments and adjustments, net	(1,964)	(1,359)
Net movement during the year	(23,392)	74,346
Cash and bank balances (including time and restricted deposits)		
— At 1 January	98,382	24,036
— At 31 December	74,990	98,382

The net cash used in operations amounted to US\$25.6 million, mainly due to the reduction in revenue and other working capital movements. Capital expenditure of US\$101.0 million was spent mainly on the K&S mine, as the construction progress of the project stepped up for commissioning.

For financing, the Group had allotted and issued 330.0 million shares (2013: 1,035.9 million shares) to General Nice and received net cash injections of US\$38.9 million (2013: US\$126.9 million). A net bank borrowing of US\$73.0 million had been drawn during 2014 mainly from the ICBC project financing facility to finance the construction of the K&S project.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

On 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice and Minmetals for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK\$1,845 million (equivalent to approximately US\$238 million) in aggregate. The share placements not only provided the Group with strong strategic Chinese investment

partners, but also solidified the Group's financial strength by unlocking the value in IRC's extensive portfolio of development projects. The transaction also includes off-take and marketing arrangements, providing IRC with both sales volume and cash-flow security.

During 2013, a total of 1,035,876,000 shares were allotted and issued to General Nice for cash considerations of HK\$1,006 million (approximately US\$130 million). During 2014, a total of 330,000,000 shares were allotted and issued to General Nice for cash considerations of HK\$310 million (approximately US\$40 million).

In accordance with the intended use of proceeds of the transaction as disclosed in the shareholders' circular dated 21 February 2013, out of the total net proceeds of US\$233.5 million, it was envisaged that 90% will be used for the development of K&S Project and Garinskoye Project, and the remaining 10% will be used as general working capital. As of 31 December 2014, the Group had received approximately US\$170 million, and the proceeds had been used in accordance with the intention above-mentioned. Approximately US\$100 million had been spent on financing the construction of the K&S project and funding the general expenses of the Group, with the remaining US\$70 million deposited in banks.

Cash Position and Capital Expenditure

As at 31 December 2014, the carrying amount of the Group's cash and bank balances was approximately US\$75.0 million (31 December 2013: US\$98.4 million) of which US\$27.3 million (31 December 2013: US\$6.0 million) was under restricted cash deposit. The balance represents a decrease of US\$23.4 million, primarily due to the US\$40 million investment proceeds from General Nice, net of expenditure to fund the 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\$52.0 million (31 December 2013: US\$145.2 million).

Exploration, Development and Mining Production Activities

For the year 31 December 2014, US\$236.4 million (31 December 2013: US\$245.3 million) was incurred on development and mining production activities. No exploration activity was carried out during 2014 and 2013. The following table details the capital and operating expenditures in 2014 and 2013:

US\$'m	For the year 31 December 2014			For the year ended 31 December 2013		
	Operating expenses	Capital expenditure	Total	Operating expenses	Capital expenditure	Total
Kuranakh, primarily sustaining capital expenditure	136.0	1.1	137.1	129.3	5.2	134.5
K&S development	0.3	97.7	98.0	0.9	107.2	108.1
Exploration projects and others	—	1.3	1.3	2.0	0.7	2.7
	<u>136.3</u>	<u>100.1</u>	<u>236.4</u>	<u>132.2</u>	<u>113.1</u>	<u>245.3</u>

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 table below sets out the details of material new contracts and commitments entered into during 2014 on a by-project basis.

US\$'m		For the year ended 31 December	
Projects	Nature	2014	2013
Kuranakh	Purchase of property, plant and equipment	0.3	1.6
K&S	Sub-contracting for mining works	—	7.0
	Sub-contracting for railways and related works	—	2.8
	Sub-contracting for excavation related works	0.4	4.0
	Purchase of property, plant and equipment	0.1	0.8
Others	Other contracts and commitments	<u>0.1</u>	<u>0.3</u>
		<u>0.9</u>	<u>16.5</u>

Borrowings and Charges

As 31 December 2014, the Group had gross borrowings of US\$287.7 million (31 December 2013: US\$214.8 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US\$21.0 million (31 December 2013: US\$20.0 million) was unsecured bank borrowing for funding the working capital of the Group while the remaining US\$266.7 million (31 December 2013: 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 been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.0% (31 December 2013: 6.2%) per annum. As of 31 December 2014, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, increased to 25.0% (31 December 2013: 10.5%) mainly due to the drawing of the ICBC loan facility to finance the construction of the K&S project and the provisions of non-cash impairment charges as mentioned above.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble 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 2014, the Group employed approximately 2,300 employees (31 December 2013: 2,500 employees). The total staff costs excluding share based payments incurred were approximately US\$45.3 million for 2014 (2013: US\$54.0 million). Overall headcounts decreased in 2014 as part of the measures to reduce costs. 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. As part of the cost reduction program, directors and senior management of the Group are subject to a remuneration reduction of up to 15% in 2015.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited financial statements for the year ended 31 December 2014 which has included an emphasis of matter, but without qualification:

“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 2014, 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 that the Group incurred a loss for the year ended 31 December 2014 and that the Group had outstanding bank borrowings due for repayment in 2015 and significant capital and other commitments against the cash and cash equivalents and the credit facilities maintained by the Group. The directors have performed an assessment of the Group's future liquidity and cash flows, which included a review of assumptions about the likelihood of success of the measures being implemented to ensure the Group's financing needs, as well as of assumptions about market factors that are likely to have a significant impact on the Group's future cash flows. These assumptions are described in more detail in note 2 to the consolidated financial statements. Based on this assessment, the directors are satisfied that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due for the foreseeable future. However, 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.”

The aforesaid “note 2 to the consolidated financial statements” in the extract from the Independent Auditor's Report is disclosed as note 2 to this Results Announcement.

OTHER INFORMATION

Resources and Reserves information

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 has updated its Resources and Reserves information and further details are set out in IRC's 2014 annual report.

Corporate Governance

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. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2014 Annual Report.

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 save that the Non-Executive Directors, Mr Simon Murray, Mr Cai Sui Xin and Mr Liu Qingchun; and Independent Non-Executive Director, Mr Daniel Bradshaw, were unable to attend the annual general meeting of the Company held on 14 May 2014 as provided for in code provision A.6.7 as they had overseas engagements.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). The Company has made specific enquiry of all the Directors regarding any noncompliance 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.

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.

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 2014 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
Wednesday, 25 March 2015

As at the date of this announcement, the Executive Directors of the Company are Mr G. Jay Hambro and Mr Yury Makarov. The Non-Executive Directors are Mr Simon Murray, CBE, Chevalier de la Légion d’Honneur, Mr Raymond Kar Tung Woo, Mr. Cai Sui Xin and Mr. Liu Qingchun. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith and Mr Chuang-fei Li.

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