铁货 IRC

IRC Limited 鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)
(Stock code: 1029)

IRC: 2018 ANNUAL RESULTS 42% INCREASE IN EBITDA NET PROFIT OF US$68 MILLION

A teleconference call to discuss the results will be held today at 09h00 Hong Kong time. The number is +852 2112 1888, the passcode is 5527529#. A replay of the conference call will be available at www.ircgroup.com.hk by 1 April 2019. Presentation slides are available at www.ircgroup.com.hk.

Friday 29 March 2019: 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 2018.

KEY HIGHLIGHTS

Financials

- EBITDA of US$28.5 million, 42% increase over last year (31 December 2017: US$20.0 million)
- Net profit of US$68.2 million (31 December 2017: US$113.3 million)
- Revenue increased by 39% to US$151.5 million (31 December 2017: US$109.3 million)
- Impairment reversal of US$90.5 million reflecting on the successful operation of K&S

Operations

- K&S's 2018 production capacity of 70%; currently at about 86%
- Sales volume increased by 45% to 2,223,945 tonnes (31 December 2017: 1,539,146 tonnes)
- Refinancing of ICBC loan completed, new facility with Gazprombank provides better repayment terms that align with K&S ramp-up progress
- Kuranakh under care and maintenance with optionality to restart

Commenting on the results, Peter Hambro, Chairman of IRC said, *"In 2018, IRC's performance has been positive and our progress made during this challenging year is marked by increased EBITDA and a US$68.2 million net profit, as well as by both the continued ramping up of K&S and the successful refinancing of the ICBC loan. As K&S continued to ramp up its production, sales volume increased by 45% in 2018. EBITDA, a key performance indicator for IRC, increased by 42% to US$28.5 million. The successful ramping up of K&S and its strong operating performance supported a reversal of asset impairment provisions of US$90.5 million and accordingly, IRC reports a net profit of US$68.2 million.*

We wish to express our gratitude to ICBC and Sinosure for providing the initial debt financing to IRC for the construction of K&S. After the project commenced operation, it has always been our intent to refinance this project finance facility and I am delighted that we have completed the refinancing arrangement with Gazprombank. The principal repayments of the Gazprombank Facility are aligned with the ramping up of K&S, thereby improving the cash flow position of the Group and providing a stable financial platform to consolidate our market position.

There are conflicting views about the market conditions. Some will have it that things will not get any easier in 2019 while others will tell you that the world market for steel – particularly in India, Africa and the Asean block will mean that supply remains tight. Whichever is correct, I believe that IRC can navigate these confusing tides. With my almost 40-year experience and extensive networks in the commodities business, I look forward to leading IRC to unlock the true potential of the Group."

The board of directors of IRC Limited (the "**Board**") 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 2018, which have been reviewed by the Company's Audit Committee, comprising of independent non – executive directors, and by the external auditor. The Board has authorised the Executive Committee, which comprises of the Executive Directors and senior management of the Company, to approve the annual results on its behalf.

2018 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** **US$'000**	2017 *US$'000*
Revenue	*3*	**151,549**	109,265
Operating expenses	*5*	**(129,880)**	(91,474)
Depreciation and amortisation	*5*	**(21,208)**	(14,618)
Reversal of impairment losses	*6*	**90,483**	129,614
Other income, gains and losses		**6,811**	2,248
Allowance for financial asset measured at amortised cost		**(7,741)**	—
Financial expenses	*7*	**(21,679)**	(22,410)
Profit before taxation		**68,335**	112,625
Income tax (expense) credit	*8*	**(130)**	590
Profit for the year		**68,205**	113,215
Profit for the year attributable to:			
Owners of the Company		**68,235**	113,254
Non-controlling interests		**(30)**	(39)
		68,205	113,215
Earnings per share (US cents)	*10*		
Basic		**0.96**	1.60
Diluted		**0.96**	1.60

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	2018 US$'000	2017 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets		**19,497**	19,149
Property, plant and equipment		**533,446**	459,118
Inventories		**10,926**	—
Interest in a joint venture		**—**	—
Other non-current assets		**3,282**	97
Restricted bank deposit		**977**	1,977
Value-added tax recoverable		**—**	2,918
		568,128	483,259
CURRENT ASSETS			
Inventories		**23,168**	28,616
Trade and other receivables	*11*	**11,027**	25,410
Time deposits		**—**	347
Bank balances		**7,637**	8,650
		41,832	63,023
TOTAL ASSETS		**609,960**	546,282
CURRENT LIABILITIES			
Trade and other payables	*12*	**(54,788)**	(33,598)
Income tax payable		**(292)**	(2,638)
Borrowings – due within one year	*13*	**(111,954)**	(60,950)
Other financial liabilities		**—**	(1,852)
		(167,034)	(99,038)
NET CURRENT LIABILITIES		**(125,202)**	(36,015)
TOTAL ASSETS LESS CURRENT LIABILITIES		**442,926**	447,244
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(3,565)**	(3,623)
Provision for close down and restoration costs		**(10,026)**	(14,030)
Construction costs payable	*12*	**(8,910)**	(16,069)
Borrowings – due more than one year	*13*	**(100,915)**	(162,078)
		(123,416)	(195,800)
TOTAL LIABILITIES		**(290,450)**	(294,838)
NET ASSETS		**319,510**	251,444

	2018	2017
	US$'000	*US$'000*
CAPITAL AND RESERVES		
Share capital	**1,285,158**	1,285,158
Capital reserve	**17,984**	17,984
Reserves	**17,216**	14,222
Accumulated losses	**(1,000,552)**	(1,065,887)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**319,806**	251,477
NON-CONTROLLING INTERESTS	**(296)**	(33)
TOTAL EQUITY	**319,510**	251,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 the People's Republic of China ("PRC") and the Group predominantly serves the Russian and Chinese markets.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the CO and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's report for the year ended 31 December 2018 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 CO.

The consolidated financial statements have been prepared on a going concern basis. As at 31 December 2018, the Group had net current liabilities of approximately US$125.2 million (2017: US$36.0 million). The management of the Group has prepared a cash flow forecast which involves judgments and estimations based upon management's input of key variables and market conditions including the expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and costs of production. The cash flow forecast has been determined using estimations of future cash flows based upon projected income and expenses of the Group and its working capital needs. The Group believes it has sufficient liquidity based upon the credit facilities available as at and subsequent to the end of the reporting period and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2018

Segments	**Mine in production** *US$'000*	**Engineering** *US$'000*
Types of goods or services		
Sale of iron ore concentrate	**135,075**	**—**
Delivery services	**15,923**	**—**
Engineering services	**—**	**551**
	150,998	**551**
Georgaphical markets		
PRC	**83,388**	**—**
Russia	**67,610**	**551**
	150,998	**551**
Timing of revenue recognition		
A point of time	**135,075**	**—**
Over time	**15,923**	**551**
	150,998	**551**

For the year ended 31 December 2017

Segments	Mine in production *US$'000*	Engineering *US$'000*
Types of goods or services		
Sale of iron ore concentrate	108,212	—
Engineering services	—	1,053
	108,212	1,053
Georgaphical markets		
PRC	98,930	—
Russia	9,282	1,053
	108,212	1,053

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 an iron ore project in production phase. This segment includes the K&S Project which is located in the Russia Far East Region started commercial production in January 2017 and so was transferred from the Mines in Development Segment to Mines in Production during the year ended 31 December 2017.

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the Garinskoye project and the Bolshoi Seym 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 following is an analysis of the Group's revenue and results by separable and reportable segment.

For the year ended 31 December 2018

	Mines in production *US$'000*	Mines in development *US$'000*	Engineering *US$'000*	Other *US$'000*	Total *US$'000*
Revenue					
External sales	**150,998**	**—**	**551**	**—**	**151,549**
Segment revenue	**150,998**	**—**	**551**	**—**	**151,549**
Site operating expenses and service costs	**(138,891)**	**(320)**	**(1,431)**	**(11)**	**(140,653)**
Site operating expenses and service costs include:					
Depreciation and amortisation	**(20,862)**	**(196)**	**(141)**	**—**	**(21,199)**
Reversal of impairment losses	**90,483**	**—**	**—**	**—**	**90,483**
Segment profit (loss)	**102,590**	**(320)**	**(880)**	**(11)**	**101,379**
General administration expenses					**(10,426)**
General depreciation					**(9)**
Other income, gains and losses					**6,811**
Allowance for financial asset measured at amortised cost					**(7,741)**
Financial expenses					**(21,679)**
Profit before taxation					**68,335**
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	**469**	**5,268**	**2**	**10**	**5,749**
Exploration and evaluation expenditure capitalised	**—**	**348**	**—**	**—**	**348**
Segment assets	**575,881**	**24,293**	**4,598**	**495**	**605,267**
Central cash and cash equivalents					**4,693**
Consolidated assets					**609,960**
Segment liabilities	**(58,053)**	**(681)**	**(334)**	**(14,948)**	**(74,016)**
Borrowings					**(212,869)**
Deferred tax liabilities					**(3,565)**
Consolidated liabilities					**(290,450)**

For the year ended 31 December 2017

	Mines in production *US$'000*	Mines in development *US$'000*	Engineering *US$'000*	Other *US$'000*	Total *US$'000*
Revenue					
External sales	108,212	—	1,053	—	109,265
Segment revenue	108,212	—	1,053	—	109,265
Site operating expenses and service costs	(94,478)	(364)	(1,367)	(12)	(96,221)
Site operating expenses and service costs include:					
Depreciation and amortisation	(14,161)	(266)	(152)	—	(14,579)
Reversal of impairment losses	129,614	—	—	—	129,614
Segment profit (loss)	143,348	(364)	(314)	(12)	142,658
General administration expenses					(9,832)
General depreciation					(39)
Other income, gains and losses					2,248
Financial expenses					(22,410)
Profit before taxation					112,625
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	10,232	—	—	7	10,239
Exploration and evaluation expenditure capitalised	—	293	—	—	293
Segment assets	496,140	27,941	5,720	11,855	541,656
Central cash and cash equivalents					4,626
Consolidated assets					546,282
Segment liabilities	(54,892)	(651)	(273)	(12,371)	(68,187)
Borrowings					(223,028)
Deferred tax liabilities					(3,623)
Consolidated liabilities					(294,838)

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2018	2017
	US$'000	*US$'000*
EVRAZ Group	**66,801**	—
Heilongjiang Xianglong International Trading Corporation Limited	**62,470**	60,090
Suifenhe Fangda Internatioanl Trade Co., Ltd.	**21,387**	16,223
Minmetals Luobei International Trading Co., Ltd.	**—**	16,909

5. OPERATING EXPENSES

	2018	2017
	US$'000	*US$'000*
Site operating expenses and service costs	**140,653**	96,221
General administration expenses	**10,435**	9,871
	151,088	106,092

6. REVERSAL OF IMPAIRMENT LOSSES

The Group follows the requirements of HKAS 36 Impairment of Assets to consider whether there are impairment indicators and if so, to determine whether the non-financial assets are impaired. At the end of each reporting period, the management assesses whether there is any indication that the impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the management is required to estimate the recoverable amount of the asset which requires significant judgment. In making this judgment, management considers factors including changes in the cash costs of production, available ore reserves, purity of the iron ore concentrates, forecasted iron and ilmenite prices and exchange rates.

With the continued improvements in K&S Project's production and in the spot iron ore price in the current year, management has revisited the assessment of the recoverable amount of the K&S Project resulting in a reversal of the impairment charge of US$90.5 million in the consolidated statement of profit or loss for the year ended 31 December 2018 (2017: US$129.6 million).

The recoverable amount of the K&S Project has been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs that have taking into consideration the future economic conditions, expected production capacity, ore reserve estimates, iron ore prices and cost of production over the expected life of the mine. Management is also required to choose suitable discount rates in order to calculate the present values of the cash flows. The discount rate used was 12% (2017: 12%). Changes in the key assumptions on which the recoverable amounts of the assets are based could significantly affect management's assessment.

As at 31 December 2018, the recoverable amount of the property, plant and equipment of the K&S Project is approximately US$524.8 million.

7. FINANCIAL EXPENSES

	2018	2017
	US$'000	*US$'000*
Interest expense on borrowings	**19,182**	20,211
Unwinding of discount on environmental obligation and long-term construction costs payable	**2,497**	2,199
	21,679	22,410

8. INCOME TAX (EXPENSE) CREDIT

	2018	2017
	US$'000	*US$'000*
Current:		
Russian Corporate tax	**(30)**	(2,313)
Hong Kong Profits tax	**(25)**	—
	(55)	(2,313)
Deferred tax (expense) credit	**(75)**	2,903
	(130)	590

Russian 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, the K&S Project is considered to be an investment project and is eligible for income tax relief over 10 years starting from 2016. The K&S Project is exempted from Russian Corporate tax for the period from 2016 to 2021 and will be taxed at a reduced rate of 10% for the following 5 years increasing to 20% thereafter.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for both years.

9. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

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

Profit for the year

	2018	2017
	US$'000	*US$'000*
Profit for the purposes of basic and diluted earnings per ordinary share being profit for the year attributable to owners of the Company	**68,235**	113,254

Number of shares

	2018	2017
	Number	*Number*
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**7,093,386**	7,093,386

The computation of diluted earnings per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares.

11. TRADE AND OTHER RECEIVABLES

	2018	2017
	US$'000	*US$'000*
Trade receivables	**2,227**	1,803
Value-added tax recoverable	**3,762**	8,063
Prepayments to suppliers	**2,867**	2,603
Amounts due from customers under engineering contracts	**204**	167
Other debtors	**1,967**	12,774
	11,027	25,410

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

	2018	2017
	US$'000	*US$'000*
Less than one month	**2,222**	1,791
One month to three months	**5**	1
Three months to six months	**—**	—
Over six months	**—**	11
Total	**2,227**	1,803

There are no trade receivables past due but not impaired as at 31 December 2018. Below is an aged analysis of trade receivables based on invoice date which are past due but not impaired as at 31 December 2017:

	2017
	US$'000
Three months to six months	—
Over six months	11
Total	11

The following shows an analysis of movements in the allowance for doubtful debts in respect of trade and other receivables as at 31 December 2017:

	2017
	US$'000
At the beginning of the year	143
Amounts written off as uncollectible	(113)
Exchange adjustments	1
At the end of the year	31

12. TRADE AND OTHER PAYABLES

	2018	2017
	US$'000	*US$'000*
Trade payables	**8,188**	4,369
Advances from customers	**229**	62
Interest payables	**339**	359
Construction cost payables	**22,092**	20,531
Accruals and other payables	**32,850**	24,346
	63,698	49,667
Presented as:		
Current liabilities	**54,788**	33,598
Non-current liabilities	**8,910**	16,069
	63,698	49,667

Below is an aged analysis of the Group's trade payables based on invoice date:

	2018	2017
	US$'000	*US$'000*
Less than one month	**6,058**	3,361
One month to three months	**1,922**	854
Over three months to six months	**131**	8
Over six months	**77**	146
Total	**8,188**	4,369

13. BORROWINGS

	2018	2017
	US$'000	*US$'000*
Bank loans		
Industrial and Commercial Bank of China ("ICBC")	**158,777**	221,578
Sberbank of Russia PJSC	**—**	1,450
	158,777	223,028
Other loans		
EPC – Finance LLC	**63**	—
CJSC Pokrovskiy Rudnik	**54,029**	—
	54,092	—
Total	**212,869**	223,028
Secured	**158,777**	223,028
Unsecured	**54,092**	—
	212,869	223,028

CHAIRMAN'S STATEMENT

Dear Shareholders and Stakeholders,

It is both an honour and a privilege to present this Annual Report to you, my first as the Chairman of IRC.

In 2018, IRC's performance has been positive and our progress made during this challenging year is marked by increased EBITDA and a US$68.2 million net profit, as well as by both the continued ramping up of K&S and the successful refinancing of the ICBC loan.

Major geopolitical surprises marked the year 2018 and economic growth stayed subdued around the world. The changes in the political landscape and increased economic and market volatilities in 2018 have made it a challenging year. The risks of a possible trade war between the U.S. and China, the extent of Brexit and European instability, the current U.S. administration, the prospect of U.S. interest rate rises, and global political unrest brought significant uncertainties to the commodity markets and, inevitably, IRC was affected. Against this backdrop, our strategy focuses on improving both productivity and profitability. During 2018, we managed to increase production and our underlying results improved, even though cash resources were tight. K&S is expected to be operating at a full capacity of 3.2 million tonnes per annum soon and, to capitalise on economies of scale, the mine has the potential to further expand its annual capacity by 40% to 4.5 million tonnes. While improving the top line, at the same time, we will continue to control costs wherever possible and the Gazprombank refinancing will assist us in this.

45% increase in Sales Volume, IRC recorded US$68 million Net Profit

As K&S continued to ramp up its production, sales volume increased by 45% in 2018 and, in order to diversify the customer base to achieve better prices and sales terms, sales were made to customers in Russia as well as China.

EBITDA is a key performance indicator for IRC and the improved sales volume was partially responsible for EBITDA increasing by 42% to US$28.5 million.

In turn, the successful ramping up of K&S and its strong operating performance supported a reversal of asset impairment provisions of US$90.5 million and accordingly, IRC reports a net profit of US$68.2 million for the year 2018.

Continuous Ramping-Up, Production Volume Increased

In 2018 total production volume increased by 43% compared to the previous year and, in December 2018, K&S achieved a record-breaking monthly production by operating at an average capacity of 84%.

This was more than satisfactory when account is taken of the geopolitical headwinds we faced. In the earlier part of 2018, K&S's operation was affected by the railway congestion in the region and production was also disrupted by issues with the mining contractor and the need to carry out certain planned rectification and maintenance works. There were some issues with the Drying Unit in the first quarter of 2019, but they have now been mitigated. K&S is currently operating at a capacity of about 86% and is on track to operate at full capacity soon.

Cost Control

The increasing production volume provided economies of scale at K&S and in 2018 we achieved a cash cost of US$50.2 per tonne; an increase of 3.7%, which is in line with a general inflation rate of about 3% in Russia in the same period.

K&S is not yet operating at full production capacity and so the operating cost in 2018 has not yet reached its optimal level. Therefore, the costs achieved in 2018 do not indicate the level of costs at the time when the mine is fully ramped up.

In 2019 and going forward, K&S continues to face the challenges of inflation in Russia, the delay in the construction of the Amur River Bridge (due to be operational later in 2019) and the increasing mining cost; all of which are beyond our control. We will continue our endeavours to reduce costs and to make K&S one of the lowest-cost mines for the production of 65% Fe.

Benefits from Commodity and Currency Markets

Platts 65% iron ore spot price remained resilient and averaged US$90 per tonne, outperforming the pessimistic market forecasts made at the beginning of the year. This was mostly caused by global political and macroeconomic factors causing increased volatility in the market price of iron ore. Media reports say that the Chinese government is tightening its pollution control policy and this has led to some Chinese steel manufacturers opting to use as feedstocks the higher grade 65% iron ore that we produce. This switch is reflected in the price premium spread for 65% Fe over 62% Fe, for which the gap widened in the middle of 2018 and narrowed again towards the end of the year.

In terms of currency, the Rouble, which has been depressed by American sanctions, continued to remain weak against the US dollar in 2018, with the currency depreciating to an average of RUR63 against the dollar. The weakness in the Rouble has a positive impact on the Group's operating margins, as the Group's operating costs are mainly denominated in Roubles and revenues mainly in US Dollars.

IRC is listed in Hong Kong with its operations mainly located in the Russia Far East. Most of the Group's customers and suppliers are based in China or Russia. K&S has not been subject to any direct negative impact from the sanctions against Russia.

The Sino-Russian Bridge

After years of construction, according to the media, both ends of the Amur River Bridge have now been connected and the bridge is expected to be operational later in 2019. Construction of this cross-border bridge between Russia and China officially started in 2016, following 28 years of negotiations. The 2,209-metre-long bridge will become the first railway bridge between the two countries and is expected to facilitate trade between them from which IRC will benefit. After the Bridge is operational, the transportation distance between Far Eastern Russia and northern China will be reduced and the cost of transportation to China for IRC/K&S may be reduced by up to US$5 per tonne. Apart from shortening the shipment time to the Chinese customers, logistic efficiency will also be improved as the time needed to turnaround the wagons are reduced. It should also alleviate railway congestion in the region.

Restarting Kuranakh

Kuranakh is the first vertically integrated titano-magnetite operation in Russia, designed, built and managed by IRC. It is currently under a care and maintenance programme. Following the recent positive price movements and the stabilisation in the bulk commodity market, we are conducting a strategic review to consider restarting the mine. If Kuranakh recommences operation, it could provide the necessary feedstock for the production of vanadium products. In addition, the demand for Ilmenite is again strong and this could also be commercially attractive for us.

New Gazprombank Facility – Improved Cash Flow Position

We wish to express our gratitude to ICBC and Sinosure for providing the initial debt financing to IRC for the construction of K&S. After the project commenced operation, it has always been our intent to refinance this project finance facility and I am delighted that we have finalised the refinancing arrangement with Gazprombank. The principal repayments of the Gazprombank Facility are aligned with the ramping up of K&S, thereby improving the cash flow position of the Group and providing a stable financial platform to consolidate our market position.

We are also grateful of the support from our largest shareholder, Petropavlovsk for providing the bridge loans and continuing to be the guarantor of the facility.

Outlook and Beyond

Overall, despite the challenges of the past year, I believe that IRC has made good progress. We are fortunate in achieving good results with the full support of a dedicated team. On behalf of the Board, I would like to express my appreciation and sincere thanks for the leadership of our management team, and for the hard work and dedication of the entire Group. It goes without saying that IRC could not have achieved as much as it has done without the support of our shareholders and also the significant input of my predecessor as Chairman, Jay Hambro. The Board and I extend our thanks to them all and wish Jay great success in his new ventures.

There are conflicting views about the market conditions. Some will have it that things will not get any easier in 2019. The trade conflicts between the U.S. and China, lending restrictions in China, and the cyclical slowdown in the automotive industry in the developed markets may affect the global demand for steel. Others will tell you that the world market for steel – particularly in India, Africa and the Asean block will mean that supply remains tight. Whichever is correct, I believe that IRC can navigate these confusing tides and so I became a shareholder of IRC in December 2018. This is an interesting time to have joined the Group and, with my almost 40-year experience and extensive networks in the commodities business, I look forward to leading the Board to unlock the true potential of IRC.

CEO AND CFO STATEMENT & RESULTS OF OPERATIONS

Dear Shareholders and Stakeholders,

During 2018, our ramp up progress at K&S faced various challenges and the iron ore market remained volatile. Against this backdrop, we had a good momentum in the development of our operations and we are pleased to report improved results of IRC.

Commissioning a sizeable project is never a straight-forward task and there are bound to have various difficulties and challenges. The ramping up of K&S is no exception. In 2018, apart from normal teething issues, we faced the challenges of railway congestion. The railway usage, which was originally already burdened by the high traffic of thermal coal shipments during the winter, became more congested due to the unusually heavy torrential rain in the region. As there were insufficient wagons arriving at K&S for timely delivery of products as a result of the railway congestion, the production at K&S was slowed down after its storage warehouse was full. The problem was not fully resolved until the first half of 2018. At the same time, the production process at K&S was not without its problems. The Drying Unit as well as other equipment and machinery were not functioning as well as expected. These issues were mainly caused by the poor workmanship of the K&S contractor and the site team has to put in a lot of effort to remedy these production issues. Despite the aforesaid issues, K&S managed to increase the production in 2018 to an average capacity of 70%, 21% points higher than that of last year.

K&S produces 65% Fe which is essentially a different market segment to the inferior 62% Fe. In 2018, the average price premium for the 65% Fe over the 62% Fe amounted to US$21 per tonne, a testimony that the market favoured premium quality Fe which has environmental advantages. The 65% Fe price recorded an average of US$90 per tonne in 2018 which was US$3 per tonne higher than that of last year. It is however a market practice that discounts are offered to customers. While the price premium is favourable, the customers of K&S are also negotiating for greater discounts.

The higher capacity of K&S allowed the Group to report an improvement in revenue. During the year, we recorded a total revenue of US$151.5 million, representing a 38.7% increase over the same period last year. The Group continued to apply stringent cost-control measures. Despite the higher mining cost and the Russian inflation, cash cost only increased marginally by 3.7% to US$50.2 per tonne. Besides, on the back of an increased operating scale, the Group's general administration expenses, excluding non-cash items, were maintained at a level similar to that of last year.

The stronger revenue coupled with the tight cost-control resulted in an increase in EBITDA of 42.1% to US$28.5 million. 2018 also saw IRC reversing an asset impairment provision of US$90.5 million, thanks to the strong operating performance of K&S. As a result, net profit for 2018 amounted to US$68.2 million. The Group's underlying results, excluding the impact of impairment provision and reversal, improved by 11.3%.

Apart from the good performance on sales and cost management, on the corporate level, we are delighted to have completed the refinancing arrangement with Gazprombank, one of the leading banks in Russia. The purpose of the Gazprombank Facility is to repay the bank loan from ICBC in full of approximately US$169 million and to use the remaining amounts for the following purposes: (i) to repay the bridge loans advanced by Petropavlovsk in full of approximately US$57 million; (ii) to finance K&S's working capital in the amount of approximately US$8 million and (iii) to repay the guarantee fee of approximately US$6 million owed by the Group to Petropavlovsk in respect of the ICBC Facility. We look forward to the exciting opportunity of working with Gazprombank.

The governor of the Jewish Autonomous Oblast (Russian Far East Area) recently confirmed that the construction of the Amur River Bridge is scheduled for completion in July. The bridge is expected to be operational later in 2019. When this first railway bridge between Russia and China is in use, the transportation cost of K&S for delivery to the Chinese customers could be reduced by up to US$5 per tonne, providing significant contribution to our bottom line.

As reported in the media, in early 2019, there had been an unfortunate accident at an iron ore mine in Brazil. The incident serves as a reminder of the devastating effect of an accident and IRC must at all time keep the guard up. K&S has a good track record of HSE standard and we are pleased to have achieved a LTIFR of nil in 2018. We shall continue our effort in maintaining the high safety standard.

We expect that K&S will be operating at full capacity soon after the remaining bottlenecks are resolved. The economies of scale will bring positive contributions to the Group. IRC's performance is subject to movements in market iron ore price and foreign currency exchange rate. As always, a cautious approach will be taken to manage these risks. We will endeavour to strengthen our balance sheet and to improve our bottom line for the benefits of our stakeholders and shareholders.

Last but not least, we thank our team, shareholders and stakeholders for their continuous support.

The table below shows the consolidated results of the Group for the year ended 31 December 2018 and 2017:

	For the year ended 31 December 2018	2017	Variance
Key Operating Data			
Iron Ore Concentrate			
— Production volume (tonnes)*	**2,234,517**	1,563,066	43.0%
— Sales volume (tonnes)*	**2,223,945**	1,539,146	44.5%
— Average price (US$/tonne)*	**68^**	70^	(2.9%)
Consolidated Income Statement (US$'000)			
Revenue			
Iron Ore Concentrate	**150,998**	108,212	39.5%
Engineering Services	**551**	1,053	(47.7%)
Total Revenue	**151,549**	109,265	38.7%
Site operating expenses and service costs	**(140,653)**	(96,221)	46.2%
General administration expenses	**(10,435)**	(9,871)	5.7%
Reversal of impairment losses	**90,483**	129,614	(30.2%)
Net operating profit	**90,944**	132,787	(31.5%)
Allowance for financial asset measured at amortised cost	**(7,741)**	—	N/A
Other income, gains and losses	**6,811**	2,248	>100%
Financial expenses	**(21,679)**	(22,410)	(3.3%)
Profit before taxation	**68,335**	112,625	(39.3%)
Income tax (expense) credit	**(130)**	590	N/A
Profit for the year	**68,205**	113,215	(39.8%)
Non-controlling interests	**30**	39	(23.1%)
Profit for the year attributable to owners of the Company	**68,235**	113,254	(39.8%)
Underlying Results (US$'000)			
EBITDA			
— Mine in production	**32,969**	27,895	18.2%
— Group	**28,480**	20,039	42.1%
Underlying loss	**(14,507)**	(16,360)	(11.3%)

* Based on wet metric tonne.

^ If the average selling price is calculated based on dry metric tonne and, before taking into account the negative price variance of about $0.7 per tonne due to hedging, average selling price was about US$73 per tonne for the year ended 31 December 2018 (31 December 2017: US$78 per tonne).

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operations of K&S. 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 sometimes includes certain material non-cash items which are non-operating and non-recurring in nature and should be considered separately.

In 2018, the Group's statement of profit or loss includes the following non-cash items:

– The strong operating performance of K&S supported a reversal of asset impairment in relation to the K&S mine of US$90.5 million; and

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

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

	For the year ended 31 December		
US$'000	**2018**	2017	Variance
Profit attributable to owners of the Company	**68,235**	113,254	(39.8%)
Impairment provision for the receivable from General Nice and other adjustments	**7,741**	—	N/A
Reversal of impairment losses	**(90,483)**	(129,614)	(30.2%)
Underlying loss for the year	**(14,507)**	(16,360)	(11.3%)

The increase in revenue from higher production capacity of K&S and stringent costs control were the main contributors for the improvement in Underlying Results.

Iron ore concentrate

IRC's revenue improved significantly mainly due to the positive contribution from K&S mine. The mine continues to increase sales and production volumes since the commencement of commercial production in 2017. The high-grade iron ore market gradually improved in 2018, The average price of 65% Fe grading iron ore concentrate increased by 3.4% to c. US$90 per tonne. Compared to last year, the sales of iron ore concentrate from K&S increased by 44.5% to 2,223,945 tonnes. As a result of the increased sales volume, the revenue from sale of iron ore concentrate recorded US$151.0 million, representing an increase of 39.5%.

Engineering Services

In 2018, engineering services revenue of US$0.6 million from Giproruda, the small engineering services division of the Group remained stable when comparing with last year.

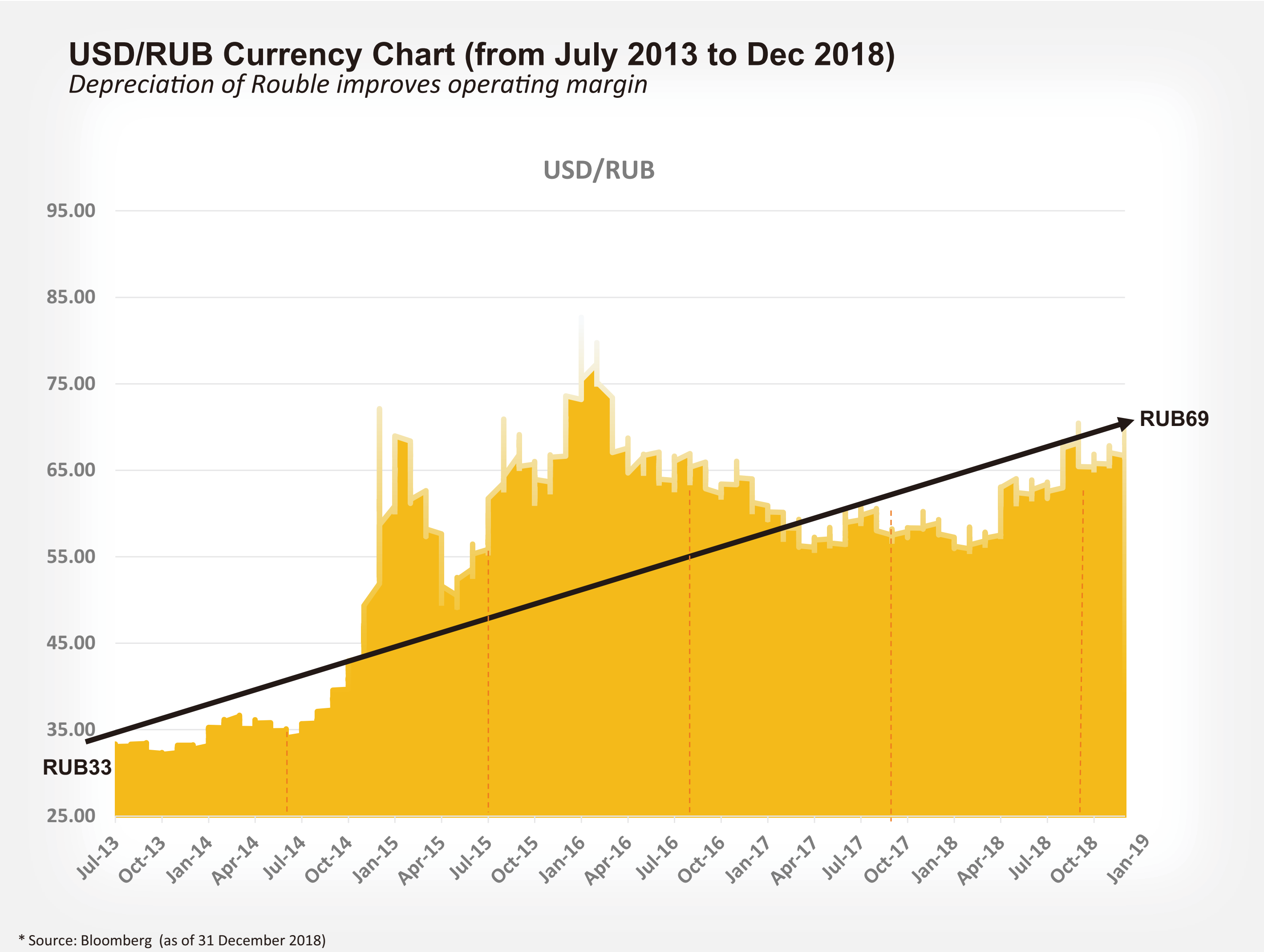
SITE OPERATING EXPENSES AND SERVICE COSTS

Same as previous year, the site operating expenses and service costs in 2018 mainly represent the mining and operating expenses incurred by the Group's current sole mine in production, the K&S operation. K&S commenced commercial production in 2017 and IRC started recognising its operating results in the income statement since the beginning of 2017. K&S is progressively conducting the ramp up progress for the plant in order to reach full production capacity level. As a result, there is an increase in site operating expenses and service costs to US$140.7 million in 2018 (31 December 2017: US$96.2 million) to match with the increased scale of operation. The table below are the details of the key cash cost components:

	2018		2017
	Total cash cost	**Cash cost per tonne**	Cash cost per tonne
	US$ million	***US$/t***	*US$/t*
Mining	**33.8**	**14.7**	12.6
Processing	**24.5**	**10.6**	12.0
Production overheads, site administration and related costs	**25.6**	**10.9**	10.5
Transportation to customers	**36.8**	**16.5**	16.6
Movements in inventories and finished goods	**(5.7)**	**(2.5)**	(3.3)
Net cash cost	**115.0**	**50.2**	48.4

The cash cost per tonne in 2018 is slightly higher than that of last year mainly due to the increased mining cost of K&S as a result of a higher stripping ratio. Nevertheless, the cash cost only increased by 3.7% which is in line with the general inflation in Russia of approximately 3% in 2018. When the production capacity of K&S reaches 100% and the Amur River Bridge is operational (due to be in use later in 2019), the cash cost of K&S is expected to reduce. In addition, the Group continues to implement stringent cost control measures with the aid of Russian Roubles devaluation. The Russian Roubles depreciated significantly since December 2014 and the currency remained weak in 2018. 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, would be reduced as Roubles depreciates.

The chart below shows the trend of depreciation on Rouble between July 2013 to December 2018:



SEGMENT INFORMATION

The mine in production segment generated an EBITDA of US$33.0 million (2017: US27.9 million), following the increase in production and sales of K&S. After taking into account the reversal of asset impairment and depreciation charge, the segment reports a profit of US$102.6 million in 2018. (31 December 2017: US$143.3 million) The Kuranakh operation continues to be under care and maintenance and has no production during 2018. The "Engineering" segment recorded a loss of US$0.9 million due to a decrease in consultancy billings.

GENERAL ADMINISTRATION EXPENSES

Special attention continues to be paid to controlling administrative costs. The successful implementation of the cost controls continued to provide benefits, with the Group's 2018 general administration costs excluded non-cash items, such as share-based payments and depreciation, being US$8.5 million which is similar to last year (31 December 2017: US$8.3 million) although our scale of operation increased.

IMPAIRMENT LOSSES REVERSED

During 2018, reflecting on the successful operation of the K&S mine and the increase of market iron ore price, a partial impairment reversal of US$90.5 million (2017: US$129.6 million) was made in 2018.

ALLOWANCE FOR FINANCIAL ASSETS MEASURED AT AMORTISED COST

General Nice has an outstanding commitment to make an equity investment in IRC and has agreed to pay interest on the outstanding committed amount. IRC has been recording the outstanding interest, net of any liabilities due to General Nice, as a receivable. A winding up order was made against General Nice on 16 July 2018 by the High Court of Hong Kong and it is unlikely that the Company will recover the receivable and consequently a one-off, non-cash provision has been made.

OTHER INCOME, GAINS AND LOSSES

The other income and gains of US$6.8 million mainly represents the gains in foreign exchange, assets disposals and rental income. (31 December 2017: US$2.2 million)

FINANCIAL EXPENSES

Financial expenses of US$21.7 million, mainly represent the interest expenses of the ICBC project finance loan and the bridge loans from Petropavlovsk, as well as the accrual of the loan guarantee fee.

The financial expenses can be analysed as follows:

US$'m	**For the year ended 31 December** **2018**	2017
Interest expense on borrowings	**14.8**	13.4
Loan guarantee fee	**4.0**	4.1
Facilitation fees for loan restructuring and other borrowings	**0.4**	2.7
Unwinding of discount on environmental obligation and others interest income	**2.5**	2.2
Financial expenses	**21.7**	22.4

INCOME TAX (EXPENSE) CREDIT

The income tax expense of US$0.1 million (31 December 2017 income tax credit: US$0.6 million) mainly represents the tax payments and deferred tax expense.

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The improvement of the iron ore concentrate price and increasing production volume of K&S contributed to the positive operating results of the Group. In addition, after taking into account the reversal of impairment charges in 2018, the net profit attributable to the owners of the company amounted to US$68.2 million.

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2018 and 31 December 2017:

	For the year ended 31 December	
US$'000	**2018**	2017
Net cash generated from operations	**28,924**	21,718
Interest paid	**(12,957)**	(10,244)
Facilitation fees for loan restructuring and other borrowings	**(800)**	(4,000)
Capital expenditure	**(3,374)**	(6,784)
Repayment of bank borrowings and loan commitment fees	**(8,721)**	(21,794)
Other payments and adjustments, net	**(5,432)**	(1,241)
Net movement during the year	**(2,360)**	(22,345)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	**10,974**	33,319
— At 31 December	**8,614**	10,974

The net cash generated from operations amounted to US$28.9 million (31 December 2017: US$21.7 million), mainly due to increase cash inflow from the K&S mine. Capital expenditure of US$3.4 million was incurred mainly on the K&S mine while it is in the process of ramping up its production. A net loan repayment of US$8.7 million mainly represents the repayment of the ICBC loan. Other payments and adjustments increased to US$5.4 million mainly due to the increase of income tax payment and effect of foreign exchange rate changes.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

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

Cash Position and Capital Expenditure

As at 31 December 2018, the carrying amount of the Group's cash, deposits and bank balances was approximately US$8.6 million (31 December 2017: US$11.0 million). The decrease in cash balance is mainly due to the repayment of the principal and interest of the ICBC loan as mentioned. The decrease was also partly attributable to CAPEX spent on ramping up K&S operation.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2018, US$124.3 million (31 December 2017: US$86.1 million) was incurred on development and mining production activities. No exploration activity was carried out in 2018 and 2017. The following table details the capital and operating expenditures in 2018 and 2017:

	For the year ended 31 December 2018			For the year ended 31 December 2017		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
K&S development	**118.2**	**5.7**	**123.9**	79.4	6.7	86.1
Exploration projects and others	**0.1**	**0.3**	**0.4**	(0.3)	0.3	—
	118.3	**6.0**	**124.3**	79.1	7.0	86.1

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

		For the year ended 31 December	
US$'m	**Nature**	**2018**	2017
K&S	Purchase of property, plant and equipment	**0.7**	0.6
	Sub-contracting for excavation related works	**6.2**	—
Others	Other contracts and commitments	**0.7**	0.7
		7.6	1.3

Borrowings and Charges

As at 31 December 2018, the Group had gross borrowings of US$223.7 million (31 December 2017: US$235.2 million). Most of the Group's borrowings were denominated in US dollars. US$54.1 million represents the Bridge Loan from Petropavlovsk and the rest represents the long-term borrowing drawn from the ICBC loan facility which is guaranteed by Petropavlovsk. The Group's weighted average interest rate increased to 8.0% (31 December 2017: 6.4%) per annum mainly due to higher interest rates of the bridge loans from Petropavlovsk. As of 31 December 2018, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, reduced to 39.0% (31 December 2017: 45.8%) mainly as a result of the increase in net asset value of the Company following the reversal of asset impairment in 2018.

In 2018, the Group received bridge loans from Petropavlovsk of approximately US$57 million to finance the payments of the June and December principal instalments of the ICBC loan. In December 2018, the Group entered into a US$240 million loan facility with Gazprombank. The Gazprombank facility is secured by a charge over the assets of K&S and is guaranteed by Petropavlovsk. The purpose of the Gazprombank facility is to repay K&S's outstanding principal indebtedness under the ICBC loan in full of approximately US$169 million and to use the remaining amounts for the following purposes: (i) to repay the bridge loans advanced by Petropavlovsk of approximately US$57 million in full, (ii) to finance K&S's working capital in the amount of approximately US$8 million and (iii) to repay the guarantee fee of approximately US$6 million owed by the Group to Petropavlovsk in respect of the ICBC Facility. In March 2019, the ICBC loan and the bridge loans from Petropavlovsk were fully repaid by utilising the proceeds from the Gazprombank facility.

Risk of Exchange Rate Fluctuation

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

Employees and Emolument Policies

As at 31 December 2018, the Group employed approximately 1,515 employees (31 December 2017: 1,440 employees). The total staff costs excluding share-based payments was US$24.0 million for 2018 (31 December 2017: US$21.7 million). The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

OTHER INFORMATION

RESOURCE 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 2018 annual report.

CORPORATE GOVERNANCE

Throughout the year, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except that the Independent Non-Executive Director, Mr. Simon Murray, CBE, Chevalier de la Légion d'Honneur was unable to attend the annual general meeting of the Company held on 25 June 2018 as provided for in code provision A.6.7 as he had overseas engagements.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the 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 2018 containing all the information required by the Listing Rules will be dispatched 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, 29 March 2019

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 Peter Hambro and Mr Chi Kin Cheng. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Chuang-Fei Li, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Jonathan Martin Smith and Mr Raymond Kar Tung Woo.

IRC Limited
6H, 9 Queen's Road Central Hong Kong
Tel: +852 2772 0007
Fax: +852 2772 0329
Email: ir@ircgroup.com.hk
Website: www.ircgroup.com.hk

For further information please visit www.ircgroup.com.hk or contact:

Kent Lo
Manager – Communications & Investor Relations
Telephone: +852 2772 0007
Mobile: +852 9688 8293
Email: kl@ircgroup.com.hk