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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: SECOND QUARTER TRADING UPDATE TO 30TH JUNE 2012

Thursday 12th July 2012. IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) announced today its Trading Update for the second quarter of 2012, to 30th June 2012.

SUMMARY

IRC is pleased to announce that second quarter and interim year production numbers are on track to meet full year guidance, and that construction and exploration portfolio activities are progressing well.

At the Kuranakh Mine production of iron ore for the quarter was 19% higher and ilmenite production was 95% higher compared to the second quarter 2011. The new ilmenite separators are en route and will be installed with expanded production anticipated during the second half, increasing ilmenite capacity to 160,000 tonnes per annum during the second half.

With the arrival of summer, construction activities at K&S are advancing to plan. Notable developments during the quarter included the preparation for the foundations of the Processing Plant buildings with concrete pouring currently underway. Work on the electrical substation has also been completed and it is ready to be connected, in line with the published project schedule.

Significant progress has also been made with both organic and inorganic growth. The asset portfolio has advanced with a scoping study for Garinskoye; the acquisition of the remaining shares in Bolshoi Seym; and new Molybdenum exploration licences.

Group Highlights:

- Kuranakh 2012 full-year production targets reaffirmed
- K&S Project construction on track; Processing Plant foundations underway and electrical substation ready
- Garinskoye DSO scoping study announced to realise near-term value for reduced capital expenditure
- Molybdenum exploration and Bolshoi Seym transactions announced

Commenting on the performance in the second quarter, Jay Hambro, Executive Chairman of IRC said: *“With two quarters of 2012 behind us, I am pleased to report excellent progress on an operational front. At Kuranakh we have performed above our expectations in the second quarter of 2012 with production up one fifth from the same period last year, and I am confident in reaffirming our iron ore production targets for the year. We have also increased ilmenite production by almost 100%, the main reason for which is our team optimising the technological processing route of our beneficiation plant. This advance in technology was in the design stage last year and results to date allow us to reaffirm our 2012 production targets.*

On a recent visit to K&S I was encouraged to see firsthand the significant progress on site. Recent updates demonstrate that the rate of progress continues and we are successfully keeping within the construction schedule. This is testament to the hard work of IRC and our contractor CNEEC. Over the remainder of the summer, they aim to largely complete the external building works so that during the winter months installation work can begin inside.

Whilst operational progress has been encouraging, commodity and equity markets have been challenging. Iron ore prices tested global marginal costs of production for much of the second quarter and although we continue to see improvements in operational efficiencies, like much of the sector, commodity price movements will materially effect our financial performance, notably as accounting prudence requires impairments to balance sheet valuations. Encouragingly, prices have improved towards the end of the quarter and with the additional ilmenite production stream that we will enjoy in the second half, the outlook is more optimistic.”

RESULTS SUMMARY

Production increased at the Kuranakh Mine. Annual targets of 820,000 tonnes of iron ore concentrate and 125,000 tonnes of ilmenite concentrate are reaffirmed. The programme to expand ilmenite capacity is reaching its final stages and will add to production during the second half. We are confident in maintaining the 2012 annual production target of 125,000 tonnes and year-end capacity of 160,000 tonnes.

	<u>Products</u>	<u>Quality</u>	<u>Q2 2012</u>	<u>Q2 2011</u>	<u>Change</u>	<u>1H 2012</u>	<u>1H 2011</u>	<u>Change</u>
Production (tonnes)	Iron Ore	62.5% Fe	203,481	171,591	+19%	432,310	349,236	+24%
	Ilmenite	48% TiO ₂	28,694	14,707	+95%	55,445	22,172	+150%
Sales (tonnes)	Iron Ore	62.5% Fe	206,332	199,886	+3%	424,021	366,984	+16%
	Ilmenite	48% TiO ₂	26,996	8,275	+226%	52,966	11,515	+360%

CONFERENCE CALL

A conference call will be held today at 11h00 Hong Kong time to discuss the second quarter trading update. The number is +852 3005 2050 and the passcode is 728235#. Presentation slides to accompany the call are available at ircgroup.com.hk. A replay call will be available from 13th July 2012 at +852 3005 2020 with the passcode 162844#.

MARKETING

Iron ore concentrate shipments continued to our expanded customer base throughout East Asia. Increasingly customers recognise the advantages of purchasing concentrates from IRC. Rail freight from our operations allows for more frequent deliveries in lower volumes, reducing transportation times and costs to customers. In turn this means that IRC can help its customers to better manage their inventories, costs and working capital requirements.

Shipments of ilmenite concentrate are ongoing to an expanding and diverse customer base by geography and end use. During 2012 IRC expects to double production of ilmenite and it is encouraging to note that the marketing team continues to report strong near and long-term demand.

Marketing discussions continue with regard to offtake for K&S. There are a number of potential opportunities to use this high-quality product to generate an attractive price and geographical premium. The Company is encouraged by the ever growing interest from third parties to participate in offtake supply and to assist funding development of the group as a whole.

Sales Volumes

Iron ore sales were above expectations at 206,332 tonnes for the quarter and 424,021 tonnes for the first half to the end of June 2012. Ilmenite sales are also ahead of expectations at 26,996 tonnes for the quarter and 52,966 tonnes for the first half to the end of June.

Prices

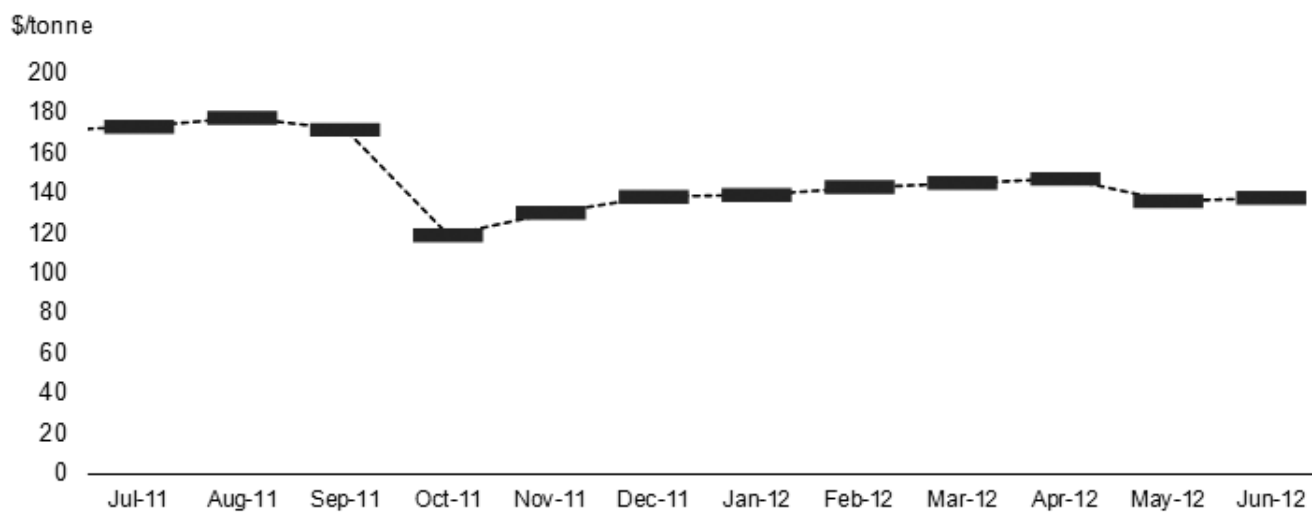
Iron ore prices for delivery to China softened in the second quarter 2012 compared to the previous quarter. The benchmark Tianjin CFR price (62% Fe iron ore fines) dipped below US\$130 per tonne on the spot market, a level that market commentators suggest is a floor because it is approximate to the marginal cost of certain Chinese production.

The average achieved selling price (ASP^{*}) for IRC was US\$127 per tonne compared to US\$117 per tonne in the previous quarter. Prices for iron ore concentrate are secured under a long-term offtake agreement and are calculated on the INCOTERM “DAP” (Delivered at Place) basis.

^{*} (ASP) Average Selling Price. The ASP calculation is based on a formula which takes into account the spot price and the prices in preceding months, therefore it lags the current spot price by at least one month.

During the quarter, the price for ilmenite concentrate (a titanium dioxide product) sustained recent gains. The average price was US\$313 per tonne (FOB Sovetskaya Gavan), compared to US\$280 per tonne in the first quarter.

Figure 1: Tianjin Iron Ore Spot Price, July 2011 to June 2012 (US\$/t)

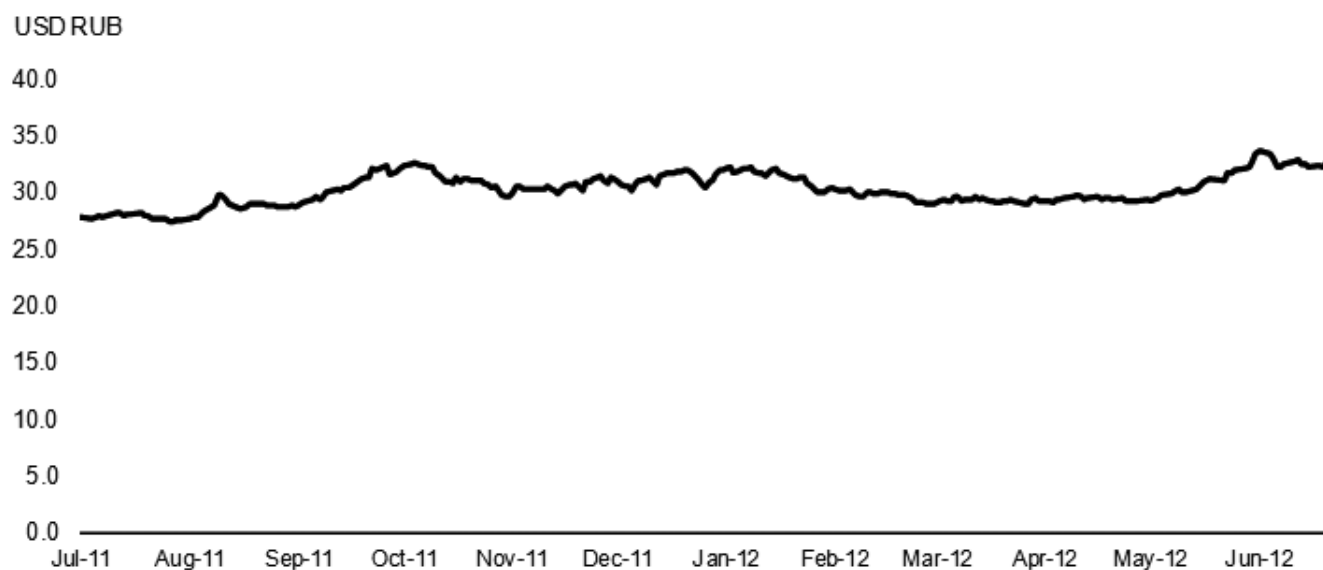


Source: Bloomberg

Note: This is an indicative and generic market price for iron ore and not the actual price achieved by IRC.

During the quarter the ruble averaged 31.0 to the dollar compared to 30.1 in the previous quarter. Commentators suggest that the currency weakened slightly due to falls in oil, Russia's biggest export earner, and market malaise over the ongoing European debt crisis.

Figure 2: Dollar Ruble Exchange Rate, July 2011 to June 2012



Source: Bloomberg

Outlook

Whilst iron ore prices weakened over the quarter, the market remains robust with offtake strong in north-eastern China. We recognise that residential construction starts slowed, yet we are encouraged by improvements in credit availability, reduction in funding cost and the ongoing themes of urbanisation, the demand for new and larger homes and of course the greater steel intensity in Chinese construction than elsewhere due to modern construction techniques, styles and taller buildings. Customer interest for our iron ore is good this year so far, and we continue with our efforts to ensure ongoing sales at fair prices.

Demand for our ilmenite concentrates remains strong. During the quarter the market remained tight and demand continued to be strong for IRC's products, as new and old customers requested additional volumes. Prices fell from the record highs experienced at the end of the first quarter as the market sought to replenish low stocks after the Chinese New Year and have since settled at levels experienced during the start of 2012. Even though the market has softened a little, the IRC marketing team continues to see strong preference for IRC's ilmenite products due to the high quality. Looking forward, the ramp-up during the second half of 2012 to an annual capacity of 160,000 tonnes, IRC will be able to both increase volumes to existing customers and supply a waiting list of new clients, thereby diversifying the customer and geographical demand base.

Group Financial Performance

The Board of Directors of the Company (the “Board”) wishes to inform the shareholders of the Company and potential investors that the Group is expected to record a loss for the six months ended 30th June 2012 as compared to the profit for the corresponding period in 2011. The Board believes that the Group’s interim results will be mainly affected by the softening in the market selling prices of iron ore, and a one-off, non-cash impairment of assets in our titanium project in our PRC subsidiary, due to uncertainty regarding the project’s future.

Despite the expected loss for the six months ended 30th June 2012, the Board considers that the overall financial position of the Group remains sound and solid.

The information contained in this announcement is only based on the Board’s preliminary assessment in accordance with the unaudited consolidated management accounts of the Group and other information currently available to the Company and is not based on any financial data or information that has been audited or reviewed by the Company’s auditor. Detailed financial information of the Group for the six months ended 30th June 2012 will be published on 22nd August 2012.

Shareholders and potential investors are advised to exercise caution when dealing in shares of the Company.

OPERATIONS

Kuranakh (100% owned)

Mining

Mining activities continued to plan at the Saikta and Kuranakh open-pits. The Kuranakh Pit has a lower stripping ratio, and slightly higher recoveries, as well as providing more flexibility for feed to the processing plant than from a single pit.

The two pits combined delivered good tonnages and grades to the crushing and screening plant. In line with plan, a total of 870,977 tonnes of ore was removed for the quarter, a decrease of 6% compared to 925,161 tonnes in the previous quarter. These operating levels are approximately full-capacity and will vary within 10% on a quarterly basis. It is anticipated that similar capacity levels are sustainable for the remainder of the year, placing the mine firmly on track to achieve the higher 2012 production targets.

Processing

For the quarter the Kuranakh Crushing and Screening Plant processed 890,178 tonnes of iron ore with a grade of 27.63% Fe and 8.61% TiO₂, producing 512,717 tonnes of pre-concentrate, an increase of 18.6% compared to 432,164 tonnes in the previous quarter. Stockpiles at the end of the quarter totaled an estimated 256,805 tonnes, an equivalent of 61 days feed for the Processing Plant.

Operations continued to improve at the Olekma Processing Plant during the quarter. 348,267 tonnes of pre-concentrate was processed, resulting in production of 203,481 tonnes of titanomagnetite with a grade of 62.5% Fe and 28,694 tonnes of ilmenite concentrate with a grade of 48%.

Production

With good progress at Kuranakh continuing into the second quarter, it is encouraging to report that mine production is comfortably on track to achieve annual production targets. During the second quarter 2012, 203,481 tonnes of iron ore concentrate was produced, resulting in 432,310 tonnes for the first half 2012. This is equal to 53% of the annual target of 820,000.

The doubling of production capacity for ilmenite is expected to be realised during the second half as stated. Consequently, production totaling 28,694 tonnes in concentrate for the quarter and 55,445 tonnes for the first half 2012 is viewed as in line with plan. The installation of the complementary circuits is scheduled for the second half, and with a short commissioning phase, will result in a significant production increase for the remainder of 2012. Therefore, at this point in time, the 2012 production target of 125,000 tonnes of ilmenite is reaffirmed.

Costs

Production costs at Kuranakh showed a good performance against the budget, in part due to the ruble weakening. This improved ruble denominated operating costs, notably salaries, energy and fuel. Decreases were also achieved due to increased volume of mining works and improved yields and recoveries at the Olekma Processing Plant. In line with on-mine inflation across the global mining sector cost pressures remain, IRC is working hard to optimise costs with the focus on energy and consumables proving effective in some areas. Railway costs, however, are outside of our immediate control and are a significant negative impact on our delivery costs and it is encouraging that some efficiency gains have been achieved. It should also be noted that in the second half, the new ilmenite circuit will increase production, and it is anticipated that this will improve unit costs as it is treated as a by-product credit.

Kuranakh Production and Sales

		2011			2012	
		Q2	Q3	Q4	Q1	Q2
IRON ORE						
Concentrate Produced	t	171,591	217,147	233,908	228,830	203,481
Concentrate Sold	t	199,886	210,293	192,810	217,689	206,332
Average Price (Fe 62.5%)	US\$/t	149	150	131	117	127
ILMENITE						
Concentrate Produced	t	14,707	17,948	23,371	26,751	28,694
Concentrate Sold	t	8,275	22,035	18,187	25,970	26,996
Average Price (TiO ₂ 48%)	US\$/t	158	212	259	293	280

K&S (100% owned)

Mining

The overburden stripping has intensified in the second quarter following the planned slowdown over the winter. A total 750,000m³ of material was removed in the second quarter, resulting in a total 5.55 million m³ of material moved to date — more than a third of required 14.5 million m³ of overburden required ahead of the operation start-up at the end of December 2013, and comfortably ahead of the mine plan at this stage. Stripping rates will continue to intensify through the third quarter and into 2013 as the project nears full commissioning.

Infrastructure

Three concrete batching plants have been constructed on site, providing CNEEC the capacity and flexibility needed to produce the different concrete mixes required. Performance is ahead of expectations and facilitating foundation works to progress rapidly.

The 22kv transformer site is now complete and is ready to be connected to the main cross country overhead power supply, before switching over to full national grid power.

Full construction works are underway on the Processing Plant site. Surface stripping and consolidation works on the rail siding are also underway.

All contractor camps are now fully functional. Some additional accommodation and service buildings will be added at a later stage when needed for specialist process staff.

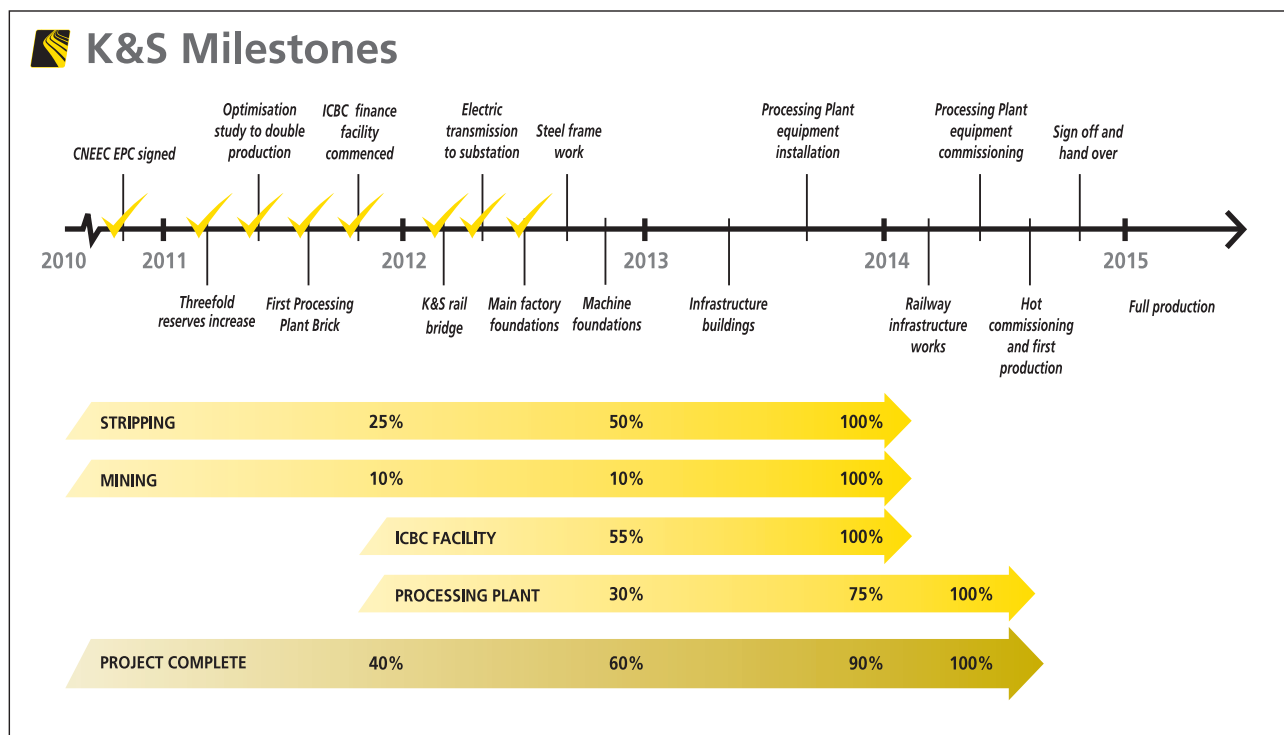
Processing Plant

The importation of steel construction, products such as reinforcing bars, continues ensuring adequate supplies for construction activities and a conservative stockpile.

All licensing, and testing certificates for both the continuation of works and all site materials as per requirements have been completed and logged.

The ongoing design drawings and finalisation of detailed design aspects are progressing, ensuring that the project will keep moving forward to plan.

Figure 3: K&S Project Timeline



In mid-June, a celebration was held at the K&S site with Executive Chairman Jay Hambro, senior site management from contractor CNEEC and local dignitaries to mark the commencement of activities for the pouring of the concrete foundations for the Beneficiation Plant.

Figure 4: Photo Updates from K&S Project, Q2, 2012



Ceremonial earthworks at K&S Project with IRC Executive Chairman Jay Hambro (centre)



Electrical Substation at K&S

Outlook

No delays to the schedule are evident as at the end of the second quarter. IRC and CNEEC are working at site and at their respective offices in Biorbidzhan and Beijing to ensure the continuous progress of the works. This includes working together on large and small items: from the selection and importation of materials and equipment; transportation; licensing and testing certification; and immigration and customs practicalities. The cooperative working relationship between IRC and CNEEC has strengthened further and this is reflected in excellent progress that has been achieved on site.

An updated selection of photos showing the progress at the K&S Project at the end of the quarter is available at: ircgroup.com.hk/en/Media/photographs/index.html.

EXPLORATION

Garinskoye (99.6% owned) and Garinskoye Flanks (100% owned)

Earlier in 2012 IRC announced positive scoping study results for the production of low-cost direct shipment ore from its large Garinskoye Deposit. The study, based on JORC reserves and resources proposes a DSO (Direct Shipment Ore) style opportunity. This is an attractive option because it has a low start-up cost and short build period using existing technologies and innovative transportation leads to attractive capital intensity rate. The study suggests production potential of 2.4 million tonnes of ore per annum, beneficiated to 2.1 million tonnes of 60% Fe iron ore fines concentrate. The simple technology production facilities provide low operating costs and proximity to Chinese border provides low transportation costs.

Since announcing the DSO opportunity progress has continued. The JORC resources model has been updated with the new data from the recent drilling, and the allocation of the high grade ore resources in the proposed open pit area. Technological mapping of the deposit and a full scale technological sampling for the pilot testing at the Ural Mining Institute of the Russian Academy of Science is underway. During the second half of 2012, it is anticipated that the JORC report with the updated figures of high and average grade ores will be completed along with the pit optimisation study and a technological study for the primary processing of the high grade ore.

IRC has commenced discussions with a range of potential financial providers for the construction of the Garinskoye DSO project. The project's position at the lowest point on both the operational and capital cost curves has provided for financing interest and the provision of indicative termsheets from a variety of sources even in the current capital constrained equity and debt markets.

Full details of the scoping study are available at *ircgroup.com.hk*

Bolshoi Seym (49% owned)

IRC announced the signing of an agreement to acquire the remaining 51% ownership of the high-grade ilmenite Bolshoi Seym Deposit resulting in 100% ownership. The attractive geology with approximately 331.5 million tonnes of reserves and resources; demonstrating the potential for annual production capacity of approximately 200,000 tonnes of ilmenite concentrate. Furthermore, it is located adjacent to IRC's established Kuranakh Mine suggesting economies of scale and synergies from an enlarged operation using IRC's proven track record in the area.

Full details of the acquisition are available at *ircgroup.com.hk*

Molybdenum Exploration

During the quarter, IRC announced the signing of an agreement to acquire a controlling 50% plus one share stake and an option over all remaining shares in a molybdenum exploration project situated in the Amur Region of the Far East of Russia. The acquisition will provide IRC with an attractive industrial commodity development opportunity whilst enhancing commodity and regional diversification.

This is a low cost entry into a new project with significant exploration upside. It offers some complementary commodity diversification: attractive to IRC's customer base. An early stage exploration identified metalised zones hosting high-grade pockets and it is well located projects close to rail, energy and water infrastructure.

SRP (46% Owned)

The Steel Slag Reprocessing Plant in North-Eastern China continued to make significant enhancements in recoveries during the second quarter with ramping up to near full capacity. Stable production output allowed to significantly improve production efficiencies and production costs per tonne of the final product. First commercial sales were made, however, due to negative market trend the main volume of the final product is being stockpiled, awaiting the improvements in the local market.

CORPORATE DIARY

IRC will report Interim 2012 Financial Results on Wednesday 22nd August 2012. Conference call information will be announced two weeks in advance.

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. The Group's view of the principal risks that could impact it for the remainder of the current financial year are substantially unchanged from the ones set out in the 2011 Annual Report. A summary of these key risks is set out below:

- Operational risks such as delay in supply of/or failure of equipment/services/contractors and adverse weather conditions.
- Financial risks such as commodity prices, exchange rate fluctuations, funding and liquidity and capital programme controls.
- Health, safety and environmental risks such as health and safety issues, legal and regulatory risks, licences and permits, restatement of reserves and resources, and non-compliance with applicable legislation.
- Legal and Regulatory risks such as country-specific risks.
- Human Resources risks such as the ability to attract key senior management and potential lack of skilled labour.

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

By Order of the Board
G. JAY HAMBRO
Executive Chairman

Hong Kong, People's Republic of China
Thursday, 12th July 2012

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

For further information, please contact:

Investors

Nicholas Bias, Head of Communications

Office: +852 2772 0007

Mobile: +852 9088 1029

Email: nb@ircgroup.com.hk

Media (Racepoint Limited)

Tony Turner

Office: +852 3111 9988

Mobile: +852 3111 9928

Email: tturner@racepointgroup.com

Monika Yeung

Office: +852 3111 9988

Mobile: +852 3111 9964

Email: myeung@racepointgroup.com

Registered Office

IRC Limited

6H, 9 Queen's Road Central

Hong Kong

Office: +852 2772 0007

Fax: +852 2772 0329

Email: ir@ircgroup.com.hk

Website: www.ircgroup.com.hk