IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2019 STRONG PRODUCTION RATE OF 88% CAPACITY PROFIT WARNING

CONFERENCE CALL

A conference call will be held today at 13h00 Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 5351531#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 1 August 2019 at www.ircgroup.com.hk/html/ir_call.php.

Wednesday, 31 July 2019: The Board of Directors of IRC Limited ("IRC" or the "Company", together with its subsidiaries, the "Group") is pleased to provide the Second Quarter Trading Update for the three months ended 30 June 2019.

HIGHLIGHTS – 2Q 2019

K&S

- Sales and production volumes increased by 35.0% and 34.2% respectively over the previous quarter
- Average production capacity in 2Q 2019 at c.88% (1Q 2019: 65%)
- Stringent cost control; unit cash cost remained comparable to the 2018 level
- June production at 93% capacity, a monthly production record
- July production rate at c.88%; ramping up programme on track for full capacity production later in 2019

Kuranakh and SRP

- Care and maintenance process satisfactory
- Slag Reprocessing Project, a 46% joint venture of IRC, recommenced operation

Corporate and Industry

- Strong iron ore price environment
- Hedging contracts for risk management purposes, protecting against downside risk
- Amur River Bridge connected, construction of related infrastructure works under way

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2019

	2Q 2019	2Q 2018	Change	**1Q 2019**	Change	**1H 2019**	1H 2018	Change
Iron Ore concentrate								
– Production (tonnes)	**701,474**	580,933	+20.7%	**522,875**	+34.2%	**1,224,349**	1,084,602	+12.9%
– Sales (tonnes)	**712,033**	555,677	+28.1%	**527,365**	+35.0%	**1,239,398**	1,046,649	+18.4%

During the second quarter of 2019, K&S sold 712,033 tonnes of 65% Fe iron ore concentrate to customers in China and Russia, an increase of 35.0% over the first quarter. 701,474 tonnes of iron ore concentrate were produced, representing c. 88% of K&S's annualised production capacity. Production volume in 2Q 2019 was 34.2% higher than that of the previous quarter, despite a design fault in the gearbox in one of the crusher's feeders causing production interruption. The design fault has been successfully rectified and the problem is not expected to recur. K&S is currently operating at an average capacity of c. 88% and is on track to operate at full capacity later in 2019.

Due to global supply disruptions and robust market demand for iron ore, 65% iron ore Platts benchmark has increased by c. 49% in the first half of 2019. As part of the ongoing hedging program for risk management purposes, during the first half of 2019, IRC has entered into hedging contracts to reduce the risks of adverse price movement. Although IRC may not be able to fully capture the upside of the market price, hedging allows the Group to secure a comfortable level of profit and cashflow, including repayment of the Gazprombank facilities, which are particularly important for IRC.

Cost control is an important factor in maintaining and growing profitability. In 2019, K&S managed to control cash cost per tonne to a level which is comparable to that of last year. It is expected that further saving on transportation cost could be achieved when the Amur River Bridge is in use. Full details of cost breakdown will be provided in the Company's results announcement for the six months ended 30 June 2019.

PROFIT WARNING

The Board further advises shareholders and potential investors that, pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance and based on the unaudited consolidated management accounts and current market information, the Group expects to record a greater net loss attributable to owners of the Company for the six months ended 30 June 2019 as compared to the corresponding period in 2018.

Whilst the operations of the Group are generally performing as forecast and EBITDA generated from K&S in the first half of 2019 is expected to be greater than that of the same period last year, the Group expects to record a greater net loss for the six months ended 30 June 2019 as compared to the six months ended 30 June 2018 because of higher depreciation charges resulting from the reversal of asset impairments at the end of 2018; greater finance expenses due to higher interest rates relating to the loans from Gazprombank and Petropavlovsk; and foreign exchange losses mainly due to the appreciation of the Russian Rouble. In addition, the Group had an unamortised borrowing cost of c.US$11 million relating to the ICBC loan which was to be amortised. As the Group has refinanced the ICBC loan facility, this necessitates an accounting adjustment to fully write off this unamortised cost of c.US$11 million in the statement of profit or loss for the first half of 2019, instead of amortising the cost over the remaining loan term. The write off does not have any cash impact on the Group.

The financial information contained in this announcement is based only on the Board's preliminary assessment of the unaudited consolidated management accounts of the Group and other information currently available to the Company and may be subject to adjustments. It should be noted that the Company is in the process of finalising its results for the six months ended 30 June 2019 and such results may be subject to further amendments as appropriate. Shareholders and potential investors are advised to read the Company's results announcement for the six months ended 30 June 2019 for further details, which will be published by the end of August 2019.

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

Commenting on the performance of the second quarter, Yury Makarov, Chief Executive Officer of IRC said, *"I am pleased with the progress of K&S's ramping up programme. When the main contractor handed over the plant to IRC, there were numerous teething problems and bringing the plant up to full production capacity has not been without its challenges. Having resolved most of the production issues, K&S managed to break its monthly production record to operate at close to full capacity of 93% in June 2019. We look forward to the plant working at full capacity later this year. It is also pleasing that the good production rate comes at a time when the iron ore market is resilient with a strong pricing environment. As part of the ongoing hedging program for risk management purposes, iron ore hedging contracts have been entered into to secure comfortable levels of profit and cashflow.*

Despite the good operating performance, our 2019 half year financial results are affected by a number of factors, in particular the write off of the deferred expenses as a result of the refinancing of the ICBC loan. It should be noted that this is a one-off non-cash accounting adjustment and does not affect our cashflow. IRC's 2019 interim results will be published by the end of August 2019."

MARKETING, SALES AND PRICES

Iron Ore

During the second quarter of 2019, K&S sold 712,033 tonnes of iron ore concentrate to its customers in China and Russia, representing a growth of 35% over 1Q 2019.

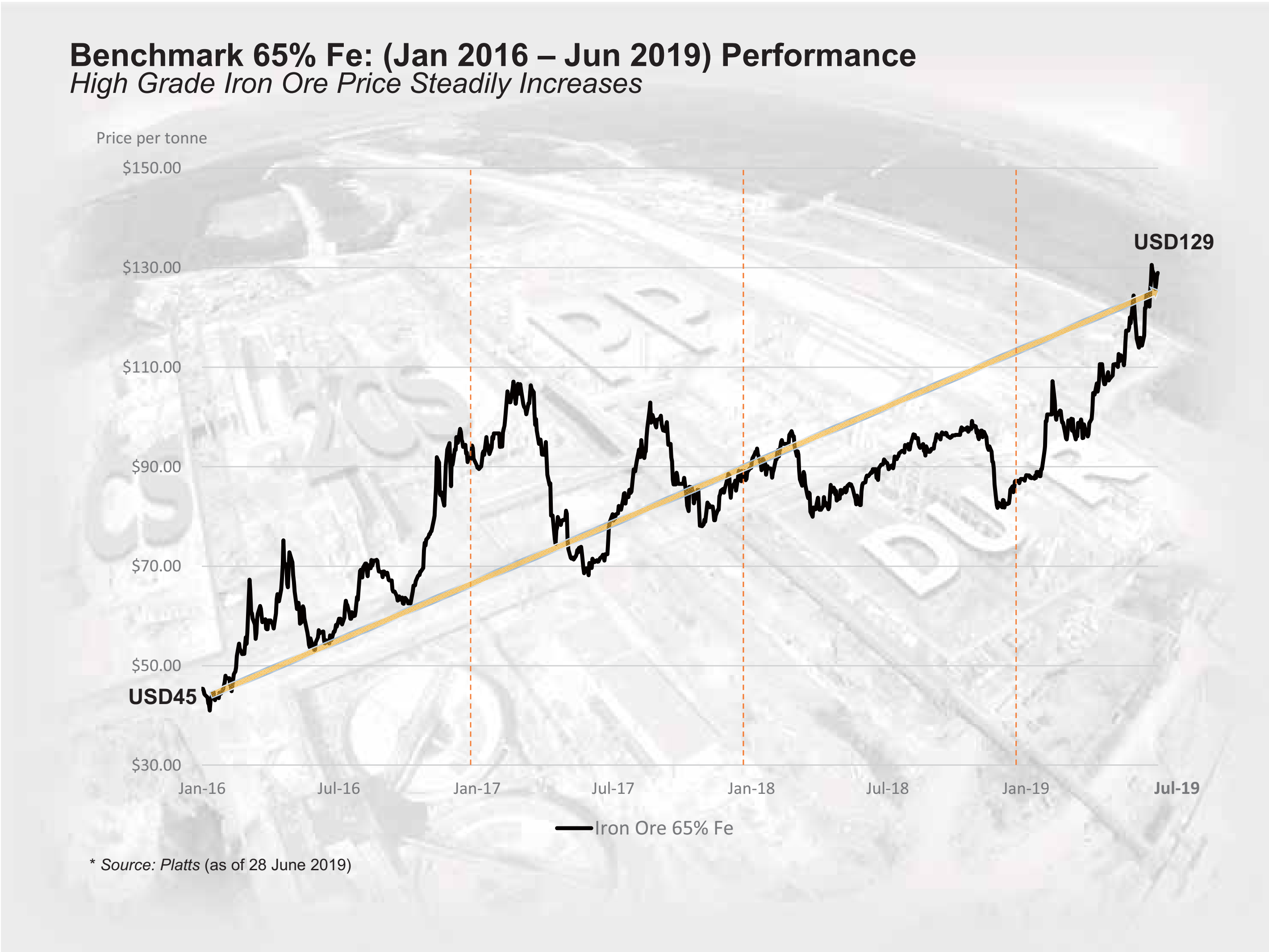
During the quarter, the 65% Fe Platts benchmark price soared to over US$120 per tonne, mainly due to a shortage in supply following the Brazilian dam disaster and the transportation interruptions in Australia caused by cyclones. Vale, one of the largest iron ore producers in the world, expects its iron ore sales to reduce by around 50-75 million tonnes in 2019 after the dam incident. Another sign of tightness in the iron ore market is the slump in inventories at the Chinese ports, dropping to 118.7 million tonnes in the week of 14 June 2019, the lowest inventory level since the start of 2017 and about 43 million tonnes below the peak reached in June 2018.

According to the media, the Chinese GDP growth rate may reduce and activities in some sectors, such as manufacturing and vehicle assembly, could be on the decline. To counter the effect, the authorities in China have boosted construction and infrastructure spending which will increase steel demand. Due to the continuous rally on iron ore prices, the Chinese steel mills are starting to prefer lower grade iron ore which, although reduces costs, produces less steel per tonne of ore used along with more pollutions. In June 2019, the average spread between 65% Fe and 58% Fe indices narrowed to c.US$29 per tonne while it was c.US$40 per tonne at the end of 2018.

Hedging

The selling price of K&S's product was determined with reference to the international Platts spot price of iron ore concentrates. In line with the Group's ongoing hedging policy and taking advantage of the strong iron ore price environment, during the first half of 2019, IRC has entered into hedging contracts to implement a partial hedge against adverse changes in the iron ore price. IRC's strategy is to hedge no more than half of K&S's production, with the remaining volume left unhedged. The hedging instruments, mostly in the form of protective collars, protect IRC from a significant reduction in the iron ore price. Although IRC may not be able to fully capture the upside of the market price, as some of the protective hedging transactions were entered into before the recent price surge due to the Vale incident, hedging secures a healthy margin of cashflow for IRC which is important from a risk management perspective. The achieved selling price of IRC is not published in this trading update for commercial reasons, but the average selling price in the first half of 2019 will be disclosed in the 2019 interim results announcement due for release by the end of August 2019.

Benchmark 65% Fe: (Jan 2016 – Jun 2019) Performance



There were no sales of iron ore concentrate from Kuranakh since the mine has been moved to care and maintenance.

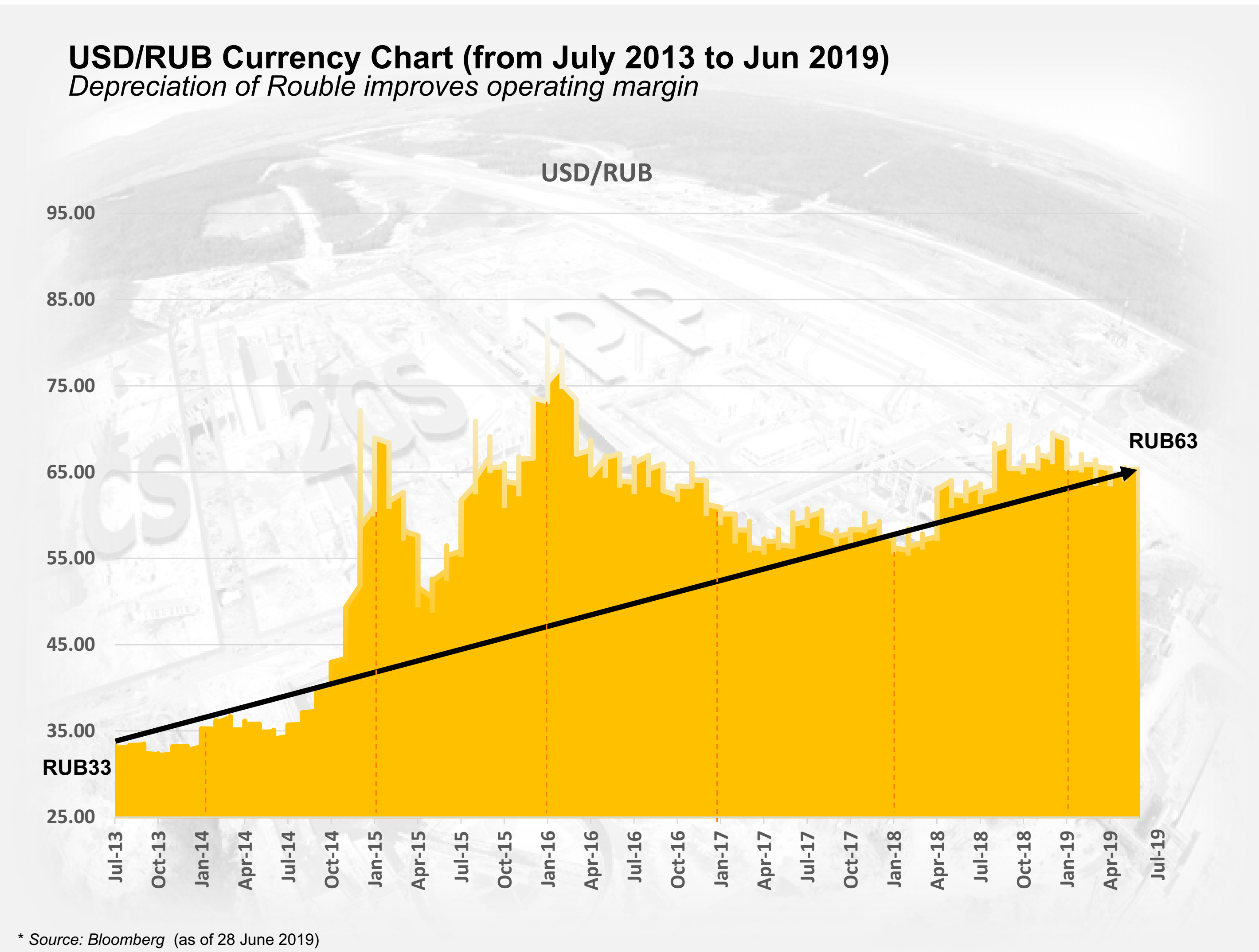
Ilmenite

As Kuranakh has been moved to care and maintenance, there were no sales of ilmenite product during the quarter.

Foreign Exchange

In June 2019, the Russian Rouble slightly strengthened to close at RUB63 at the end of the quarter. Despite this small appreciation in June, over the second quarter, the Russian Rouble remained weak against the US dollar and averaged RUB65, a level which is similar to that of the previous quarter. The weakness in Russian Rouble has a positive impact on the Group's operating margins as the operating costs of the Group are mainly denominated in Russian Rouble and revenue mainly in US Dollar.

USD/RUB Currency Chart (from July 2013 to Jun 2019)



OPERATIONS

K&S (100% owned)

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

K&S Ramp-Up Progress

In the second quarter of 2019, K&S increased its production capacity to c.88%, 23% points higher than that of the last quarter (1Q 2019: 65%). Production level would have been even higher if there was not a production interruption in May caused by a design fault in the gearbox in one of the crusher's feeders. The issue has been resolved and is not expected to recur. In June, the plant successfully operated at close to full capacity of 93%, delivering a monthly production record. This demonstrated the ability of the plant to operate at high loading on a continuous basis. The plant is currently operating at c.88% capacity. After resolving the remaining production bottlenecks and further optimising production, K&S aims to operate at full capacity later this year.

Mining

The mining contractors have been maintaining the work rates to ensure sufficient supply of feedstock for K&S's productions. During the quarter, a total of 2,365,800 tonnes of ore were mined (1Q 2019: 2,400,500 tonnes); 144,175 metres were drilled (1Q 2019: 132,183 metres) and 3,749,600 cubic metres were blasted (1Q 2019: 3,248,500 cubic metres). There were 2,175,800 tonnes of ore being fed to the primary processing plant and 1,498,061 tonnes of pre-concentrate were produced. At the end, 701,474 tonnes of iron ore concentrate were produced and 712,033 tonnes were sold, representing an increase of 34.2% and 35.0% respectively over the previous quarter.

Production and Marketing

K&S	**2Q 2019**	1Q 2019	Changes
Production (tonnes)	**701,474**	522,875	+34.2%
Sales (tonnes)	**712,033**	527,365	+35.0%

Update of Estimated Unit Cash Cost

Cost control is an important factor in maintaining and growing profitability. In 2019, K&S managed to control cash cost per tonne to a level which is comparable to that of last year. It is expected that further saving on transportation cost could be achieved when the Amur River Bridge is in use.

As K&S has not yet reached full production capacity, the cash cost per tonne in 2Q 2019 has not yet reached an optimal level and therefore the figure may not truly represent the level of the operating cost at the time when the mine has fully ramped up. Although the increasing production volume will provide economies of scale, K&S is facing the challenges of the general inflation in Russia and the delay in the construction of the Amur River Bridge, both of which are beyond the control of IRC. Mining transportation cost is also subject to increase as hauling distance increase while mining works progress. The relevant cash cost information will be analysed and disclosed in the 2019 interim results announcement.

Impact on U.S. Sanctions Against Russia

IRC is listed on the Hong Kong Stock Exchange with operational mines in the Russia Far East. Most of the Group's suppliers and customers are based in China and Russia. As such, K&S has not been subject to any direct negative impact from the sanctions against Russia.

Kuranakh (100% owned)

Kuranakh is located in the north-east Tynda District of the Amur Region of the Russian Far East and comprises both the original Saikta open pit and the later established Kuranakh open pit processing facilities and an onsite railway spur connecting to the BAM and Trans-Siberian Railways.

Continued to be in Care and Maintenance

As previously announced Kuranakh is under a care and maintenance programme which involves limited costs to keep the mine and plant available for re-opening if the markets permit the investment decision. The Company has reduced the number of staff at Kuranakh to minimum levels for equipment maintenance and security. During the quarter, there was no production or sales.

Slag Reprocessing Project (46% owned)

Having successfully sourced feedstock from China, IRC's slag reprocessing project, a joint venture with Jianlong Steel, has recommenced operation and this diversifies the product mix of the Group. The joint venture had been moved to care and maintenance in 2017 as the operation of this slag reprocessing plant was suspended, due to a lack of feedstock.

CORPORATE AND INDUSTRY UPDATE

Group's Cashflow Position and Gazprombank Facility

During the quarter, IRC completed the drawdown of the Gazprombank facility and the loan proceeds have been applied in accordance with the intended use of proceeds. The Gazprombank facility is secured by charges over the assets of K&S and is guaranteed by Petropavlovsk. The repayment schedule is more closely aligned with the production plans of K&S than the ICBC loan was and should improve the cash flow position of IRC. In June 2019, c. US$10.5 million has been paid to Gazprombank as principal repayment and interest in accordance with the repayment schedule.

As at 30 June 2019, the unaudited cash and deposit balance was c.US$8.3 million and the total debt outstanding was c.US$234.8 million.

Amur/Heilongjiang River Bridge

The project to build a railway bridge across the Amur River border between Russia and China was first launched by IRC in 2006. The project was sold to Russian and Chinese development funds in November 2014. In early June 2016, the regional government of the Jewish Autonomous Region announced that the Russian part of the Amur River Bridge would commence construction. A contractor agreement has been signed which stipulates the terms and timing of the construction of the Russian part of the Amur River Bridge.

According to the local media, in March 2019, the authorities of China's Heilongjiang province has confirmed that the last steel beam of the Russian-Chinese railway bridge over Amur River, which is known as Heilongjiang in China, has been installed. This means that Russia has fully completed its engineer work on its side of the bridge. With China having completed the construction of its part in October 2018, the main span of the bridge has been connected. The construction and installation of the related infrastructure works and border checkpoints are currently under way. The bridge is expected to enhance the region's economic development by providing a more efficient transportation alternative on top of the existing ferries and railway routes.

K&S Mine is situated approximately 240 kilometres from the bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the bridge. Thus, IRC will benefit from the project with reduced transportation distance and shipment time. The bridge can not only save the transportation cost of K&S by up to US$5 per tonne for shipment to the Chinese customers but can also alleviate any railway congestion of the region. Apart from shortening the shipment time to customers from 7-10 days to 3-5 days, logistic efficiency should also be improved as the time needed to turnaround the wagons will be reduced.

* *Figures in this announcement may not add up due to rounding. All tonnes of the Group unless specify refer to wet metric tonnes. All dollars refer to United States Dollar unless otherwise stated.*

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

Hong Kong, People's Republic of China
Wednesday, 31 July 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.

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