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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: 2016 ANNUAL RESULTS IRC BECOMING A MAJOR IRON ORE PRODUCER AS K&S MOVES TO FULL CAPACITY

A teleconference call to discuss the results will be held today at 11h00 Hong Kong time. The number is +852 2112 1700, the passcode is 3200531#. A replay of the conference call will be available at www.ircgroup.com.hk by 3 April 2017. Presentation slides are available at www.ircgroup.com.hk.

Friday 31 March 2017: The Board of Directors of IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the annual results of the Company for the year ended 31 December 2016.

KEY HIGHLIGHTS

Financials

- Net loss reduced by 96% to US\$18.2 million (31 December 2015: US\$509.0 million)
- Underlying results excluding impairment charges reduced by 37% to US\$18.2 million (31 December 2015: US\$28.9 million)
- Overall cost reduced by 67% to US\$35.2 million (31 December 2015: US\$106.7 million)

Corporate

- Successfully completed equity fundraising of US\$25 million with a core investor
- Amicable settlement with CNEEC, received cash compensation of US\$4.5 million and outstanding construction payment liability reduced by US\$3.9 million

Operations

- K&S began shipments to customers in China – products well received with good market demand
- Care and maintenance process satisfactory in Kuranakh, assessing feasibility of re-opening and other options

Commenting on the results, Yury Makarov, Chief Executive Officer of IRC said, “IRC is now in the final stage of transforming into a high-growth, low-cost, pure-play iron ore producer. As we are announcing our results, K&S is already cashflow positive and has been since the beginning of 2017. In the next few months, K&S will become an even more attractive world-class asset as it ramps up to its full production capacity. We remain confident in delivering K&S at full operating capacity as scheduled.

2016 saw a series of major milestones being achieved. It was a year of many “firsts” for K&S – first ore produced, first thousand tonnes and most importantly first shipment to customers. These firsts represent our tremendous efforts and the progress we have made during the year. Also, we did an excellent job in cost-control. This is the third year running where overall costs have decreased despite the growth of the Group.

In addition, we are blessed to receive support from our lenders, new investors and contractors. Special thanks are owed to our major lender, ICBC, who not only granted us waivers to comply with certain financial covenants and to maintain certain cash deposits, but also agreed to provide repayment holidays under the K&S financing facility.

In 2016, the commodities market showed strong signs of recovery, with year-end iron ore price finishing up more than 80% year-on-year. We also note that there is an increasing demand towards high grade iron ore, as a result of China’s policies of increasing the efficiencies of its steel industry, which is reflected in the US\$12-13 per tonne premium between benchmark 62% Index and 65% Index. For K&S, being a high grade iron ore concentrates producer, that is an additional benefit.

2017 will be a year of transformation for IRC and it is time for all stakeholders to reap the rewards of many years of hard work. We would like to thank our team for their hard work in the past years, and we wish to extend our gratitude to our shareholders, for your patience and ongoing support in IRC.”

The Board of Directors of IRC Limited is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016, which have been reviewed by the Company’s Audit Committee, comprising of independent non-executive directors.

2016 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2016

	<i>Notes</i>	2016 US\$'000	2015 US\$'000
Revenue	5	16,467	81,910
Operating expenses	6	(35,192)	(106,676)
Impairment charges	7	(47)	(480,050)
		(18,772)	(504,816)
Share of results of a joint venture		47	1
		(18,725)	(504,815)
Other income, gains and losses	8	689	(3,769)
Financial income	9	413	1,458
Financial expenses	10	(1,189)	(1,872)
Loss before taxation		(18,812)	(508,998)
Income tax expense	11	(315)	(247)
Loss for the year		(19,127)	(509,245)
Loss for the year attributable to:			
Owners of the Company		(18,226)	(508,969)
Non-controlling interests		(901)	(276)
		(19,127)	(509,245)
loss per share (US cents)	13		
Basic		(0.30)	(9.48)
Diluted		(0.30)	(9.48)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Loss for the year	(19,127)	(509,245)
Other comprehensive expenses for the year:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>1,555</u>	<u>(2,345)</u>
Total comprehensive expenses for the year	<u>(17,572)</u>	<u>(511,590)</u>
Total comprehensive expenses attributable to:		
Owners of the Company	(17,025)	(510,730)
Non-controlling interests	<u>(547)</u>	<u>(860)</u>
	<u>(17,572)</u>	<u>(511,590)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 US\$'000	2015 US\$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	14	18,856	18,603
Property, plant and equipment	15	333,690	199,714
Interest in a joint venture		—	—
Other non-current assets	16	76	89,017
Restricted bank deposit	22	1,977	2,119
Value-added tax recoverable	15	2,720	—
		<u>357,319</u>	<u>309,453</u>
CURRENT ASSETS			
Inventories	17	20,371	29,575
Trade and other receivables	18	23,813	25,463
Time deposits	19	—	6,960
Cash and cash equivalents	20	31,342	49,184
		<u>75,526</u>	<u>111,182</u>
TOTAL ASSETS		<u>432,845</u>	<u>420,635</u>
CURRENT LIABILITIES			
Trade and other payables	21	(21,471)	(18,032)
Current income tax payable		(346)	(366)
Borrowings — due within one year	22	(65,744)	(53,050)
		<u>(87,561)</u>	<u>(71,448)</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(12,035)</u>	<u>39,734</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>345,284</u>	<u>349,187</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(6,486)	(6,324)
Provision for close down and restoration costs		(10,115)	(6,449)
Construction costs payable	15	(17,830)	—
Borrowings — due more than one year	22	(177,239)	(215,238)
		<u>(211,670)</u>	<u>(228,011)</u>
TOTAL LIABILITIES		<u>(299,231)</u>	<u>(299,459)</u>
NET ASSETS		<u>133,614</u>	<u>121,176</u>

	<i>Note</i>	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
CAPITAL AND RESERVES			
Share capital	23	1,285,158	1,260,665
Capital reserve		17,984	17,984
Reserves		9,680	1,967
Accumulated losses		<u>(1,179,141)</u>	<u>(1,160,915)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		133,681	119,701
NON-CONTROLLING INTERESTS		<u>(67)</u>	<u>1,475</u>
TOTAL EQUITY		<u>133,614</u>	<u>121,176</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

	Total attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Treasury shares	Capital reserve ^(a)	Share-based payment reserve	Translation reserve	Other reserve ^(b)	Accumulated losses	Sub-total		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2015	1,211,231	(11,986)	17,984	14,698	(21,639)	18,693	(651,946)	577,035	2,870	579,905
Loss for the year	—	—	—	—	—	—	(508,969)	(508,969)	(276)	(509,245)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	—	—	—	—	(1,761)	—	—	(1,761)	(584)	(2,345)
Total comprehensive expenses for the year	—	—	—	—	(1,761)	—	(508,969)	(510,730)	(860)	(511,590)
Share-based payments	—	—	—	147	—	—	—	147	—	147
Vesting of share-based awards	—	11,986	—	(3,300)	—	(8,686)	—	—	—	—
Issue of new shares (note 23)	52,656	—	—	—	—	—	—	52,656	—	52,656
Transaction costs attributable to issue of new shares (note 23)	(3,222)	—	—	—	—	—	—	(3,222)	—	(3,222)
Deemed contribution from a shareholder	—	—	—	—	—	3,815	—	3,815	—	3,815
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(535)	(535)
Balance at 31 December 2015	1,260,665	—	17,984	11,545	(23,400)	13,822	(1,160,915)	119,701	1,475	121,176
Loss for the year	—	—	—	—	—	—	(18,226)	(18,226)	(901)	(19,127)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	—	—	—	—	1,201	—	—	1,201	354	1,555
Total comprehensive expenses for the year	—	—	—	—	1,201	—	(18,226)	(17,025)	(547)	(17,572)
Share-based payments	—	—	—	1,130	—	—	—	1,130	—	1,130
Issue of new shares (note 23)	24,589	—	—	—	—	—	—	24,589	—	24,589
Transaction costs attributable to issue of new shares (note 23)	(96)	—	—	—	—	—	—	(96)	—	(96)
Grant of share options (note 23)	—	—	—	—	—	802	—	802	—	802
Transaction costs attributable to grant of share options (note 23)	—	—	—	—	—	(3)	—	(3)	—	(3)
Deemed contribution from a shareholder	—	—	—	—	—	4,583	—	4,583	—	4,583
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(995)	(995)
Balance at 31 December 2016	1,285,158	—	17,984	12,675	(22,199)	19,204	(1,179,141)	133,681	(67)	133,614

- (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 (the "Stock Exchange"), 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 23), and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund (as defined in note 23).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2016

	Notes	2016 US\$'000	2015 US\$'000
OPERATING ACTIVITIES			
Net cash generated from (used in) operations		1,006	(799)
Interest expenses paid		(10,150)	(11,022)
Loan guarantee fee paid		(1,126)	(2,169)
Income tax paid		(268)	(458)
NET CASH USED IN OPERATING ACTIVITIES		(10,538)	(14,448)
INVESTING ACTIVITIES			
Restricted bank deposits placed		(26,131)	(1,000)
Purchases of property, plant and equipment and exploration and evaluation assets		(14,734)	(52,599)
Time deposits placed	19	(2,990)	(11,293)
Restricted bank deposits withdrawn		26,273	26,131
Time deposits withdrawn	19	9,950	7,033
Proceeds from a constructor for compensation on remedial and associated works	15	4,508	—
Proceeds on disposal of property, plant and equipment		1,696	118
Interest received		413	1,458
Dividend received from joint venture		—	917
NET CASH USED IN INVESTING ACTIVITIES		(1,015)	(29,235)
FINANCING ACTIVITIES			
Repayment of borrowings		(60,425)	(65,820)
Dividends paid		(995)	(535)
Transaction costs attributable to issuance of new shares and share options		(99)	(3,222)
Proceeds from borrowings		30,619	64,894
Proceeds on issuance of new shares and share options	23	25,391	52,656
Loan commitment fees paid		—	(72)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(5,509)	47,901
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(17,062)	4,218
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		49,184	45,040
Effect of foreign exchange rate changes		(780)	(74)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		31,342	49,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

1. GENERAL

IRC Limited (“the Company”) is a public limited company incorporated in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 21 October 2010. The Company together with its subsidiaries are hereinafter referred to as the “Group”.

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

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

The financial information relating to the years ended 31 December 2016 and 2015 included in this announcement does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap.622) and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s report for the year ended 31 December 2016 was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

The figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in the results announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the results announcement.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group’s loss for the year, and the Group had outstanding bank borrowings due for repayment in 2017, against the cash and cash equivalents and the credit facilities maintained by the Group. The full ramp up and commercial production of K&S mine project (“K&S Project”), a magnetite development project in the Group’s portfolio consisting of the Kimkan deposit and Sutara deposit situated in the Evreyskaya Avtonomnaya Oblast or the Jewish Autonomous Region in the Russian Far East of the Russian Federation, has been delayed and the Group’s ability to continue as a going concern is dependent on the anticipated cash flows from the sales of the iron ore products from the commercial production of K&S Project. If there is a further delay in the commercial production of K&S Project beyond management’s expectation, the Group would be unable to meet its financial obligations as and when they fall due in the foreseeable future.

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

- (i) In March 2016, the Group entered into an agreement with its construction contractor China National Electric Engineering Corporation ("CNEEC") of the K&S Project, in respect of, among others, new deferred payment terms for the Group's remaining obligations under the Engineering Procurement and Construction Contract ("EPC Contract") in three equal instalments within 30 days of 31 December 2017, 31 December 2018 and 31 December 2019, respectively. In December 2016, the Group further entered into an additional agreement with the construction contractor, among others, to reduce the value of the aforesaid deferred payment sum by US\$3.9 million and to receive from the construction contractor a compensation of approximately US\$4.5 million for the remedial and associated costs that the Group will incur in remedying certain defects of the K&S Project;
- (ii) In April 2016, the Group obtained waivers from Industrial and Commercial Bank of China ("ICBC") in respect of a project finance facility agreement with ICBC, including obligations to maintain certain cash deposits with ICBC and obligations of the Group and its guarantor, Petropavlovsk PLC, to comply with certain financial covenants, subject to the fulfillment of certain conditions precedent which were satisfied on 21 June 2016.
- (iii) The Group is implementing active cost-saving measures to improve operating cash flows and its financial position;
- (iv) With the completion of the replacement and remedial works at the ball mills of the processing plant of the K&S Project in late March 2017, the ball mills resumed running at full scale of its designed processing scheme with the whole plant managed to operate at c. 75% of its designed capacity. The Group is anticipating full commercial production of the K&S Project in the first half of 2017 in line with its ramping-up process. It is expected that the project will contribute significantly positively to the Group's cash flows from the start of its commercial operation as all material capital expenditure for mining, processing and production of the Kimkan deposit has incurred;
- (v) The Group has been in discussion with ICBC regarding further proposals for a restructuring, amendment or waiver under the ICBC Facility Agreement (as defined in note 22) and on 27 February 2017, the Group has been informed that ICBC has agreed to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US\$42,500,000 evenly into five subsequent semi-annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020, respectively, is increased by US\$8,500,000 to an amount equal to US\$29,750,000. The restructuring of the repayments was subject to the fulfillment of certain conditions precedent which were satisfied in March 2017.
- (vi) The substantial volatility in the Russian Rouble/US Dollar exchange rate which may continue in the coming twelve months, given that a significant percentage of the Group's costs are denominated in Russian Roubles, whilst a substantial portion of the Group's sales are denominated in US Dollars; and
- (vii) The substantial volatility in the iron ore price may continue to have an impact on the Group as the Group's financial position is materially dependent on the price at which it can sell its iron ore production.

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

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

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

However, if the Group were unable to successfully implement the measures described above or the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working

capital to finance its operations and its financial liquidity may be adversely impacted. Should the Group experience a further delay of the full-scale operations of the K&S Project beyond the Group's expectation and/or if the conditions described above turn out to be significantly more unfavourable than forecasted by the Group, the Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle ⁵

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

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both

by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

Based on the Group’s financial instruments and risk management policies as at 31 December 2016, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

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

- Mines in Production segment (“Mines in Production”), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation (“EAO Region”).
- Mines in Development segment (“Mines in Development”), comprises iron ore projects in the exploration and development phase. This segment includes the K&S Project, the Garinskoye project, the Bolshoi Seym project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russia Far East region.
- Engineering segment (“Engineering”), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.
- Other segment (“Other”) primarily includes the Group’s interests in a joint venture for the production of vanadium pentoxides and related products in the PRC.

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

Segment results represents the loss incurred by each segment for the purpose of monitoring segment performance.

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

- all assets are allocated to reportable segments other than central cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than deferred tax and borrowings.

For the year ended 31 December 2016

	Mines in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Revenue					
External sales	15,580	—	887	—	16,467
Segment revenue	15,580	—	887	—	16,467
Site operating expenses and service costs	(22,113)	(355)	(2,316)	(11)	(24,795)
<i>Site operating expenses and service costs include:</i>					
Depreciation	—	(7,813)	(152)	—	(7,965)
Inventory written down	(2,346)	—	—	—	(2,346)
Impairment charges	—	—	—	(47)	(47)
Share of results of a joint venture	—	—	—	47	47
Segment loss	(6,533)	(355)	(1,429)	(11)	(8,328)
Central administrative expenses					(10,353)
Central depreciation					(44)
Other income, gains and losses					689
Financial income					413
Financial expenses					(1,189)
Loss before taxation					(18,812)
Other segment information					
Additions to non-current assets:					
Capital expenditure	2	141,301	3	—	141,306
Exploration and evaluation expenditure capitalised	—	253	—	—	253
Segment assets	6,081	399,524	5,796	—	411,401
Central cash and cash equivalents					21,444
Consolidated assets					432,845
Segment liabilities	(8,013)	(29,856)	(507)	(11,386)	(49,762)
Borrowings					(242,983)
Deferred tax liabilities					(6,486)
Consolidated liabilities					(299,231)

For the year ended 31 December 2015

	Mines in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Revenue					
External sales	80,351	—	1,559	—	81,910
Segment revenue	80,351	—	1,559	—	81,910
Site operating expenses and service costs	(93,061)	(520)	(2,887)	(48)	(96,516)
<i>Site operating expenses and service costs include:</i>					
Depreciation	—	(5,836)	(182)	—	(6,018)
Inventory written down	(7,148)	—	—	—	(7,148)
Impairment charges	(250)	(473,905)	—	(5,895)	(480,050)
Share of results of a joint venture	—	—	—	1	1
Segment loss	(12,960)	(474,425)	(1,328)	(5,942)	(494,655)
Central administrative expenses					(10,073)
Central depreciation					(87)
Other income, gains and losses					(3,769)
Financial income					1,458
Financial expenses					(1,872)
Loss before taxation					(508,998)
Other segment information					
Additions to non-current assets:					
Capital expenditure	121	40,789	1	1	40,912
Exploration and evaluation expenditure capitalised	—	375	—	—	375
Segment assets	26,561	366,784	8,584	1,426	403,355
Central cash and cash equivalents					17,280
Consolidated assets					420,635
Segment liabilities	(11,009)	(5,928)	(570)	(7,340)	(24,847)
Borrowings					(268,288)
Deferred tax liabilities					(6,324)
Consolidated liabilities					(299,459)

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and ilmenite and rendering engineering services to a number of independent third party customers during the years ended 31 December 2016 and 2015. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2016, sales were made to Heilongjiang Jianlong Steel Company Limited amounted to US\$8,622,000 (2015: US\$55,906,000) and Ningbo Xinfu Titanium Dioxide Co., Ltd. amounted to US\$4,776,000 (2015: US\$10,579,000) attributable to the Mines in Production segment comprising 52% and 29% (2015: 68% and 13%) of the total revenue respectively. There were no other customers that contributed over 10% on the total revenue of the Group during the years ended 31 December 2016 and 2015.

5. REVENUE

Revenue from major products and services

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

	2016 US\$'000	2015 US\$'000
Revenue		
Sale of iron ore concentrate	8,637	55,906
Sale of ilmenite	6,943	24,445
Engineering services	887	1,559
	<u>16,467</u>	<u>81,910</u>

6. OPERATING EXPENSES

	2016 US\$'000	2015 US\$'000
Operating expenses		
Site operating expenses and service costs ^(a)	24,795	95,896
Central administration expenses ^(b)	10,397	10,780
	<u>35,192</u>	<u>106,676</u>

7. IMPAIRMENT CHARGES

As at 31 December 2015, the Group had been participating in the Kuranakh Project located in the Amur Region of the Russian Federation and the K&S Project located in the EAO Region which was at the developing stage.

Kuranakh Project

As disclosed in the Group's consolidated financial statements for the year ended 31 December 2015, the Group decided to move the operation of the Kuranakh mine to care and maintenance since March 2016 as the mine had been rendered uneconomic. Accordingly, the related property, plant and equipment of the Kuranakh Project was fully impaired as at 31 December 2015 with additional impairment of approximately US\$250,000 on its remaining carrying value during the year ended 31 December 2015. For the purpose of the impairment testing of the Kuranakh Project, the recoverable amount of the project as at 31 December 2015 had been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0%.

K&S Project

Due to the spot iron ore prices falling beyond management's estimate made as at 31 December 2014, the carrying value of the K&S Project had been additionally impaired by approximately US\$437,343,000 during the year ended 31 December 2015. This impairment charge was allocated against property, plant and equipment amounting to US\$140,839,000.

Due to certain issues identified in the K&S mine which hindered the mine from ramping up its production capacity, there is a further delay in the full-scale operations of the K&S mine beyond management's expectation as at 31 December 2016. The management hence conducted an impairment assessment of the related property, plant and equipment of the K&S Project as at 31 December 2016. For the purpose of the impairment testing of the K&S Project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2015: 12.0%). Management concluded that no impairment charge was necessary for the K&S Project as at 31 December 2016 as its recoverable value was higher than its carrying value. The Group has been performing remedial work on the K&S Project and a number of the bottleneck issues have been resolved as at the date of approval of these consolidated financial statements for issuance. The directors of the Company will continue to monitor the project and assess impairment on an ongoing basis.

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

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

During the year ended 31 December 2016, full impairment was made on the interest in a joint venture amounting to US\$47,000 (2015: US\$5,895,000) as a result of the Kuranakh Project being put under care and maintenance since March 2016 which led to a halt in supply of raw materials from the Kuranakh Project to the joint venture for its further production of vanadium for sale. The directors of the Company consider that there is no future cash inflow to substantiate the going concern of the joint venture in the foreseeable future.

Exploration and evaluation assets

As disclosed in the Group's consolidated financial statements for the year ended 31 December 2015, exploration and evaluation assets amounting to US\$36,562,000 had been fully impaired due to the substantial drop in the iron ore price over the years and no impairment was noted for the year ended 31 December 2016.

8. OTHER INCOME, GAINS AND LOSSES

	2016 US\$'000	2015 US\$'000
Net foreign exchange loss	(3,440)	(4,361)
Net gain (loss) on disposal of property, plant and equipment	2,743	(28)
Rental income	1,386	620
	<u>689</u>	<u>(3,769)</u>

9. FINANCIAL INCOME

	2016 US\$'000	2015 US\$'000
Interest income on cash and cash equivalents	208	1,038
Interest income on time deposits	199	408
Others	6	12
	<u>413</u>	<u>1,458</u>

10. FINANCIAL EXPENSES

	2016 US\$'000	2015 US\$'000
Interest expenses on borrowings	14,828	19,221
Less: Interest expenses capitalised to property, plant and equipment	<u>(14,371)</u>	<u>(17,827)</u>
	457	1,394
Unwinding of discount on environmental obligation	<u>732</u>	<u>478</u>
	<u>1,189</u>	<u>1,872</u>

11. INCOME TAX EXPENSE

	2016 US\$'000	2015 US\$'000
Russia Corporate tax	(19)	(187)
Cyprus Corporate tax	(102)	—
Hong Kong Profits tax	<u>(38)</u>	<u>—</u>
	(159)	(187)
Underprovision in prior years		
Cyprus Corporate tax	<u>(131)</u>	<u>—</u>
	(290)	(187)
Deferred tax credit (expense)	<u>(25)</u>	<u>(60)</u>
	<u>(315)</u>	<u>(247)</u>

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

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

Cyprus Corporate tax is calculated at a rate of 12.5% of the estimated assessable profit for the years ended 31 December 2016 and 2015.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 December 2016 and 2015.

No UK Corporate tax and PRC Enterprise Income tax was provided for as the Group had no assessable profit arising in or derived from these jurisdictions during both years ended 31 December 2016 and 2015.

12. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

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

Loss

	2016 US\$'000	2015 US\$'000
Loss for the purposes of basic and diluted loss per ordinary share being loss attributable to owners of the Company	<u>(18,226)</u>	<u>(508,969)</u>

Number of shares

	2016 Number '000	2015 Number '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per ordinary share	<u>6,175,320</u>	<u>5,366,261</u>

The computation of weighted average number of ordinary shares for the purposes of basic and diluted loss per ordinary share for the year ended 31 December 2015 had been adjusted for the Open Offer to qualifying shareholders on the basis of 4 Offer Shares for every 15 existing shares held by the qualifying shareholders that was completed on 7 August 2015.

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 does not (i) take into account of the Company's outstanding shares awarded under the Group's Long-term Incentive Plan ("LTIP") since assuming their issuance would result in a decrease in loss per share, and does not (ii) 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 Group shares.

14. EXPLORATION AND EVALUATION ASSETS

	2016 US\$'000	2015 US\$'000
At the beginning of the year	18,603	54,790
Additions	253	375
Impairment loss recognised (<i>note 7</i>)	<u>—</u>	<u>(36,562)</u>
At the end of the year	<u>18,856</u>	<u>18,603</u>

Garinskoye, the Kostengiskoye Flanks, and Bolshoi Seym Deposit are classified as exploration and evaluation assets. Additions in both years 2016 and 2015 mainly related to exploration and evaluation expenses capitalised in exploration and evaluation assets. The Kostengiskoye Flanks was fully impaired in 2015 as disclosed in note 7.

15. PROPERTY, PLANT AND EQUIPMENT

	Mine development costs US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Construction in progress US\$'000	Total US\$'000
COST					
At 1 January 2015	1,066,233	120,875	53,832	15,511	1,256,451
Additions	40,840	—	21	51	40,912
Transfers	(400)	407	2	(9)	—
Disposals	(990)	—	(1,465)	—	(2,455)
Exchange adjustments	—	—	(1,410)	—	(1,410)
At 31 December 2015	1,105,683	121,282	50,980	15,553	1,293,498
Additions	39,005	—	10	102,291	141,306
Transfers	(24)	—	24	—	—
Disposals	(18)	(2,062)	(63)	—	(2,143)
Exchange adjustments	—	—	955	—	955
At 31 December 2016	1,144,646	119,220	51,906	117,844	1,433,616
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	(622,343)	(120,875)	(34,932)	(15,441)	(793,591)
Depreciation charge for the year	(5,388)	—	(717)	—	(6,105)
Impairment charge (note 7)	(296,286)	(407)	(1)	(60)	(296,754)
Eliminated on disposals	906	—	1,388	—	2,294
Exchange adjustments	—	—	372	—	372
At 31 December 2015	(923,111)	(121,282)	(33,890)	(15,501)	(1,093,784)
Depreciation charge for the year	(7,394)	—	(615)	—	(8,009)
Eliminated on disposals	17	2,062	57	—	2,136
Exchange adjustments	—	—	(269)	—	(269)
At 31 December 2016	(930,488)	(119,220)	(34,717)	(15,501)	(1,099,926)
CARRYING AMOUNTS					
At 31 December 2016	214,158	—	17,189	102,343	333,690
At 31 December 2015	182,572	—	17,090	52	199,714

At 31 December 2016, cumulative capitalised borrowing costs of US\$56,431,000 (2015: US\$42,060,000) were included within mine development costs in the above table. Depreciation of US\$3,643,000 relating primarily to assets used in the construction of plant in LLC KS GOK was capitalised during the year ended 31 December 2016 (2015: US\$5,390,000).

During the years ended 31 December 2016 and 2015, there were no deferred stripping costs incurred in the development of the mine included in the additions to mine development costs relating to the removal of overburden at the Kuranakh mine.

Property, plant and equipment with a net book value of US\$5,825,000 (2015: US\$5,930,000) have been pledged to secure the bank borrowings of the Group.

At 31 December 2016, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (2015: US\$23,133,000).

The Group and CNEEC (as defined in note 2) entered into an EPC Contract (as defined in note 2) on 6 December 2010 for the K&S Project. The EPC Contract was amended on 14 March 2016 such that LLC KS GOK shall issue a taking-over certificate for the process plant works (“Taking-Over Certificate”) on 30 June 2016 to confirm the status of completion of the processing plant.

Under the EPC Contract, CNEEC is subject to delay penalties on demand basis for the period between the completion date of the infrastructure works and the date of the issuance of the Taking-Over Certificate for the process plant works at US\$150,000 per day and the Group may recover the same from CNEEC as a debt.

On 27 December 2016, the Group and CNEEC entered into an additional agreement (the “Additional Agreement”) to the EPC Contract that the Taking-Over Certificate would be issued on 31 December 2016, notwithstanding that the Group would complete certain works itself, and that the time for completion of the K&S Project would be extended from 30 June 2016 to 26 July 2016. On this basis, a delay penalty amounting to US\$3.9 million has been charged to CNEEC (the “Delay Penalty”) in respect of the delay of completion of the processing plant from 30 June 2016 to 26 July 2016. Nonetheless, the Group has reserved its rights to pursue all and any claims under the EPC Contract. In particular, the Group may still pursue its claim for delay penalties in respect of the period from 26 July 2016 until 31 December 2016, amounting to approximately US\$23.7 million.

On the other hand, the Group is obliged to give CNEEC a final payment of the construction costs of US\$26.6 million for which CNEEC agreed to receive the payment in tranches at approximately US\$8.4 million, US\$9.1 million and US\$9.1 million in 2018, 2019 and 2020, respectively. Whilst US\$3.9 million out of the US\$26.6 million final payment of the construction costs has been offset with the Delay Penalty, the remaining US\$22.7 million is measured at amortised cost determined using the effective interest method with an interest rate of 7.88% per annum.

Hence, construction costs payable amounting to approximately US\$17,830,000 have been recorded as non-current liabilities. The estimated construction costs of approximately US\$15,110,000 have been capitalized as “Mine development costs” of the “Property, plant and equipment” line item while the related value-added tax recoverable of US\$2,720,000 calculated at the value-added tax rate of 18% have been recorded as non-current assets.

Apart from this, CNEEC agreed to contribute towards the remedial and associated costs for the remediation of certain defects. Within 2 days of signing the Additional Agreement, CNEEC paid to the Group an amount of US\$4,508,000 in relation to the estimated remedial and associated costs. The amount was deducted to the carrying amount of property, plant and equipment.

16. OTHER NON-CURRENT ASSETS

	2016 US\$'000	2015 <i>US\$'000</i>
Prepayments for property, plant and equipment	—	88,859
Cash advances to employees	76	158
	76	89,017

At 31 December 2016, the Group transferred the remaining prepayments for property, plant and equipment amounting to US\$88,859,000 to the property, plant and equipment (see note 15 for details) since the Taking-Over Certificate (as defined in note 15) was issued to CNEEC (as defined in note 2) on the same date.

17. INVENTORIES

	2016 US\$'000	2015 <i>US\$'000</i>
Stores and spares	6,505	10,079
Work in progress	12,827	16,128
Finished goods	1,039	3,368
	20,371	29,575

No inventories had been pledged as security during the years ended 31 December 2016 and 2015. Work in progress, finished goods and spare parts were recovered by US\$2,784,000 and ore stockpiles, fuel, raw and other materials were written down by US\$4,006,000 to its net realisable value during the year ended 31 December 2016 (2015: work in progress, finished goods and ore stockpiles were recovered by US\$252,000 and spare parts were written down by US\$7,400,000 to its net realisable value). Recovery of the inventories in the current year is due to subsequent sales of inventories previously written down.

The cost of inventory charged to the consolidated statement of profit or loss and included in site operating expenses and service costs was approximately US\$7,810,000 for the year ended 31 December 2016 (2015: US\$31,614,000).

18. TRADE AND OTHER RECEIVABLES

	2016 US\$'000	2015 US\$'000
Value-added tax recoverable	3,750	5,318
Advances to suppliers	1,203	2,485
Amounts due from customers under engineering contracts	358	476
Trade receivables	4,276	10,141
Other debtors	14,226	7,043
	<u>23,813</u>	<u>25,463</u>

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

Amounts included in trade receivables at 31 December 2016 and 2015 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

Other debtors at 31 December 2016 and 2015 are mainly contributed by interest receivable from General Nice, please see details in note 23.

The Group has concentration of credit risk at 31 December 2016 as 97.5% (31 December 2015: 79.4%) of the total trade receivables was due from the Group's largest customer. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 99% of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records for both years ended 31 December 2016 and 2015.

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

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

	2016 US\$'000	2015 US\$'000
Less than one month	4,057	5,271
One month to three months	176	4,861
Over three months to six months	11	—
Over six months	32	9
	<u>4,276</u>	<u>10,141</u>
Total	<u>4,276</u>	<u>10,141</u>

The Group allows credit period ranging from 10 days to 90 days (2015: 15 days to 63 days) to individual third party customers. The directors of the Company considered that the carrying value of trade and other receivables is approximately equal to their fair value.

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

	2016 US\$'000	2015 <i>US\$'000</i>
Less than one month	—	2
One to three months	—	1
Over three months to six months	—	—
Over six months	43	9
Total	43	12

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

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

	2016 US\$'000	2015 <i>US\$'000</i>
At the beginning of the year	799	987
Changes in allowance for doubtful debts	—	44
Amounts written off as uncollectible	(877)	(2)
Exchange adjustments	221	(230)
At the end of the year	143	799

Included in the allowance for doubtful debts were impaired trade receivables of US\$143,000 and US\$799,000 as at 31 December 2016 and 2015, respectively. The amount at 31 December 2016 mainly represented impairment for non-trade debtors at LLC Olekminsky Rudnik, LLC KS GOK and LLC Orlovsko-Sokhatinskiy Rudnik (trade debtors at LLC Petropavlovsk Iron Ore and non-trade debtors at LLC Olekminsky Rudnik as at 31 December 2015) who are in severe financial difficulties and the probability for them to settle the receivable is remote. The Group did not hold any collateral over these balances.

19. TIME DEPOSITS

Time deposits of the Group as at 31 December 2015 comprised short-term US Dollars denominated bank deposits with an original maturity of three to twelve months. The carrying amounts of the assets approximate their fair value. As at 31 December 2015, time deposits carrying interest at prevailing market rates ranged from 0.45% to 15.50% per annum. The Group did not have time deposits as at 31 December 2016.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Cash at banks carry interest at prevailing market rates ranging from 0.2% to 9.15% (2015: 0.4% to 16.25%) per annum for the year ended 31 December 2016.

21. TRADE AND OTHER PAYABLES

	2016 US\$'000	2015 US\$'000
Trade payables	1,675	3,121
Advances from customers	349	195
Accruals and other payables	19,447	14,716
	<u>21,471</u>	<u>18,032</u>

For related party and individual third party trade creditors, the average credit period on purchases of goods and services for the year was 30 days (2015: 19 days).

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

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

	2016 US\$'000	2015 US\$'000
Less than one month	1,571	1,030
One month to three months	53	37
Over three months to six months	33	51
Over six months	18	2,003
Total	<u>1,675</u>	<u>3,121</u>

22. BORROWINGS

	2016 US\$'000	2015 US\$'000
Bank loans		
Asian Pacific Bank	—	10,550
ICBC	219,739	257,738
Sberbank of Russia PJSC	1,430	—
	<u>221,169</u>	<u>268,288</u>
Other loans		
Polisko LLC	12,466	—
Uzhuralzoloto Group of Companies JSC ("Uzhuralzoloto JSC")	9,348	—
	<u>21,814</u>	<u>—</u>
Total	<u>242,983</u>	<u>268,288</u>
Secured	230,517	268,288
Unsecured	12,466	—
	<u>242,983</u>	<u>268,288</u>
Carrying amounts repayable		
Within one year	65,744	53,050
More than one year, but not exceeding two years	39,387	39,134
More than two years, but not exceeding five years	118,160	176,104
More than five years	19,692	—
Total	<u>242,983</u>	<u>268,288</u>

23. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2016 and 2015 are as follows:

	Number of shares	Share capital US\$'000
Issued and fully paid		
At 1 January 2015	4,859,910,301	1,211,231
Issue of new ordinary shares pursuant to an open offer of shares	1,295,976,080	52,656
Transaction costs attributable to issue of new ordinary shares	—	(3,222)
At 31 December 2015 and 1 January 2016	6,155,886,381	1,260,665
Issue of new shares	937,500,000	24,589
Transaction costs attributable to issue of new ordinary shares	—	(96)
At 31 December 2016	<u>7,093,386,381</u>	<u>1,285,158</u>

As disclosed in note 31 to the Group's 2015 consolidated financial statements, on 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of the Company of up to approximately HK\$1,845,000,000 (equivalent to approximately US\$238,000,000) in aggregate.

The last subscription made by General Nice was 30 April 2014. A cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice as at 30 April 2014. As General Nice did not complete the subscription in accordance with the agreed timeline, Minmetals' subscription will be subject to further agreement between the parties. No subscription was made by Minmetals up to 31 December 2016.

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

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

At 31 December 2016 and 31 December 2015, excluding the shares subscribed by General Nice in the Company's open offer in 2015, a cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK\$1,315.9 million (equivalent to approximately US\$169.6 million).

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

On 30 November 2016, the Company entered into a subscription agreement with an investor, Tiger Capital Fund SPC – Tiger Global SP (“Tiger Capital Fund”), pursuant to which Tiger Capital Fund agreed to subscribe for 937,500,000 new ordinary shares of the Company at the subscription price of HK\$0.21 per share. As part of the consideration for the subscription, the Company has also agreed to grant to Tiger Capital Fund a right to subscribe for a maximum of 60,000,000 new ordinary shares (“Option Share(s)”) of the Company. The subscription and the grant of the Option Shares were subject to shareholders' approval by way of an ordinary resolution which was passed on 29 December 2016. Accordingly, 937,500,000 ordinary shares were allotted and issued, as well as 60,000,000 Option Shares were granted, to Tiger Capital Fund on 30 December 2016 (the “Completion Date”) for a total net proceeds of approximately US\$25.4 million.

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

The 60,000,000 Option Shares granted was assigned to a director of Tiger Capital Fund, pursuant to the nomination by Tiger Capital Fund. The first tranche of 30,000,000 Option Shares has an exercise price of HK\$0.3575, representing a premium of 10% to the closing price of HK\$0.325 on the Completion Date. Following the completion of the first tranche of the Option Shares subscription, the exercise price for the second tranche of the remaining 30,000,000 Option Shares would be set at a price which is 110% of the closing price for a share of the Company on the first anniversary of the Completion Date.

The Option Shares are valid for a period of 5 years from the date of grant and are subject to the vesting periods as follows:

- one-half of the Option Shares granted to the Tiger Capital Fund shall vest on 30 December 2016; and
- one-half of the Options Shares granted to Tiger Capital Fund shall vest on 30 December 2017.

At 31 December 2016, the Option Shares granted to Tiger Capital Fund remained outstanding. No Option Shares granted were exercised or lapsed during the year ended 31 December 2016.

The fair value of the Option Shares granted during the year was approximately HK\$9,943,000 and was determined using the binomial option pricing model by an independent valuer, RSM Consulting (Hong Kong) Limited with value per Option Share in the range of HK\$0.145 to HK\$0.146. The significant inputs into the model are as follows:

Share price, at the grant date (HK\$)	0.325
Exercise price (HK\$) for the first tranche of Option Shares	0.358
Expected volatility (%)	61.73 – 62.79
Expected dividend yield (%)	—
Expected share option life (years)	5
Annual risk-free interest rate (%)	1.559 – 1.630

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the previous five years.

The expected life of the Option Shares is based on the maturity period of the Option Shares of 5 years. Transaction cost attributable to grant of Option Shares was approximately HK\$23,000.

CHAIRMAN & CHIEF EXECUTIVE OFFICER REVIEW

A New Era for IRC, A Time of Reward for Shareholders

IRC is now in the final stage of transforming into a high-growth, low-cost, pure-play iron ore producer. As we write this letter, K&S is already cashflow positive and has been since the beginning of the year. Recently, K&S successfully operated at 75% production capacity and is making sales of over 100,000 tonnes of iron ore per month to our Chinese customers. In the next couple of months, K&S will become an even more attractive world-class asset as it ramps up to its full production capacity of 3.2 million tonnes per annum and reward our shareholders with greater value.

2016 saw a series of major milestones being achieved. It was a year of many “firsts” for K&S – first ore produced, first thousand tonnes and most importantly first shipment to customers. These firsts represent our tremendous efforts and the significant progress we have made during the year. We remain confident in delivering K&S at full operating capacity as scheduled.

Production increasing as iron ore price rallies

2017 is set to be a good year for IRC as K&S is entering the market at a fortunate timing. During the second half of 2016, we signed the take-over certificate of K&S, which marks the beginning of official trial production of the mine.

In 2016, the commodities market showed strong signs of recovery, with iron ore being the best performer of the majors – finishing up more than 80%. The year-end benchmark price closed at c.US\$80 per tonne, reaching its highest level since September 2014.

Recently, the iron ore market price surged to near US\$100 per tonne in March 2017. If we assume the estimated unit cash cost of K&S at c.US\$34 per tonne delivered to the Chinese border (based on our cost optimisation analysis), K&S is well-positioned to enjoy the upside of this price recovery. An updated cash cost analysis will be provided when K&S is nearer to full scale operation, allowing IRC to fully analyse the cost base in detail.

Our focus on cost reductions

While it is blessing that K&S has commenced production and is generating revenue, it is still essential to monitor, control and optimise our costs for good margins. During 2016, we remained lean in both operating and corporate level, with corporate administrative costs further shrinking and operating cost of Kuranakh remaining at minimal level since we moved the mine to care and maintenance. This is the third year running where costs have decreased despite the growth in the company. *(For costs figures, please refer to the next section of CFO Statement & Results of Operations.)*

Support from lenders, new investors and contractors

It is pleasing to note there has been an appreciation of IRC’s new stability and exciting value prospects by the investor community and other stakeholders. During 2016 the share register of IRC evolved materially with an influx of new investors. Tiger Capital Fund is one such new core investor, who intends to maintain a long-term investment, not only boosting IRC’s immediate cashflow for operational and financial needs, but also signifying to external audiences their confidence in K&S and the future of IRC. The investor also brought IRC an additional board member whose expertise will provide further diversity and experience to the Board.

Additionally, we owe thanks to the assistance from our lender. Following extensive negotiations, ICBC granted waivers to the Group for the obligations to maintain certain cash deposits and to comply with certain financial covenants. In addition, ICBC has also agreed to restructure our 2017–2020 repayments under the Project Finance Facility which fully relieve K&S from principal repayments in 2017. These waivers will help strengthen cashflow when K&S is beginning to produce in full capacity.

In further good news we are glad to report an amicable settlement has been reached with our construction contractor, CNEEC which included monetary compensation to IRC. The agreement also allowed us to maintain a friendly relationship with CNEEC for potential future collaboration on warranty works as needed. To be clear we also maintain the rights to pursue claims under the EPC contract, such as delay penalties if needed.

The Sino-Russian Bridge

With the help of the Sino-Russian Amur River Bridge project, a Sino-Russian project to encourage bilateral trade, we expect to further reduce K&S' unit cash cost by US\$5 per tonne when the bridge is in use; providing an even stronger margin for IRC. The Russian side of the bridge construction began during 2016, while the Chinese side of the bridge is now complete. The infrastructure is expected to bring closer economic cooperation which IRC may take advantage of.

In addition, we believe China's Belt-And-Road initiatives may benefit commodities producers like us as the initiatives may stimulate the iron ore market demand by a series of infrastructure projects along the new "Silk Road". Also, with Far East of Russia being one of the strategic points for the Sino-Russia Economic Corridor, K&S is well-situated to enjoy this geographical advantage.

Outlook for 2017 and beyond

2017 is a year of transformation for IRC, and it is time for all stakeholders to reap the rewards of many years of hard work. We will be celebrating the full commercial production of K&S very soon. With the commodities market in an improved position than previous years, we hope to yield better earnings and strive for greater value generation.

We would like to thank our team for their hard work in the past years, and we wish to extend our gratitude to our shareholders, for your patience and ongoing support in IRC.

CFO STATEMENT & RESULTS OF OPERATION

As noted in our Chairman and CEO Review, we saw a strong rebound of the commodities market towards the end of 2016, especially for iron ore. Market analysts reported that they have seen a pick-up in hard commodities, supported by an uptick of global economic activities in China, the U.S. and Europe. In particular, China's economic stimulus policies seem to have taken effect on its property market and infrastructure sector, leading to the lift of demand in the iron ore market. In addition, we note that there is an increase in demand toward high grade iron ore, thanks to China's policies in increasing the efficiency of steel industry. This is reflected in the premium between benchmark 62% Index and 65% Index. The spread has increased to c. US\$12-13 per tonne in 2016. For K&S, being a high grade iron ore producer, that is an additional benefit.

These positive news are reflected in the performance of the IRC share price as K&S development advances. During the second half of 2016, we announced the commencement of trial production of K&S, IRC's share price surged over 70% comparing to the beginning of the year. We believe that as K&S enters into full scale commercial production in 2017, we will see a more stabilised and strengthened financial position, which we hope can be further reflected in our share price performance.

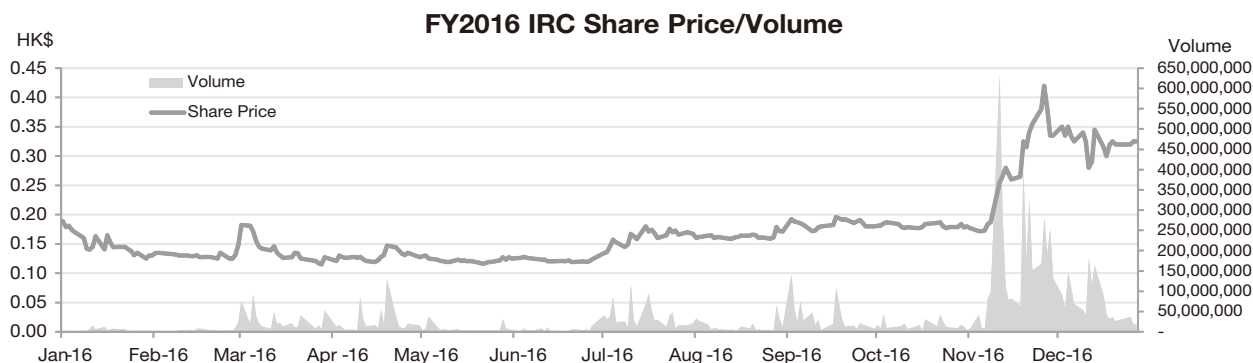
During 2016, we are proud to report accomplishments on financing deals which satisfied our immediate financial needs and also kept our balance sheet at healthy level, with our cash and deposit balance amounting to c. US\$33 million as at the end of 2016. These include:

- (1) Successful equity fund-raising of US\$25 million from a new core investor – Near the end of 2016, we have formed new alliance with Tiger Capital Fund, who injected c. US\$25 million into IRC and an additional member of the Board.
- (2) Amicable settlement with CNEEC – We have reached an amicable settlement agreement with CNEEC of which we received cash compensation of US\$4.5 million in December 2016 and reduced outstanding construction payment liability by US\$3.9 million while reserving the rights to claim for further penalties from the contractor.
- (3) US\$10 million working capital facility obtained from Sberbank to finance the operation of K&S – As the sales from K&S to the Chinese customers are picking up, this line of credit provides support to our increasingly busy operation. The facility further de-risks the operation of K&S and strengthens our cash flow position.

In addition, just recently, we are thankful to have reached an agreement with ICBC regarding restructuring of the repayments under the Project Finance Facility, of which all principal repayment instalments in the year 2017 totalling c. US\$43 million shall be repayable in equal parts over the subsequent five repayments instalments from 2018 to 2020. We believe this agreement not only helps IRC in maintaining a strong financial position, but also allows us to better allocate resources in the near future.

Turning to cost, we can report that we maintained our cost well. During 2016, we managed to keep our corporate administrative cost low from an already lean level of US\$11 million in 2015 to US\$10 million. Excluding the share-based payments which are non-cash in nature, Central Administration expenses reduced by 12.8% to US\$9.3 million. Furthermore, operating cost shrunk 74% as we moved Kuranakh to care and maintenance and the last batch of sales was completed in the first half of 2016.

Lastly, regarding our numbers outlook, we know that investors are curious about our margins after K&S comes into full production. Our margin hinges on two main factors: the iron ore price and our cost which is mainly denominated in Rouble. Therefore apart from keeping K&S operation efficient, we are also considering the feasibility of hedging iron ore prices and Rouble exchange rate to secure our bottom line for future growth. We will remain cautious and prudent in the process to optimise shareholder's wealth.



The table below shows the consolidated results of the Group for the year ended 31 December 2016 and 2015:

	For the year ended 31 December		
	2016	2015	Variance
Key Operating Data			
Iron Ore Concentrate			
— Sales volume (tonnes)	219,352	1,091,600	(79.9%)
— Average price (US\$/tonne)	39	51	(23.5%)
Ilmenite			
— Sales volume (tonnes)	60,044	205,632	(70.8%)
— Average price (US\$/tonne)	117	119	(1.7%)
Consolidated Income Statement (US\$'000)			
Revenue			
Iron Ore Concentrate	8,637	55,906	(84.6%)
Ilmenite	6,943	24,445	(71.6%)
Engineering Services	887	1,559	(43.1%)
Total Revenue	16,467	81,910	(79.9%)
Site operating expenses and service costs	(24,795)	(95,896)	(74.1%)
Central administration expenses	(10,397)	(10,780)	(3.6%)
Impairment charges	(47)	(480,050)	(100%)
Share of results of a joint venture	47	1	>100%
	(18,725)	(504,815)	(96.3%)
Other income, gains and (losses)	689	(3,769)	n/a
Financial expenses, net of financial income	(776)	(414)	87.4%
Loss before taxation	(18,812)	(508,998)	(96.3%)
Taxation expense	(315)	(247)	27.5%
Loss after taxation	(19,127)	(509,245)	(96.2%)
Non-controlling interests	901	276	>100%
Loss attributable to owners of the Company	(18,226)	(508,969)	(96.4%)
Underlying Results (US\$'000)			
Loss attributable to owners of the Company, excluding impairment charges	(18,179)	(28,919)	(37.1%)

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operation. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. However, as with most of IRC's international industry peers, the Group's income statement includes material non-cash impairment provisions. These impairments are provided mainly in light of the volatility of the global economy, such as the weakness in global bulk commodity markets, and are therefore non-operating and non-recurring in nature.

The underlying loss, which excludes impairment charges, in 2016 reduced 37.1% to US\$18.2 million (31 December 2015 Underlying Loss: US\$28.9 million). The significant reduction in underlying loss was mainly due to the decision to move Kuranakh to care and maintenance and suspend its operation in early 2016, when the iron ore market was weak and Kuranakh was making negative contribution to the Group. IRC is now assessing the feasibility of re-opening Kuranakh in light of the recent stronger iron ore prices.

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 impairments, is set out below:

US\$'000	For the year ended 31 December		Variance
	2016	2015	
Loss attributable to owners of the Company	(18,226)	(508,969)	(96.4%)
Impairment charges	47	480,050	(100.0%)
Underlying loss for the year	(18,179)	(28,919)	(37.1%)

Iron ore concentrate

IRC's 2016 operating results are mainly derived from the mining operation of Kuranakh. Since Kuranakh has been moved to care and maintenance since the beginning of 2016, IRC has halted the production of iron ore concentrate in 2016. Consequently, the sales volume of iron ore diminished to 219,352 tonnes compared to the last year. The sales of the iron ore of Kuranakh were completed during the second quarter of 2016, with shipments mainly made during the first quarter of 2016, where the iron ore price market was still at a low position. As a result, the average achieved selling price of the iron ore concentrates decreased 23.5% to US\$39 per tonne, the sales revenue of iron ore consequently decreased 84.6% to US\$8.6 million.

Ilmenite

Also as a result of Kuranakh being moved to care and maintenance since the beginning of 2016, the production of ilmenite has been suspended. The last batch of ilmenite sales was completed during the second quarter of 2016 and 60,044 tonnes of ilmenite were sold in total during the year. The average achieved selling price was a slight decrease from last year's US\$119 to US\$117 per tonne in 2016.

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, reduced by 43.1% to US\$0.9 million, due to decreased billing for its consulting services.

SITE OPERATING EXPENSES AND SERVICE COSTS

Site Operating Expenses and Service Costs mainly represent the mining and operating expenses incurred by the Group's sole mine in production, the Kuranakh mine. In light of Kuranakh being moved to care and maintenance, the decrease in sales volumes of iron ore and ilmenite has subsequently resulted in a significant decrease in site operating expenses by 74.1% from US\$95.9 million to US\$24.8 million.

In accordance with the general market practice and for presentation and analysis purposes, the table below classifies ilmenite sales as a by-product credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore. The details of the key cash cost components are as follows:

	2016		2015
	Total cash cost US\$ million	Cash cost per tonne US\$/t	Cash cost per tonne US\$/t
Mining	1.0	5.4	8.8
Processing	2.3	12.3	11.4
Transportation to plant	0.7	3.8	5.7
Production overheads, site administration and related costs	2.7	14.4	16.4
Transportation to customers	3.9	17.8	19.4
Movements in inventories and finished goods	4.4	20.1	3.5
Contribution from sales of ilmenite* and others	(3.5)	(18.8)	(10.3)
Net cash cost	11.5	55.0	54.9

* net of tariff and other railway charges for ilmenite

Despite operating at a much reduced scale, the cash cost per tonne of Kuranakh was largely in line with the same period last year as the Group continued to implement stringent cost cutting measures, with the aid of Russian Rouble devaluation. The Russian Rouble remained weak in 2016. While the Group's income is mainly US Dollars denominated and therefore unaffected by the Roubles depreciation, the Group's operating costs, which are mostly denominated in Roubles, reduced significantly in 2016. The chart below shows how the depreciation of Russian Rouble helped to offset the effect of the reduction in iron ore prices:

Benchmark Fe 62% CFR China VS. FX rates (USD:RUB)



SEGMENT INFORMATION

As Kuranakh was moved to care and maintenance, “Mine in production” segment reports a segmental loss of US\$6.5 million, an improvement compared to last year (31 December 2015: segmental loss before impairment of US\$12.7 million). The “Engineering” segment also recorded a loss of US\$1.4 million (31 December 2015: US\$1.3 million) following a decrease in consultancy billings.

CENTRAL ADMINISTRATION EXPENSES

In light of the challenging market and operating environments, special attention continues to be given to controlling administrative costs. The successful implementation of the cost savings initiatives continued to provide benefits, with the Group's central administration costs reduced to US\$10.4 million, 4% reduction from last year (31 December 2015: US\$10.8 million). Excluding the share-based payments which are non-cash in nature, central administration expenses reduced by 12.8% to US\$9.3 million.

IMPAIRMENT CHARGES

During the year ended 31 December 2016, full provision was made on the interest in the vanadium joint venture amounting to US\$47,000 (31 December 2015: US\$5,895,000) as a result of the Kuranakh project being put under care and maintenance, which led to cessation in supply of raw materials from Kuranakh to the joint venture for its further production of vanadium for sale. As there is a lack of certainty of the going concern of the joint venture in the foreseeable future, the interest in the joint venture is fully impaired for prudence.

In 2015, due to the weak iron ore price environment, impairments of US\$437.3 million and US\$36.9 million were made against the carrying value of K&S and certain exploration and evaluation assets and other assets, respectively. No such impairment is made in 2016.

SHARE OF RESULTS OF JOINT VENTURE

In 2016, the vanadium joint venture, 46% owned by IRC, provided the group with a nominal profit of US\$47,000 (31 December 2015: share of profit of US\$1,000).

OTHER INCOME, GAINS AND LOSSES

Gains from the Other Gains and Losses and Other Expenses amounted to US\$0.7 million (31 December 2015: loss of US\$3.8 million) mainly represents the exchange losses following the depreciation of Russian Rouble and net gain on disposal of property, plant and equipment from Kuranakh.

NET FINANCIAL EXPENSES

Net financial expenses mainly represent the interest income from bank deposits, net of the interest expenses of the working capital facilities.

TAXATION

During 2016 tax charges remained at a low level of US\$0.3 million (31 December 2015 tax expense: US\$0.2 million).

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As the iron ore price performance has improved in 2016 compared to the same period last year, there was no significant impairment made against the projects of the Company during the year ended 31 December 2016, the only impairment charges were made on the interest in a joint venture amounting to US\$47,000 (31 December 2015 impairment charges: US\$480.1 million). As a result, the Loss attributable to the Owners of the Company in 2016 reduced significantly by 96.4% to US\$18.2 million (31 December 2015 Loss: US\$509.0 million).

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2016 and 31 December 2015:

US\$'000	For the year ended 31 December	
	2016	2015
Net cash generated from/(used in) operations	1,006	(799)
Interest paid	(10,150)	(11,022)
Capital expenditure	(14,734)	(52,599)
Proceeds on issuance of new shares and share options, net of transaction costs	25,292	49,434
Proceeds from bank borrowings, net of repayment	(29,806)	(926)
Proceeds from constructor in remedying mining project defect	4,508	—
Other payments and adjustments, net	(1,060)	(815)
Net movement during the year	(24,944)	(16,727)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	58,263	74,990
— At 31 December	33,319	58,263

The net cash generated from operations amounted to US\$1.0 million (31 December 2015: net cash used in operation: US\$0.8 million), mainly due to the cash inflow from the release of Kuranakh's working capital after the mine was moved to care and maintenance. Capital expenditure of US\$14.7 million was spent mainly on the K&S mine. The reduction in capital expenditure reflects the fact that K&S is nearing completion.

During the year, the Group allotted and issued 937.5 million new shares to Tiger Capital Fund and received net proceeds of approximately US\$25.3 million. A net bank repayment of US\$29.8 million represents mainly the drawing down of the short-term loan facility offset by the repayments of the ICBC Project Facility, which was to finance the construction of the K&S project.

In addition, the Group has received proceeds of US\$4.5 million from CNEEC, the main contractor of K&S project in remedying the defects of the project construction.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

General Nice Subscription

On 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice Development Limited (“General Nice”) and Minmetals for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK\$1,845 million (equivalent to approximately US\$238 million) in aggregate. The share placements not only provided the Group with strong strategic Chinese investment partners, but also solidified the Group’s financial strength by unlocking the value in IRC’s extensive portfolio of development projects. The transaction also includes off-take and marketing arrangements, providing IRC with both sales volume and cash-flow security. As at 31 December 2016, General Nice has completed more than 80% of its commitment by investing approximately US\$170 million into the Company, while the completion of the subscription by Minmetals is subject to further agreement between the parties.

General Nice has agreed to commence paying interest on the outstanding investment amount of US\$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 31 December 2016. The Company is in discussions with General Nice and Minmetals about a further deferred completion and other available options.

Tiger Capital Fund New Shares Subscription

On 30 December 2016, IRC has completed the issuance of new shares to a new core investor with an additional member of the Board. Accordingly, Tiger Capital Fund injected c. US\$25 million into IRC for newly issued IRC shares, giving them a 13.22% shareholding; and Mr Cheng Chi Kin as a representative of Tiger Capital Fund joined the Board of IRC as a non-executive director in February 2017, providing further diversity, expertise and experience to the Board. In accordance with the intended use of proceeds of the transaction as disclosed in the shareholders’ circular dated 12 December 2016, the proceeds was to assist the Company to meet its cashflow needs and provide extra working capital to K&S as it ramps up to full commercial production. The proceeds had been used in accordance with the intention above-mentioned in 2017.

Cash Position and Capital Expenditure

As at 31 December 2016, the carrying amount of the Group’s cash and bank deposits was approximately US\$33.3 million (31 December 2015: US\$58.3 million). The balance represents a decrease of US\$25.0 million, mainly due to the repayment of ICBC Facility Loan during the year.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2016, US\$41.2 million (31 December 2015: US\$146.1 million) was incurred on development and mining production activities. The significant reduction is attributable to the reduced operating expenses in Kuranakh with the mine moving to care and maintenance and the decrease in capital expenditure at K&S with the project nearing completion. No exploration activity was carried out for the year ended 31 December 2016 and 2015. The following table details the capital and operating expenditures in 2016 and 2015:

US\$'m	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Operating expenses	Capital expenditure	Total	Operating expenses	Capital expenditure	Total
Kuranakh	22.1	—	22.1	93.1	0.1	93.2
K&S development	1.3	17.6	18.9	0.5	52.0	52.5
Exploration projects and others	—	0.2	0.2	—	0.4	0.4
	<u>23.4</u>	<u>17.8</u>	<u>41.2</u>	<u>93.6</u>	<u>52.5</u>	<u>146.1</u>

The table below sets out the details of material new contracts and commitments entered into during 2016 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to completion.

US\$'m	Nature	For the year ended 31 December	
		2016	2015
Kuranakh	Purchase of property, plant and equipment	—	—
K&S	Purchase of property, plant and equipment	0.1	1.3
	Sub-contracting for excavation related works	—	—
Others	Other contracts and commitments	—	—
		<u>0.1</u>	<u>1.3</u>

Borrowings and Charges

As 31 December 2016, the Group had gross borrowings of US\$257.0 million (31 December 2015: US\$286.9 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US\$1.4 million (31 December 2015: US\$10.6 million) was bank borrowing for funding the working capital of the Group while the remaining borrowings represents the long term borrowing of US\$233.8 million (31 December 2015: US\$276.3 million) drawn down from the US\$340 million ICBC loan facility which is guaranteed by Petropavlovsk and other unsecured short-term bridge loans of US\$21.8 million, which were fully repaid in January 2017. The Group has been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.4% (31 December 2015: 6.1%) per annum. As of 31 December 2016, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, decreased to 61.1% (31 December 2015: 63.4%) mainly due to the repayment of the ICBC loan facility and increase in the Group's net assets following the share subscription by Tiger Capital Fund as mentioned above.

On 27 February 2017, the Company announced that subject to the fulfilment of certain conditions precedent, ICBC has agreed to restructure the repayments under the Project Finance Facility 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\$42.5 million 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\$8.5 million to US\$29.8 million, with the aggregate amount of the increase being equal to US\$42.5 million. The waiver of the 2017 loan principal repayments and the restructuring of the five subsequent repayments become effective on 20 March 2017 after the conditions precedent were fulfilled.

Risk of Exchange Rate Fluctuation

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

Employees and Emolument Policies

As at 31 December 2016, the Group employed approximately 1,477 employees (31 December 2015: approximately 1,800 employees). The total staff costs excluding share based payments decreased to US\$17.8 million for 2016 (31 December 2015: US\$26.5 million) following decreases in headcount due to Kuranakh mine being moved to care and maintenance and adjustments in staff remuneration. As part of the cost reduction program, an aggressive cost saving approach was taken by reducing salaries and directors' fees (as applicable) for all Board members by 15% in March 2015, which also applied to most of senior management of the Group. In addition, a further 10% reduction in salaries and directors' fees (as applicable) for Board members and most of senior management was implemented in January 2016. Although there was some recovery in the commodities market towards the end of 2016, the Group takes a prudent approach and these cost control measures continue to be in effect. No bonuses were paid in 2016. 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.

OTHER INFORMATION

Resources and Reserves information

In conjunction with rule 18.14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), IRC has updated its Resources and Reserves information and further details are set out in IRC’s 2016 annual report.

Corporate Governance

The Board of Directors (the “Board”) of IRC is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group’s performance. Detailed disclosure of the Company’s corporate governance policies and practices is available in the 2016 Annual Report.

Throughout the year, the Company was in compliance with the provisions set out in the CG Code save that:

- a) in respect of attending general meetings of the Company as provided for in CG Code provision A.6.7, due to their overseas engagements at the time, the Non-Executive Directors Mr Cai Sui Xin and Mr Liu Qingchun and the Independent Non-Executive Director Mr Simon Murray were unable to attend the annual general meeting of the Company held on 28 June 2016; and Mr Cai Sui Xin was unable to attend the extraordinary general meeting held on 29 December 2016;
- b) pursuant to Rule 3.10A of the Listing Rules, the Independent Non-Executive Directors of a listed issuer must represent at least one-third of the board of directors. The number of Independent Non-Executive Directors of the Company fell below the minimum number as required under Rule 3.10A following the appointment Mr Danila Kotlyarov as an Executive Director of the Company on 20 January 2016 until 16 March 2016 when Mr Simon Murray was re-designated from a Non-Executive Director to an Independent Non-Executive Director of the Company. The Board believes that, during that period, there was still a sufficient independent element on the Board which could effectively exercise independent judgment. Following the re-designation of Mr Simon Murray on 16 March 2016, the number of Independent Non-Executive Directors of the Company fulfilled the minimum number as required under Rule 3.10A of the Listing Rules; and
- c) although the Company has set up an internal audit function as provided for in code provision C.2.5, the Company has not yet carried out an internal audit as the Group’s only producing mine, Kuranakh, is under care and maintenance and does not currently have any operations which would justify the expense and management time required to complete such an internal audit. The Company confirms that it will carry out internal audits after K&S enters into commercial production.

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

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

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

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

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and of the Company (www.ircgroup.com.hk). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

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

Hong Kong, People's Republic of China
Friday, 31 March 2017

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 Cai Sui Xin (Benjamin Ng as his alternate), Mr Raymond Kar Tung Woo and Mr Cheng Chi Kin. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Chuang-Fei Li and Mr Jonathan Martin Smith.

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