IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

2018 INTERIM RESULTS
GROUP EBITDA INCREASED 43%
UNDERLYING RESULTS IMPROVED 17%

CONFERENCE CALL

A conference call will be held today at 09:00am Hong Kong time to discuss the interim results. The number is +852 2112 1888 and the passcode is 4130031#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A playback of the teleconference will be available from 3 September 2018 at www.ircgroup.com.hk/html/ir_call.php.

Friday, 31 August 2018: The Board of Directors of IRC Limited ("IRC" or the "Company", together with its subsidiaries, the "Group") is pleased to provide the interim results of the Company for the six months ended 30 June 2018.

KEY HIGHLIGHTS

Financials

- Revenue increased 37% to US$70.2 million (30 June 2017: US$51.2 million)
- EBITDA increased 43% to US$11.8 million (30 June 2017: US$8.2 million)
- Net loss, including a one-off, non-cash provision of US$7.5 million, amounted to US$15.6 million (30 June 2017: US$9.7 million)
- Underlying loss reduced 17% to US$8.1 million (30 June 2017: US$9.7 million)
- ICBC waivers granted; bridge loan obtained from the major shareholder

Operations

- K&S – Production and sales volumes increased:
  - ➢ Production volume up 56% to 1,084,602 tonnes (30 June 2017: 697,431 tonnes)
  - ➢ Sales volume up 50% to 1,046,649 tonnes (30 June 2017: 698,632 tonnes)
- K&S – Operating at 78% capacity at the end of June; entering final phase of the ramping up programme
- K&S – Successfully operated at 105% of design capacity
- Kuranakh – Care and maintenance process satisfactory

Commenting on the results, Yury Makarov, Chief Executive Officer of IRC said:

"During the first half of 2018, K&S made steady progress in the ramping up programme and continued to increase the production capacity. The high production and sales volumes resulted in growth of 37% in the Group's revenue to US$70 million and growth of 43% in EBITDA to US$12 million. As a result, the Group's underlying loss reduced by 17% to US$8 million.

K&S achieved a number of milestones in the first half of 2018, including achieving historically high records of monthly production and sales volumes. In addition, the plant managed to operate at 105% of its design capacity during a 24–hour production run, and also managed to produce at more than 90% of its design capacity continuously for 72 hours. These demonstrated K&S' ability to run at load for a prolonged period.

We are grateful for the support from Petropavlovsk and ICBC. Together, they have provided a financial cushion to IRC which helps facilitate our discussions with various parties to restructure the Group's borrowings. While the Company is discussing the restructuring of the loan with ICBC, the negotiations with another finance provider to refinance the ICBC loan continue.

At present, we are working hard to resolve the remaining production bottlenecks at K&S in preparation for full-capacity-operation which will provide greater contribution to IRC and its shareholders. We are aware of the recent global political unrest and the potential impacts this may bring. IRC is taking a cautious approach when facing the challenges ahead. We wish to take this opportunity to thank the stakeholders and shareholders of IRC for their continuous support."

The board of directors of IRC Limited hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 which have been reviewed by the Company's Audit Committee, comprising of independent non-executive directors, and by the external auditors.

INTERIM FINANCIAL REPORT

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 30 June 2018

	NOTES	**Six months ended 30 June**	
		2018	2017
		US$'000	US$'000
		(unaudited)	(unaudited)
Revenue	3	**70,185**	51,162
Operating expenses	4	**(61,352)**	(44,672)
Depreciation and amortisation	4	**(9,132)**	(4,159)
Impairment charges		**–**	(4)
Share of results of a joint venture		**–**	4
Other income, gains and losses		**2,933**	1,723
Allowance for financial asset measured at amortised cost		**(7,548)**	–
Financial income		**43**	65
Financial expenses	5	**(10,430)**	(13,818)
Loss before taxation		**(15,301)**	(9,699)
Income tax expense	6	**(336)**	(64)
Loss for the period		**(15,637)**	(9,763)
Loss for the period attributable to:			
Owners of the Company		**(15,619)**	(9,722)
Non-controlling interests		**(18)**	(41)
		(15,637)	(9,763)
Loss per share (US cents)	8		
Basic		**(0.22)**	(0.14)
Diluted		**(0.22)**	(0.14)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)
For the Six Months Ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period	**(15,637)**	(9,763)
Other comprehensive (expense) income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(547)**	355
Fair value gain on cash flow hedge instruments	**2,026**	–
Total comprehensive expense for the period	**(14,158)**	(9,408)
Total comprehensive expense attributable to:		
Owners of the Company	**(14,025)**	(9,405)
Non-controlling interests	**(133)**	(3)
	(14,158)	(9,408)

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	NOTES	**As at 30 June 2018 US$'000 (unaudited)**	As at 31 December 2017 US$'000 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets		**19,280**	19,149
Property, plant and equipment	9	**451,080**	459,118
Other non-current assets		**73**	97
Restricted bank deposit		**977**	1,977
Valued-added tax recoverable		**1,690**	2,918
		473,100	483,259
CURRENT ASSETS			
Inventories		**29,354**	28,616
Trade and other receivables	10	**16,699**	25,410
Time deposits		**653**	347
Bank balances		**9,375**	8,650
Other financial assets		**174**	–
		56,255	63,023
TOTAL ASSETS		**529,355**	546,282
CURRENT LIABILITIES			
Trade and other payables	11	**(40,799)**	(33,598)
Income tax payable		**(318)**	(2,638)
Borrowings – due within one year	12	**(89,588)**	(60,950)
Other financial liabilities		**–**	(1,852)
		(130,705)	(99,038)
NET CURRENT LIABILITIES		**(74,450)**	(36,015)
TOTAL ASSETS LESS CURRENT LIABILITIES		**398,650**	447,244
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(3,856)**	(3,623)
Provision for close down and restoration costs		**(13,344)**	(14,030)
Construction costs payable		**(12,347)**	(16,069)
Borrowings – due more than one year	12	**(133,605)**	(162,078)
		(163,152)	(195,800)
TOTAL LIABILITIES		**(293,857)**	(294,838)
NET ASSETS		**235,498**	251,444

Condensed Consolidated Statement of Financial Position (continued)

At 30 June 2018

	NOTE	**As at 30 June 2018 US$'000 (unaudited)**	As at 31 December 2017 US$'000 (audited)
CAPITAL AND RESERVES			
Share capital	13	**1,285,158**	1,285,158
Reserves		**(1,049,494)**	(1,033,681)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**235,664**	251,477
NON-CONTROLLING INTERESTS		**(166)**	(33)
TOTAL EQUITY		**235,498**	251,444

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2018

	Total attributable to owners of the Company									
	Share capital US$'000	Capital reserve[(a)] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Hedging reserve US$'000	Other reserve[(b)] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2017 (audited)	1,285,158	17,984	12,675	(22,199)	–	19,204	(1,179,141)	133,681	(67)	133,614
Loss for the period	–	–	–	–	–	–	(9,722)	(9,722)	(41)	(9,763)
Other comprehensive income (expenses) for the period										
Exchange differences on translation of foreign operations	–	–	–	317	–	–	–	317	38	355
Total comprehensive income (expenses) for the period	–	–	–	317	–	–	(9,722)	(9,405)	(3)	(9,408)
Share-based payments	–	–	560	–	–	–	–	560	–	560
Deemed contribution from a shareholder	–	–	–	–	–	2,267	–	2,267	–	2,267
Balance at 30 June 2017 (unaudited)	1,285,158	17,984	13,235	(21,882)	–	21,471	(1,188,863)	127,103	(70)	127,033
Balance at 31 December 2017 (audited)	1,285,158	17,984	14,190	(21,882)	(1,852)	23,766	(1,065,887)	251,477	(33)	251,444
Adjustment	–	–	–	–	–	–	(2,900)	(2,900)	–	(2,900)
Balance at 1 January 2018 (adjusted)	1,285,158	17,984	14,190	(21,882)	(1,852)	23,766	(1,068,787)	248,577	(33)	248,544
Loss for the period	–	–	–	–	–	–	(15,619)	(15,619)	(18)	(15,637)
Other comprehensive (expenses) income for the period										
Exchange differences on translation of foreign operations	–	–	–	(432)	–	–	–	(432)	(115)	(547)
Fair value gain on cash flow hedge instruments	–	–	–	–	2,026	–	–	2,026	–	2,026
Total comprehensive income (expenses) for the period	–	–	–	(432)	2,026	–	(15,619)	(14,025)	(133)	(14,158)
Share-based payments	–	–	1,112	–	–	–	–	1,112	–	1,112
Balance at 30 June 2018 (unaudited)	1,285,158	17,984	15,302	(22,314)	174	23,766	(1,084,406)	235,664	(166)	235,498

(a) The amounts represent deemed contribution from the then ultimate holding company of the Company for (1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the 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 the then ultimate holding company of the Company.

(b) The amounts 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, 2) transfer of share-based payment 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, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution (note 14), and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund SPC – Tiger Global SP ("Tiger Fund").

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net cash generated from operations	**11,675**	18,657
Income tax paid	**(2,367)**	(3)
NET CASH FROM OPERATING ACTIVITIES	**9,308**	18,654
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and exploration and evaluation assets	**(2,227)**	(3,596)
Time deposits placed	**1,000**	–
Time deposits withdrawn	**(306)**	–
Interest received	**43**	65
NET CASH USED IN INVESTING ACTIVITIES	**(1,490)**	(3,531)
FINANCING ACTIVITIES		
Interest expenses paid	**(5,656)**	(5,025)
Repayment of borrowings	**(31,200)**	(42,166)
Proceeds from borrowings	**29,824**	20,559
Loan guarantee fee and waiver fee paid	**–**	(4,078)
NET CASH USED IN FINANCING ACTIVITIES	**(7,032)**	(30,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	**786**	(15,587)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**8,650**	31,342
Effect of foreign exchange rate changes	**(61)**	(139)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, represent by bank balances	**9,375**	15,616

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

> The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.
>
> The Company's auditor has reported on those financial statements. The auditor's report was unqualified; included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

In preparing these condensed 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 period, its net current liabilities position of approximately United States Dollars ("US$") 74.5 million as at 30 June 2018 and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations, cash and cash equivalents and the credit facilities being refinanced the Group.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and the US$/Rouble exchange rates for a fifteen month period after 30 June 2018. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

The Group has advanced negotiations with the bank to refinance and to obtain an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to final approval by the bank and documentation.

However, if the Group is unable to successfully refinance its loan facilities 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 loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations condensed as and when they fall due in the foreseeable future. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

3. REVENUE AND SEGMENT INFORMATION

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

Six months ended 30 June 2018 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Segment revenue – external					
Sale of iron ore concentrate	69,962	–	–	–	69,962
Engineering services	–	–	223	–	223
Total revenue	69,962	–	223	–	70,185
Geographical markets					
People's Republic of China	46,459	–	–	–	46,459
Russia	23,503	–	223	–	23,726
	69,962	–	223	–	70,185
Timing of revenue recognition					
At a point of time	69,962	–	–	–	69,962
Over time	–	–	223	–	223
	69,962	–	223	–	70,185
Site operating expenses and service costs	(64,346)	(145)	(752)	(6)	(65,249)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 4(a))	(8,945)	(107)	(74)	–	(9,126)
Segment results	5,616	(145)	(529)	(6)	4,936
General administrative expenses					(5,229)
General depreciation					(6)
Other income, gains and losses					2,933
Allowance for financial asset measured at amortised cost					(7,548)
Financial income					43
Financial expenses					(10,430)
Loss before taxation					(15,301)

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2017 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Segment revenue – external					
Sale of iron ore concentrate	50,534	–	–	–	50,534
Engineering services	–	–	628	–	628
Total revenue	50,534	–	628	–	51,162
Geographical markets					
People's Republic of China	43,816	–	–	–	43,816
Russia	6,718	–	628	–	7,346
	50,534	–	628	–	51,162
Timing of revenue recognition					
At a point of time	50,534	–	–	–	50,534
Over time	–	–	628	–	628
	50,534	–	628	–	51,162
Site operating expenses and service costs	(42,605)	(269)	(913)	(6)	(43,793)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 4(a))	(3,905)	(158)	(77)	–	(4,140)
Impairment charges	–	–	–	(4)	(4)
Share of results of a joint venture	–	–	–	4	4
Segment results	7,929	(269)	(285)	(6)	7,369
General administrative expenses					(5,019)
General depreciation					(19)
Other income, gains and losses					1,723
Financial income					65
Financial expenses					(13,818)
Loss before taxation					(9,699)

4. OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Site operating expenses and service costs[a]	**65,249**	43,793
General administrative expenses[b]	**5,235**	5,038
	70,484	48,831

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Railway costs	**17,860**	10,064
Subcontracted mining costs and engineering services	**13,604**	7,367
Staff costs	**9,985**	8,199
Depreciation	**9,126**	4,140
Materials usage	**5,803**	3,789
Electricity	**4,332**	3,729
Property tax	**3,336**	3,096
Fuel	**1,139**	728
Professional fees*	**207**	398
Office costs	**195**	203
Rental fee	**165**	153
Insurance	**79**	82
Bank charges	**54**	50
Business travel expenses	**18**	22
Royalties	**–**	7
Recoveries of inventories written down	**–**	(19)
Mine development costs capitalised in property, plant and equipment	**(791)**	(1,367)
Movement in finished goods and work in progress	**(1,430)**	1,119
Other expense	**1,567**	2,033
	65,249	43,793

4. OPERATING EXPENSES (CONTINUED)

(b) General Administrative Expenses

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Staff costs other than share-based payments	**2,246**	2,669
Professional fees*	**1,273**	928
Share-based payments	**1,112**	560
Office costs	**173**	168
Business travel expenses	**165**	192
Office rent	**118**	232
Bank charges	**97**	79
Insurance	**45**	103
Depreciation	**6**	19
Other expenses	**–**	88
	5,235	5,038

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

5. FINANCIAL EXPENSES

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest expense on bank borrowings	**8,988**	12,715
Interest expense on loan payable to a related party	**167**	–
	9,155	12,715
Unwinding of discount on environmental obligation and long-term construction costs payable	**1,275**	1,103
	10,430	13,818

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Russia Corporate tax	**(9)**	(7)
Hong Kong Profits tax	**(29)**	–
Deferred tax expense	**(298)**	(57)
	(336)	(64)

Russia Corporate tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2018 and 2017.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is eligible to income tax relief over 10 years starting from August 2015. The K&S Project is exempted from Russia Corporate tax for the period from August 2015 to August 2020 and then, will be taxed at a reduced rate of 10% in the following 5 years increasing to 20% thereafter.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2018 and 2017.

No United Kingdom Corporate tax, the People's Republic of China Enterprise Income tax and Cyprus Corporate Tax were provided for as the Group had no assessable profit arising in or derived from, these jurisdictions for the six months ended 30 June 2018 and 2017.

7. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both the six months ended 30 June 2018 and 2017.

8. LOSS PER SHARE

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

loss

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the purposes of basic and diluted loss per ordinary share being loss for the period attributable to owners of the Company	**(15,619)**	(9,722)

8. LOSS PER SHARE (CONTINUED)

Number of shares

	Six months ended 30 June	
	2018	2017
	Number	Number
	'000	'000
Number of ordinary shares for the purposes of basic and diluted loss per ordinary share	**7,093,386**	7,093,386

The computation of diluted loss per share for both periods ended 30 June 2018 and 2017 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US$2.2 million (for the six months ended 30 June 2017: US$3.6 million) on the mine development and acquisition of property, plant and equipment.

The depreciation charge incurred for the six months ended 30 June 2018 is approximately US$9,132,000 (for the six months ended 30 June 2017: US$4,159,000).

At 30 June 2018, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (31 December 2017: Nil).

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)
Valued-added tax recoverable	**5,394**	8,063
Advances to suppliers	**4,431**	2,603
Trade receivables	**4,263**	1,803
Amounts due from customers under engineering contracts	**379**	167
Other debtors	**2,232**	12,774
	16,699	25,410

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Except for trade receivables measured at FVTPL, the Group applies the simplified approach in accordance to HKFRS 9 to measure ECL which uses a lifetime ECL, trade receivables have been grouped based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. As at 30 June 2018, 99% of the trade receivables balances were within the credit period of 30 days, the directors of the Company considered that the lifetime ECL allowance is insignificant as at 30 June 2018.

Other debtors at 31 December 2017 comprised mainly of the interest receivable from General Nice. As a result of the winding-up order made against General Nice by the High Court of Hong Kong on 16 July 2018, the Directors of the Company have assessed the recoverability of the amount and recognised an allowance of US$7.5 million charged to the profit or loss during the current interim period. Due to the significant increase in the credit risk associated with General Nice, the interest receivable has been fully impaired as at 30 June 2018.

The Company is considering the courses of action available to it light of the winding-up order.

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

	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)
Less than one month	**4,221**	1,791
One month to three months	**39**	1
Over three months to six months	**–**	–
Over six months	**3**	11
Total	**4,263**	1,803

The Group allows credit periods of 30 days to individual third party customers. The directors of the Company considered that the carrying value of the other receivables is approximately equal to their fair value.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)
Trade payables	**3,947**	4,369
Accruals and other payables	**36,852**	29,229
	40,799	33,598

For individual third party trade creditors, the average credit period on purchase of goods and services for the period was 24 days (31 December 2017: 27 days).

The following is an aged analysis of the trade creditors based on invoice date.

	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)
Less than one month	**3,823**	3,361
One month to three months	**24**	854
Over three months to six months	**4**	8
Over six months	**96**	146
Total	**3,947**	4,369

12. BORROWINGS

	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)
Bank loans		
Industrial and Commercial Bank of China ("ICBC")	**193,032**	221,578
Sberbank of Russia PJSC	**–**	1,450
	193,032	223,028
Other loans		
EPC-Finance LLC	**73**	–
CJSC Pokrovskiy Rudnik	**30,088**	–
	30,161	–
Total	**223,193**	223,028
Secured	**193,032**	223,028
Unsecured	**30,161**	–
	223,193	223,028
Bank borrowings repayable:		
Within one year	**89,588**	60,950
More than one year, but not exceeding two years	**55,057**	55,344
More than two years, but not exceeding five years	**78,548**	106,734
Total	**223,193**	223,028

12. BORROWINGS (CONTINUED)

Bank loan from ICBC

The Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") on 13 December 2010 pursuant to which ICBC would lend US$340,000,000 to LLC KS GOK to be used to fund the construction of the Group's mining operations, K&S Project. The whole facility was originally repayable semi-annually in 16 instalments of US$21,250,000 each, starting from December 2014 and would be fully repayable by June 2022. On 27 February 2017, ICBC agreed to restructure two repayments originally due for payment on 20 June 2017 and 20 December 2017 total of US$42,500,000 into five subsequent semi-annual repayment instalments. As a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8,500,000 to US$29,750,000.

The loan is carried at amortised cost at an effective interest rate of 5.65% (2017: 6.41%) per annum. The outstanding loan principal was US$204,000,000 as at 30 June 2018 (31 December 2017: US$233,750,000).

As at 30 June 2018 and 31 December 2017, the Group had no undrawn finance facility available under the ICBC Facility Agreement.

Details of the guarantee granted by Petropavlovsk PLC, a related party, in relation to the ICBC Facility Agreement are set out in note 14.

Bank loan from Sberbank of Russia PJSC ("Sberbank")

On 17 November 2016, Ariti HK Ltd., a wholly-owned subsidiary of the Company, obtained a revolving loan facility from Sberbank of Russia PJSC primarily for working capital financing for the purchase of mineral resources from LLC KS GOK. The loan facility included amounts of US$7,000,000 up to 31 March 2017 and US$10,000,000 for the period from 1 April 2017 to 16 May 2018. The loan facility carried interest at 6% per annum repayable monthly and the loan principal is repayable by 16 May 2018.

The loan from Sberbank was fully repaid in May 2018.

Loan from EPC-Finance LLC

On 27 April 2018, LLC Petropavlovsk Iron Ore, a subsidiary of the Group, obtained an unsecured long-term loan of RUB6,000,000 from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is be repayable on 27 April 2020. As at 30 June 2018, RUB4,580,000 (equivalent to US$73,000) has been drawn down.

Loan from CJSC Pokrovskiy Rudnik

In June 2018, the Group obtained an unsecured short-term loan of RUB1,877,712,900 (equivalent to US$29,750,000) from CJSC Pokrovskiy Rudnik, a subsidiary of Petropavlovsk PLC. The loan carries interest of 12% per annum and is repayable on 20 October 2018.

13. SHARE CAPITAL

There were no movements in the issued share capital of the Company during the six months ended 30 June 2018 and 2017. Details of the share capital of the Company at 30 June 2018 and 31 December 2017 are as follows:

	Number of shares	Share capital US$'000
Issued and fully paid		
At 1 January 2018 and 30 June 2018	7,093,386,381	1,285,158

As disclosed in the Company's 2017 annual report, a shareholder, General Nice, did not complete the subscription in accordance with the agreed timeline set out in the share subscription agreement ("Subscription Agreement").

At 30 June 2018, the rights granted to Tiger Capital Fund to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") in December 2016 remained outstanding. No option shares granted were exercised or lapsed during the six months ended 30 June 2018.

14. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in this report, during the six months ended 30 June 2018, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties. Dr. Pavel Maslovskiy, a shareholder of Petropavlovsk PLC, is a close family member of Yury Makarov, a director of the Company.

As disclosed below, Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee and also an unsecured short term loan.

14. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below.

	Services provided[a] Six months ended 30 June		Services received[b] Six months ended 30 June	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**2,091**	2,060
LLC NPGF Regis	**1**	7	**–**	–
CJSC Albynsky Rudnik	**–**	274	**–**	–
CJSC Pokrovsky Rudnik	**–**	1,042	**–**	–
Malomirsky Rudnik	**211**	–	**–**	–
MC Petropavlovsk	**177**	182	**38**	43
LLC Gidrometallurgia	**59**	55	**–**	–
CJSC Pokrovskiy Rudnik	**–**	–	**167**	–

	Interest on outstanding capital contribution[c] Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Transaction with other related party		
General Nice	**–**	2,267

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

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support, helicopter services and interest payable/paid on short term loan.

(c) Amount represents interest charged on outstanding capital contribution and is recognised as a deemed capital contribution.

14. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (Continued)

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

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

	Amounts owed by related parties[(a)]		**Amounts owed to related parties[(b)]**	
	As at 30 June 2018 US$'000 (unaudited)	As at 31 December 2017 US$'000 (audited)	**As at 30 June 2018 US$'000 (unaudited)**	As at 31 December 2017 US$'000 (audited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**8,469**	6,390
OJSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**17**	18	**96**	105
CJSC Pokrovsky Rudnik	**143**	156	**–**	–
CJSC Albynsky Rudnik	**149**	162	**–**	–
Malomirsky Rudnik	**236**	–	**–**	–
MC Petropavlovsk	**371**	188	**1,958**	1,975
LLC Gidrometallurgia	**3**	3	**–**	–
CJSC Pokrovskiy Rudnik	**–**	–	**30,088[(c)]**	–
Outstanding balances with other related party				
General Nice	**–**	12,971	**–**	1,592
	919	13,498	**40,613**	10,064

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(b) Other than the outstanding loan balance of US$30,088,000 due to CJSC Pokrovskiy Rudnik as described in note (c) below, the amounts are recorded in other payables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(c) The amount represented a loan from CJSC Pokrovskiy Rudnik of US$30,088,000 in June 2018.

14. RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Compensation

The remuneration of directors, which represents members of key management, during the period was as follows:

	Six months ended 30 June	
	2018	2017
	US$'000	US$'000
	(unaudited)	(unaudited)
Short-term benefits	**1,050**	921
Post-employment benefits	**57**	50
Share-based payments	**491**	214
	1,598	1,185

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

RESULTS OF OPERATIONS

The following table summarises the consolidated results of the Group for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June		
	2018	2017	Variance
Key Operating Data			
Iron Ore Concentrate			
– Production volume (tonnes)	***1,084,602***	*697,431*	*55.5%*
– Sales volume (tonnes)	***1,046,649***	*698,632*	*49.8%*
– Average price (US$/tonne)	***67***	*72*	*(7.0%)*
Consolidated Income Statement (US$'000)			
Revenue			
Iron Ore Concentrate	**69,962**	50,534	38.4%
Engineering Services	**223**	628	(64.5%)
Total Revenue	**70,185**	51,162	37.2%
Site operating expenses and service costs	**(65,249)**	(43,793)	49.0%
General Administrative expenses	**(5,235)**	(5,038)	3.9%
Impairment charges	**–**	(4)	(100.0%)
Share of results of a joint venture	**–**	4	(100.0%)
Other income, gains and losses	**2,933**	1,723	70.2%
Allowance for financial assets measured at amortised cost	**(7,548)**	–	N/A
Financial expenses, net of financial income	**(10,387)**	(13,753)	(24.5%)
Loss before taxation	**(15,301)**	(9,699)	57.8%
Income tax expense	**(336)**	(64)	>100.0%
Loss after taxation	**(15,637)**	(9,763)	60.2%
Non-controlling interests	**18**	41	(56.1%)
Loss attributable to owners of the Company	**(15,619)**	(9,722)	60.7%
Underlying Results (US$'000)			
EBITDA			
– Mine in production	**14,561**	11,834	23.0%
– Group	**11,766**	8,213	43.3%
Loss attributable to owners of the Company, excluding impairment charges	**(8,071)**	(9,718)	(16.9%)

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. The Group's income statement, however, sometimes includes certain material non-cash items which are non-operating and non-recurring in nature and should be considered separately.

The Company has a net receivable from General Nice and, due to a winding up order being made by the High Court of Hong Kong against General Nice, it is unlikely that the Company will recover the receivable. Consequently, a one-off, non-cash provision of US$7.5 million has been charged to the statement of profit or loss in the first half of 2018.

To facilitate a better understanding of the Group's operating results, the calculation of the Group's underlying results, which excludes the effect of the above provision, is set out below:

	For the six months ended 30 June		
US$'000	**2018**	2017	Variance
Loss attributable to owners of the Company	**(15,619)**	(9,722)	60.7%
Impairment charges	**–**	4	N/A
Impairment provision for the receivable from General Nice	**7,548**	–	N/A
Underlying loss for the year	**(8,071)**	(9,718)	(16.9%)

The Underlying Loss of the Group amounted to US$8.1 million (30 June 2017: US$9.7 million). The 16.9% reduction in underlying loss was mainly due to K&S steadily increasing its production capacity and making a greater contribution to the Group.

Another key performance indicator is the EBITDA of the mines and of the Group. For the first half of 2018, due to the higher sales revenue from the K&S mine, EBITDA of the mine in production segment increased 23.0% to US$14.6 million. The Group's EBITDA also increased to US$11.8 million, 43.3% higher than the corresponding period in 2017.

The improvement in EBITDA and underlying results reflect the positive contributions that K&S made in the first half of 2018.

REVENUE

Iron ore concentrate

IRC's revenue from the sale of iron ore increased by 38.4% in 2018 and this is resulted from the successful operation of K&S, as the mine has commenced commercial production and the production capacity has been steadily increasing. When comparing to the same period last year, the sales volume of iron ore increased significantly to 1,046,649 tonnes, representing an increase of 49.8%. In terms of the selling price, as the market iron ore price was relatively high in the first half of 2017 and the price has slightly softened thereafter, K&S' achieved selling price decreased 7% to US$67 per tonne in 1H2018 (30 June 2017 average selling price: US$72 per tonne).

The chart below shows the gradually growth of high grade 65% Fe price over the past 3 years:

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, decrease from US$628,000 to US$223,000, 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 K&S operation. The increase in cost of 49.0% is in line with the increase in sales volume. If depreciation charge, which has increased by US$5 million mainly as a result of the 2017 asset impairment reversal, is not taken into account, the site operating expenses and service costs only increased by 41.5%. This compares positively to the increase in sales volume of 49.8%. A breakdown of the expenses is set out in note 4a to the condensed consolidated financial statements on page 12.

The details of the key cash cost components are showed in the table below:

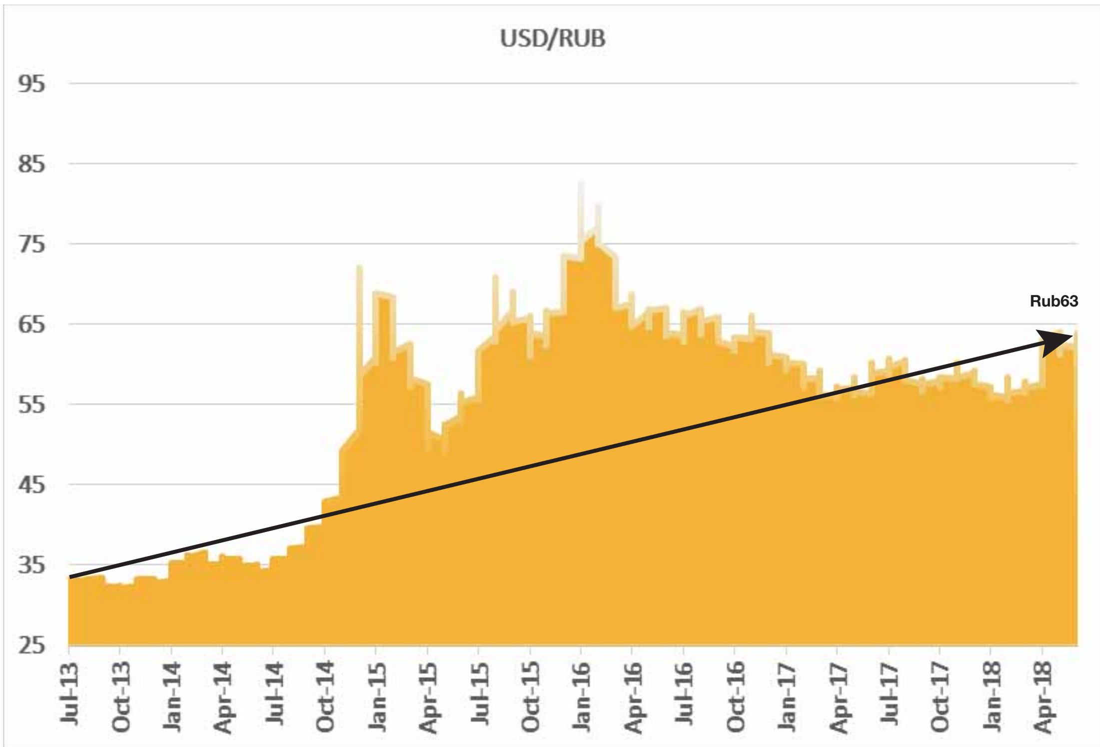
	For the six months ended 30 June		
	2018		2017
	Total cash cost US$ million	**Cash cost per tonne US$/t**	Cash cost per tonne US$/t
Mining	**12.9**	**12.2**	9.7
Processing	**12.3**	**11.6**	12.9
Production overheads, site administration and related costs	**11.4**	**10.8**	12.7
Transportation to customers	**19.1**	**18.2**	14.5
Movements in inventories and finished goods	**(1.2)**	**(1.1)**	1.7
Net cash cost	**54.5**	**51.7**	51.5

The cash cost per tonne of first half of 2018 of US$51.7 was comparable to that of the same period last year. Despite the effect of economies of scale from the K&S plant which allowed a 10.0% reduction in processing expenses and a 15.0% decrease in production overheads, site administration and related costs on a per-tonne basis, the savings were offset by higher mining cost and transportation expenses. The mining cost increased by US$2.5 per tonne mainly due to the increased stripping ratio. Transportation cost to customers also increased by US$3.7 per tonne during the period, mainly due to the increase in wagon tariff which is beyond the control of IRC.

The cash cost of K&S is expected to be reduced when the mine is producing at full capacity due to the economies of scale and the additional reduction on transportation cost by the usage of the Amur River Bridge in 2019. The Group continued to implement stringent cost control measures, with the aid of the devaluation of the Russian Roubles. As the Group's operating cost is mainly denominated by Russian Roubles, which has been depreciating since 2013, the Group continues to enjoy the positive impact on the operating margin.

The chart below shows the depreciation of the Roubles over the past 5 years:

US Dollar to Russian Rouble (USD/RUB) 5 Years Forex Chart



SEGMENT INFORMATION

The "Mine in production" segment mainly represents the sales of iron ore concentrates of K&S. In the first six months of 2018, following the successful ramping up of K&S' production, this segment generated an EBITDA of US$14.6 million (30 June 2017: US$11.8 million), representing an increase of 23.0% over the same period of last year. The "Mine in development", "Engineering" and "Other" segments recorded a total loss of US$0.7 million (30 June 2017: US$0.6 million) which is in line with the amount of loss incurred in the same period last year.

GENERAL ADMINISTRATIVE EXPENSES

Special attention continues to be paid to controlling administrative costs. Despite the increase in the scope of the Group's operation, the general administrative expenses for the first half of 2018 remained at a similar level to that of the same period last year. Excluding the non-cash share-based expenses, the general administrative expenses for 2018 decreased by 7.9% to US$4.1 million (30 June 2017: US$4.5 million) as a result of our stringent expense control.

IMPAIRMENT CHARGES

During the first half of 2018, no impairment charge was made. (30 June 2017: US$4,000).

SHARE OF RESULTS OF JOINT VENTURE

The operation of the vanadium joint venture, 46% owned by IRC, was suspended and hence there was no income from this joint venture in the first half of 2018.

OTHER INCOME, GAINS AND LOSSES

The Other Income, Gains and Losses of US$2.9 million (30 June 2017: US$1.7 million), mainly represents the gains in foreign exchange.

ALLOWANCE FOR FINANCIAL ASSETS MEASURED AT AMORTISED COST

General Nice has an outstanding commitment to make an equity investment in IRC and has agreed to pay interest on the outstanding committed amount. IRC has been recording the outstanding interest, net of any liabilities due to General Nice, as a receivable. A winding up order was made against General Nice on 16 July 2018 by the High Court of Hong Kong. While IRC is considering the appropriate course of action in light of the winding up order, it is unlikely that the Company will recover the receivable and consequently a one-off, non-cash provision of US$7.5 million has been made. (30 June 2017: Nil)

NET FINANCIAL EXPENSES

Net financial expenses represent the interest income from bank deposits net of the interest expenses of the ICBC project finance loan and other loans, waiver fees and other related expenses. During the reporting period, the net financial expenses decreased by 24.5% to US$10.4 million (30 June 2017: US$13.8 million) mainly due to one-off facilitation fees being paid in 2017 for arranging a bridging loan and for the application of ICBC repayment waivers. Such fees were not incurred in 2018.

INCOME TAX EXPENSE

The income tax expense of US$336,000 (30 June 2017: US$64,000) mainly represents movements in deferred tax provisions.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

During the first half of 2018, the increasing contribution from K&S reduced the underlying loss of the company. However, due to a one-off, non-cash provision of US$7.5 million made against a receivable from General Nice, the loss attributable to the Owners of the Company in the first half of 2018 amounted to US$15.6 million (30 June 2017: US$9.7 million).

CASH FLOW STATEMENT

The following table summarises the key cash flow items of the Group for the six months ended 30 June 2018 and 30 June 2017:

US$'000	For the six months ended 30 June 2018	2017
Net cash generated from operations	**11,675**	18,657
Interest paid	**(5,656)**	(5,025)
Capital expenditure	**(2,227)**	(3,596)
Taxes paid	**(2,367)**	(3)
Repayment of borrowings, net	**(1,376)**	(21,607)
Loan guarantee fee and waiver fee paid	**–**	(4,078)
Other payments and adjustments, net	**(18)**	(74)
Net movement during the year	**31**	(15,726)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	**10,974**	33,319
— At 30 June	**11,005**	17,593

The net cash generated from operations of US$11.7 million (30 June 2017: US$18.7 million) was mainly derived from the operating cash generated by K&S. The decrease in the cash inflow from operation is mainly due to the need to build up the necessary working capital for the commercial operation of K&S. Most of the net cash generated from operations was utilised to pay for the interest of the ICBC loan, capital expenditure and taxes. A bridge loan of about US$30 million was obtained from Petropavlovsk to settle the ICBC loan principal repayment of the same amount.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share Capital

There was no change in the share capital of the Company in the first half of 2018.

General Nice has an outstanding commitment to make an equity investment in IRC but it has not been materialised. A winding up order against General Nice was made by the High Court of Hong Kong on 16 July 2018 and the Company is considering the appropriate course of action in light of the winding up order.

Cash Position and Capital Expenditure

As at 30 June 2018, the carrying amount of the Group's cash and bank balances was approximately US$11.0 million (31 December 2017: US$11.0 million). The cash balance is analysed in the "Cash Flow Statement" section above.

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2018, US$57.4 million (30 June 2017: US$42.4 million) was incurred on development and mining production activities. No exploration activity was carried out for the first half of 2018 and 2017. The following table details the capital and operating expenditures in the first half of 2018 and 2017:

	For the six months ended 30 June					
	2018			2017		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
Kuranakh	**–**	**–**	**–**	1.7	0.0	1.7
K&S development	**55.4**	**1.9**	**57.3**	37.0	3.4	40.4
Exploration projects and others	**0.1**	**0.0**	**0.1**	0.1	0.2	0.3
	55.5	**1.9**	**57.4**	38.8	3.6	42.4

The table below sets out the details of material new contracts and commitments entered into during first half of 2018 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramping up to full capacity.

		For the six months ended 30 June	
US$'m	**Nature**	**2018**	2017
K&S	Purchase of property, plant and equipment	**0.2**	1.2
	Sub-contracting for mining works	**0.5**	–
	Sub-contracting for railway and related works	**0.8**	–
Others	Other contracts and commitments	**0.7**	–
		2.2	1.2

Borrowings and Charges

As at 30 June 2018, the Group had gross borrowings of US$233.9 million (31 December 2017: US$235.2 million), mainly represents the long-term borrowing drawn from the ICBC loan facility of US$204 million (31 December 2017: US$233.8 million) and the bridge loan obtained from Petropavlovsk of approximately US$29.9 million (31 December 2017: Nil). The Group has been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.6% (30 June 2017: 6.3%) per annum. As of 30 June 2018, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, was 47.4% (31 December 2017: 45.8%).

As announced on 21 March 2017, the debt service holiday agreed by ICBC has become effective. ICBC has agreed to restructure the principal repayment schedule of K&S' project finance facility which fully relieves K&S from principal repayments of US$42.5 million in 2017. According to the agreement, the repayments under the Project Finance Facility are restructured as follows: (i) two repayment instalments, originally due for payment on 20 June 2017 and 20 December 2017 and in an aggregate amount of US$42,500,000 have been waived; and (ii) in respect of the five subsequent repayment instalments under the Project Finance Facility, each repayment instalment has been increased by US$8,500,000 to US$29,750,000, with the aggregate amount of the increase being equal to US$42,500,000. The restructuring of the repayments has been effective since 20 March 2017 and shall continue to be effective until 20 June 2020, subject to the on-going satisfaction of certain conditions.

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. As of 30 June 2018, the Group does not undertake any material foreign currency transaction hedging.

Employees and Emolument Policies

As at 30 June 2018, the Group employed approximately 1,574 employees (31 December 2017: 1,535 employees). Due to the increased scale of operation at K&S, the total staff costs (excluding share based payments) increased by US$1.4 million to US$12.2 million. The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

Extract From The Independent Auditors' Report

The following is an extract of the independent auditors' Report on Review of Condensed Consolidated Financial Statements for the six months ended 30 June 2018 which has included a paragraph regarding the material uncertainty related to going concern, but without qualifying the review conclusion:

"CONCLUSION

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

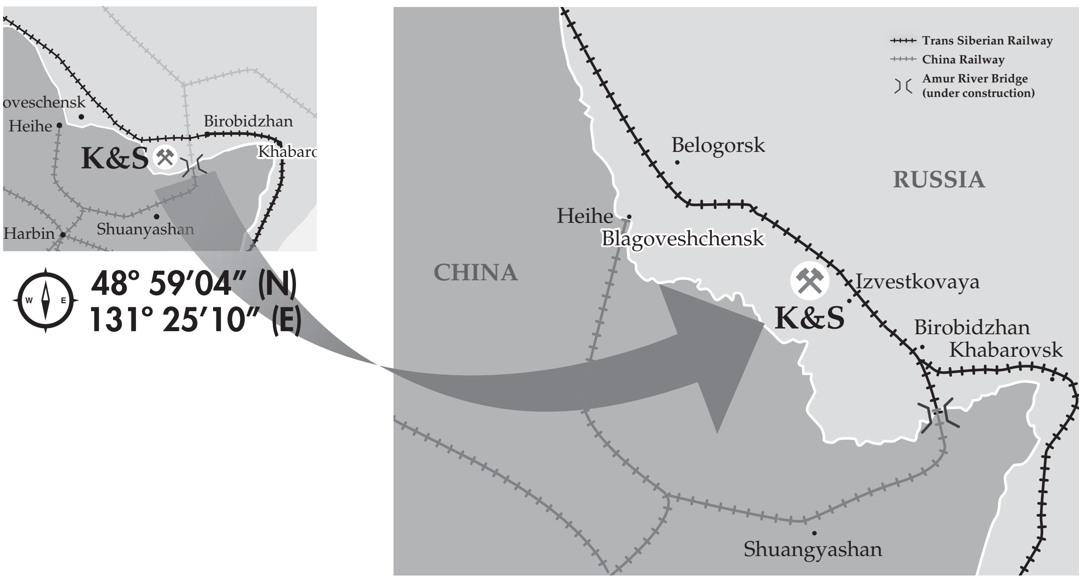
MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 in the condensed consolidated financial statements which states that as at 30 June 2018, the Group's current liabilities exceeds its current assets by US$74.5 million and that the Group is refinancing its loan facilities to enable it to meet its liquidity needs for the next twelve months. The refinancing is subject to approval indicating that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter."

PROJECT REVIEW

K&S

100% owned



OVERVIEW

The K&S Mine, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits – Kimkan and Sutara. The K&S Phase 1 is to produce 3.2 million tonnes per annum of iron ore concentrate with 65% Fe grade. There is an option for a Phase 2 expansion to produce a total of 6.3 million tonnes of 65% iron ore concentrate per annum. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase 1 production facility to increase the production capacity to about 4.6 million tonnes per annum with a capital expenditure requirement of about US$50 million. The Phase 1 Processing Plant is being constructed by CNEEC and funded through a project finance facility provided by ICBC.

K&S enjoys tremendous geographical advantage. The Trans-Siberian Railway is linked directly to the mine site, allowing easy transport of products to customers. With the help of the Amur River Bridge which is expected to be completed and operational in 2019, the transportation cost and distance can be further reduced.

K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also 130 kilometres from the federal highway connecting to the regional capital of Birobidzhan, and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S RAMP-UP PROGRESS ENTERING INTO FINAL PHASE

During the first half of 2018, K&S' ramp up progress was satisfactory. The plant successfully operated at 105% of its design capacity during a 24-hour production run and operated at more than 90% of its design capacity continuously for 72 hours. These demonstrated the plant's capability to run at load on a prolonged period. In additional, K&S' mining contractor also brought new equipment to the site to support the increasing production volume. Although some additional ramping up issues have been revealed, K&S team is planning to resolve them quickly. Despite more ramping-up tests needing to be conducted, K&S' Processing Plant is currently operating in a stable and continuous manner at a steady production capacity of 78%. With the well-experienced site team, IRC remains confident in resolving the outstanding issues to allow K&S to continue the increase in production volume.

PRODUCTION

During the first half of 2018, 3,255,200 tonnes of ore were fed for primary processing and 2,330,614 tonnes of pre-concentrate were produced. Finally, 1,084,602 tonnes of iron ore concentrate were produced and 1,046,649 tonnes were sold.

SALES & MARKETING

As K&S is producing more iron ore concentrate, it is also diversifying its customer base. K&S customers come from different countries and regions, including Russia and China. Diversification of customers allows the Group to commend a stronger bargaining power for better prices and sales terms. The Group's sales and marketing team is in discussion with other potential buyers to further broaden the customer base.

K&S UNIT CASH COST

In view of the fact that K&S has not yet reached full production capacity, the unit cash cost per tonne in the first half of 2018 of US$51.7 per tonne has not yet reached its optimal level. Taking into account the potential Rouble depreciation to the previous lows and the opening of the Amur River Bridge in 2019 which would reduce transportation costs, K&S' cash cost is expected to be further lowered when full scale operation at K&S is achieved.

SAFETY

The LTIFR is a measure of the number of lost-time injuries per one million hours worked. During the first half of the year, no injuries occurred at K&S operation and the LTIFR of K&S was zero (30 June 2017: zero).

MINING

The Kimkan operation covers an area of approximately 50 km^2 and comprises of two key ore zones – Central and West. Open pit mining has commenced at the Central area with ore being stockpiled for processing.

During the first half of 2018, the mining contractor brought new equipment to the site and started to increase the mining scale. With the additional mining fleet, the mining contractor can increase its mining volume to approximately 1.4 million cubic metres of rock mass per month which can provide the necessary feedstock for K&S to operate at higher than its design capacity of 3.2 million tonnes per annum. Currently, the mining contractor is focusing to operate in full scale mining operation to catch up with the previous mining volumes lag. The process of drilling and blasting operations in the open pit, and then excavation and hauling operations have begun to replenish the ore stockpile that has been used for plant feeding. During the first half of 2018, a total of 3,334,300 tonnes of ore were mined.

AMUR RIVER BRIDGE/TONGJIANG BRIDGE

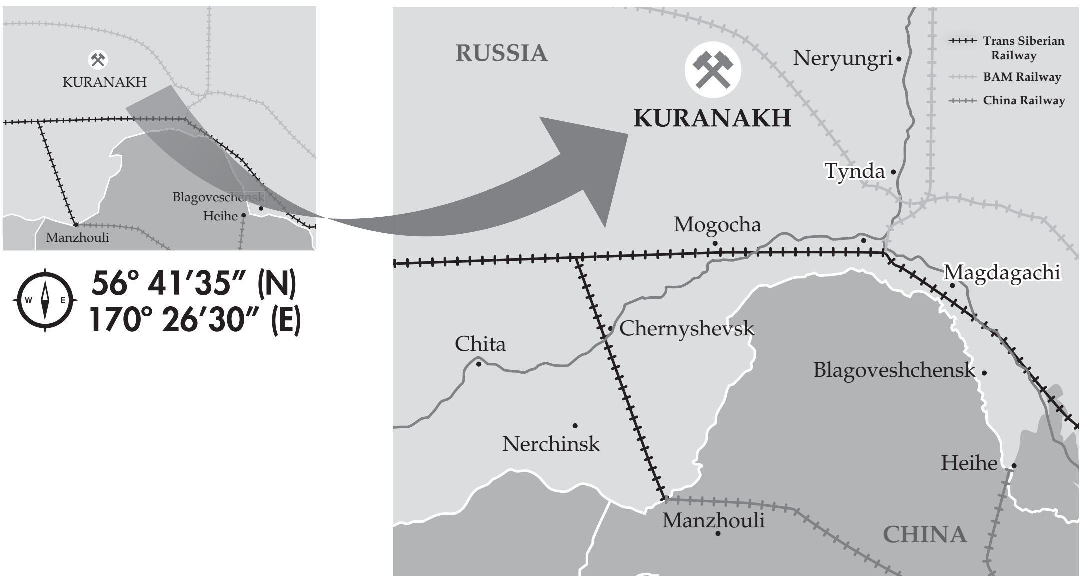
Amur River Bridge is a national project between China and Russia to build a railway bridge across the Amur River border between the two countries. The Amur River Bridge is hailed as one of the major projects between the two countries. The infrastructure projects such as the Amur River Bridge are expected to bring closer economic cooperation which IRC may benefit from.

According to the recent Russian media, the Amur River Bridge has experienced to technical issues which caused some delays from the original plan. Despite this small delay, when the Bridge is operational in 2019, K&S will be able to reduce the transportation cost to the Chinese boarder by up to US$5 per tonne based on the preliminary estimation. This will allow K&S to strengthen its position as a low-cost iron ore concentrate producer. Moreover, the Bridge will become a part of the new export route and stimulus for the creation of new logistical and industrial clusters, improving the transport accessibility of the region which K&S is expected to benefit indirectly.

The current distance between K&S and the Chinese border (Suifenhe) is approximately 1,000 kilometres. K&S mine is situated approximately 240 kilometres from the Bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the Bridge.

Kuranakh

100% owned



OVERVIEW

Kuranakh, 100% owned by IRC, was the Group's first mining operation and the first vertically integrated titano-magnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and was moved to care and maintenance since beginning of 2016 due to challenging operating environment in the commodities market in previous years.

The Kuranakh Mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers an area of approximately 85km^2 and comprises of the Kuranakh and Saikta open-pit mines, an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a 62.5% Fe quality content and an ilmenite concentrate with a 48% TiO_2 quality content. The concentrates can be directly loaded onto railcar wagons for transportation via the BAM and Trans-Siberian Railways to customers in Russia and China and internationally via the Russian Pacific sea ports.

SAFETY

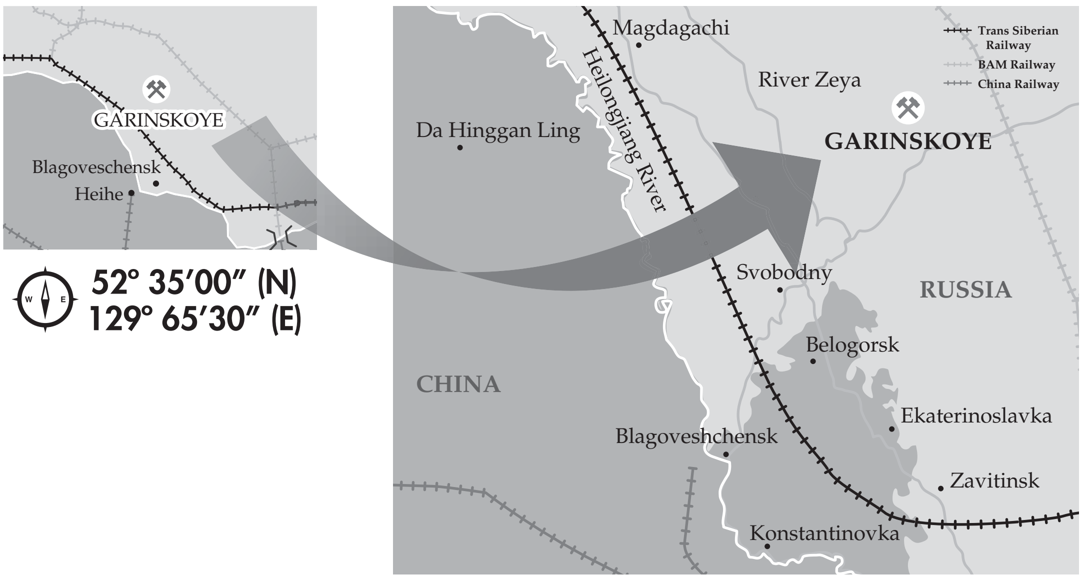
As the mine was moved into care and maintenance, there was no injuries and the LTIFR was zero during the first half of 2018 (30 June 2017: zero).

KURANAKH – CONTINUED TO BE IN CARE & MAINTENANCE

Kuranakh has been moved to care and maintenance since the beginning of 2016 due to the softening of the market iron ore price. Consequently, during the first half of 2018, there is no production or sales from Kuranakh operation. The only minimal costs recorded were for equipment maintenance and security. Although the subsidiary company that holds Kuranakh has applied for liquidation to save the ongoing costs, IRC retains the option of re-opening Kuranakh or pursuing other development alternatives if the iron ore market upside prevails.

Garinskoye

99.6% owned



OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration. The project offers the potential for a low cost DSO-style operation that can be transitioned into a large-scale long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans-Siberian Railways. With exploration licences for ground covering an area of over 3,500 km^2, the project is the largest in terms of area in the IRC portfolio.

CURRENT DEVELOPMENT

There are two possibilities to develop Garinskoye. The first option is to develop a large-scale 4.6 million tonne per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO-style operation that does not require a rail connection and can be started up in advance of a larger conventional operation. The DSO-style plan comprises a pit with a 20.2 million tonnes reserve, 48% Fe grade, and a stripping ratio of 1.7:1 m^3 per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure with the addition of a further wet magnetic separation stage to produce a high-grade "super-concentrate" with a 68% iron ore content.

In 2013, IRC completed an internal Bankable Feasibility Study. In 2014, a third-party verification and a fatal flaws analysis for the DSO-style operation was carried out.

Currently, the Garinskoye project was placed on hold until the market conditions for iron ore improve.

OTHER PROJECTS

Exploration Projects & Others

IRC's other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. It aims to add value through the discovery of new resources and increasing and confirming mineable reserves. Currently, IRC is keeping these valuable licenses for later development until market conditions improve. Apart from exploration projects, IRC is also involved in complementary business of a steel slag reprocessing plant (SRP) and a mining consultancy services agency (Giproruda). Regarding the SRP project, as its feedstock is dependent on the concentrate from Kuranakh, and as the latter was moved to care and maintenance in 2016 and there were no alternative sources of materials as the feedstock, it was moved to care and maintenance. Below is a summary of the Group's current exploration projects portfolio:

Project	Products/Service	Location
Kostenginskoye* (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Petersburg, Russia

* Resource base for K&S

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 30 June 2018, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Corporate Governance, Going Concern and Other Information

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2017 Annual Report of the Company.

During the six months ended 30 June 2018, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except that the Independent Non-Executive Director, Mr. Simon Murray, *CBE, Chevalier de la Légion d'Honneur* was unable to attend the annual general meeting of the Company held on 25 June 2018 as provided for in code provision A.6.7 as he had overseas engagements. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the period and they have confirmed their full compliance with the required standard set out in the Model Code. The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. In preparing these condensed 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 period, its net current liabilities position of approximately US$74.5 million as at 30 June 2018 and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations, cash and cash equivalents and the credit facilities being refinanced the Group.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and the US$/Rouble exchange rates for a fifteen month period after 30 June 2018. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

The Group has initiated the process of refinancing and obtaining an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to final approval by the bank and documentation.

However, if the Group is unable to successfully refinance its loan facilities 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 loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations condensed as and when they fall due in the foreseeable future. Accordingly, these consolidated financial statements have been prepared on a going concern basis. Please also refer to the paragraph regarding material uncertainty related to going concern on page 31 for details.

Publication of Interim Results and Interim 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 interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on both websites on or before 30 September 2018.

By Order of the Board
IRC Limited
Yury Makarov
Chief Executive Officer

Hong Kong, People's Republic of China
Friday, 31 August 2018

As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr George Jay Hambro, Mr Peter Charles Percival Hambro and Mr Chi Kin Cheng. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Chuang-Fei Li, Mr Simon Murray, CBE, Chevalier de la Legion d'Honneur, Mr Jonathan Martin Smith and Mr Raymond Kar Tung Wo.

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