铁货 IRC

IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

2020 ANNUAL RESULTS
MAIDEN UNDERLYING PROFIT OF US$24.2 MILLION
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF US$100.6 MILLION

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the annual results. The number is +852 2112 1888 and the passcode is 7515730#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A playback of the teleconference will be available from 31 March 2021 at www.ircgroup.com.hk/en/ir_presentations.php.

Tuesday, 30 March 2021: 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 2020.

Financial Highlights

- Revenue increased by 26.8% to US$224.6 million (2019: US$177.2 million)
- EBITDA excluding non-recurring items and FX improved to US$79.7 million (2019: US$33.3 million)
- Maiden underlying profit of US$24.2 million (2019: Loss of US$21.0 million)
- Profit attributable to shareholders amounted to US$100.6 million (2019: Loss of US$38.7 million)
- Cash balance increased to US$20.4 million (31 December 2019: US$4.3 million)

Operating Highlights

- K&S improved its production rate to 87% capacity (2019: 79%)
- Production volume increased by 10.1% to 2,748kt (2019: 2,497kt)
- Sales volume increased by 4.6% to 2,577kt (2019: 2,464kt); growth in volume could have been further improved if not of railway logistic issues in December 2020

Commenting on the results, Peter Hambro, Chairman of IRC said, *"It is indeed most gratifying to be able to report a net profit for the year of US$100.6 million, a significant improvement over the result in 2019. But it is IRC's underlying results that will make the year 2020 go down in the history of the Company as a milestone year. This is because it is the year when the Company achieved its first ever profit from mining, processing and selling 65% iron ore concentrate; amounting to a maiden underlying profit of US$24.2 million. 2020 is a year of which we can be justifiably proud and points to the great potential inherent in our business in the future.*

While we strive to achieve good operating results, the health and safety of our employees are also at the top of our agenda. We have put in place a wide range of measures to help safeguard our people and host communities from the spread of COVID-19, as well as other social and economic effects of the pandemic. We have a number of COVID-19 cases but most of the patients are asymptomatic or have fully recovered, and the pandemic has no material impact on IRC so far. Our ability to continue operating while demonstrating that we can do so safely, is not only a vital factor in sustaining the much-needed economic activity up and down our value chain, but also enables us to provide essential community services to the region where K&S operates.

IRC's philosophy is to achieve long-term value for the best interests of all shareholders, customers, employees, government and society. I would like to thank my fellow Board members and everyone in the IRC family for their loyalty and hard work. But above it all, I wish to express our sincere gratitude to our shareholders for the trust and faith they have put in IRC."

FINANCIAL REVIEW

	For the year ended 31 December		
	2020	2019	Variance
Key Operating Data			
Iron Ore Concentrate			
— Production volume (tonnes)	**2,747,767**	2,496,600	10.1%
— Sales volume (tonnes)	**2,576,722**	2,464,401	4.6%
Achieved Selling Price (US$/tonne)			
— based on wet metric tonne	**87**	71	22.5%
— based on dry metric tonne	**95**	77	23.4%
— based on dry metric tonne before hedging	**100**	87	14.9%
Platts 65% iron ore average price	**122**	104	17.3%
Cash Cost (US$/tonne)*	**51**	53	(2.8%)
Consolidated Income Statement (US$'000)			
Revenue before hedging losses	**236,442**	200,460	17.9%
Hedging losses	**(11,851)**	(23,296)	(49.1%)
Revenue	**224,591**	177,164	26.8%
Site operating expenses and service costs before depreciation and amortisation	**(139,810)**	(135,126)	3.5%
General administration expenses before depreciation and amortisation	**(9,217)**	(10,667)	(13.6%)
Other income, gains and losses, and other allowances	**4,132**	1,908	>100%
EBITDA excluding non-recurring items and foreign exchange	**79,696**	33,279	>100%
Depreciation and amortisation	**(28,818)**	(28,504)	1.1%
Financial costs	**(25,157)**	(28,956)	(13.1%)
Income tax (expense)/credit & non-controlling interests	**(1,561)**	3,158	N/A
Underlying gains/(losses) – excluding non-recurring items and foreign exchange	**24,160**	(21,023)	N/A
Reversal of impairment losses	**75,832**	–	N/A
Net foreign exchange gains/(losses)	**7,674**	(6,181)	N/A
Other provision	**(7,115)**	–	N/A
Finance expense on early repayment of bank loan	**–**	(11,465)	N/A
Profit/(loss) attributable to the owners of the Company	**100,551**	(38,669)	N/A

* *Per wet metric tonne sold*

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. The "EBITDA" and "Underlying results", both of which exclude non-recurring items and foreign exchange, are the key performance indicators for IRC.

EBITDA – excluding non-recurring items and foreign exchange

The Group's EBITDA, excluding non-recurring items and foreign exchange, increased significantly to US$79.7 million (31 December 2019: US$33.3 million) in the year ended 31 December 2020. The growth was primarily driven by higher production volume and strong iron ore price.

During the reporting period, K&S improved its production capacity to operate at an average production rate of 87% (2019: 79%), resulting in increase in production and sales volumes by 10.1% and 4.6% respectively. The operating performance would have been further improved if not for the adverse weather conditions in summer, mining contractors' issues, and logistic difficulties caused by COVID-19. With the robust growth of the Platts 65% iron ore price index, IRC's 2020 achieved selling price before hedging reached US$100 per dry metric tonne, an increase of 14.9% compared to last year. Taking advantage of the weak Rouble and, coupled with our strict cost control, cash cost reduced by 2.8% to US$51.2 per tonne despite the rising level of mining cost and general inflation in Russia. The good production rate, strong iron ore price environment, and decreasing cost level translated to a significant growth in EBITDA by 139.5% to US$79.7 million:

	For the year ended 31 December		
US$'000	**2020**	2019	Variance
EBITDA excluding non-recurring iterms and foreign exchange	**79,696**	33,279	>100%

Underlying results – excluding non-recurring items and foreign exchange

The Group's income statement sometimes includes certain material non-recurring and non-operating items which should be considered separately:

In 2020:

– the strong operating performance of K&S and the healthy iron ore price environment supported a reversal of asset impairment in relation to the K&S mine of US$75.8 million;

– IRC reported a foreign exchange gain of US$7.7 million in 2020, mainly due to the depreciation of Russian Rouble, while a loss of US$6.2 million was recorded in the same period last year. This US$13.9 million swing in foreign exchange plays a significant part to the profitability of the Group;

– The Group's results are affected by a non-cash provision of US$7.1 million which has been made for expenses relating to deferred contract payments. The Group is currently initiating legal proceedings against the said contract counter-party and IRC believes that these expenses will not be payable. However, being prudent and to comply with the accounting requirements, this provision has been made.

In 2019, the Group had an unamortised borrowing cost of US$11.5 million relating to the ICBC loan which was to be amortised. As the Group refinanced the ICBC loan facility in 2019, this necessitated an accounting adjustment to fully write off this unamortised cost in the statement of profit or loss in 2019, instead of amortising the cost over the remaining loan term. The write-off did not have any cash impact on the Group.

The underlying results, being a good indicator of IRC's true performance, improved from last year's loss of US$21.0 million to this year's profit of US$24.2 million, a testimony of the progress the Company has made during the year 2020.

	For the year ended 31 December		
US$'000	**2020**	2019	Variance
Underlying gains/(losses) excluding non-recurring items and foreign exchange	**24,160**	(21,023)	N/A

REVENUE

Iron ore concentrate

IRC's main revenue source comes from the sales of 65% iron ore concentrates produced by the K&S mine. Generally, most of K&S's product is shipped to its Chinese customers by rail. Unfortunately, the mine faced logistic problems in December 2020 when the Russian Railways experienced traffic congestion, mainly due to the outbreak of COVID-19 at the Suifenhe border. As a result, K&S needed to stockpile the excess production. In 2020, K&S's sales volume increased by 4.6% to 2,576,722 tonnes, but the growth in volume could have been higher if not of this logistic issue.

The selling price of K&S's iron ore was determined by reference to the international spot price of Platts' iron ore concentrate. Iron ore was one of the best performing commodities in 2020 with the average Platts 65% iron ore benchmark rose by 16.5% year-on-year, thanks to increased demand for iron ore in China and restricted supply from major iron ore producers.

* *Source: Platts (as of 26 March 2021)*

Although K&S is strategically located at the doorstep of its Chinese market, most of the major Chinese steel mills nearby are owned or controlled by the same corporate organisation. This means that in the north-eastern part of China, IRC is operating in a semi-captive market, where low transportation costs play an important positive role on the delivered cost of its product but its bargaining power in sales is negatively affected. This means that our Chinese customers expect a discount to the benchmark Platts price for our sales and we have little power to resist these monopolistic requests. We understand that this has been the case for other Russian producers as well with discounts being commonly offered to customers in the region. For this reason, sales have also been made by K&S to customers in Russia, but this market is not without its challenges in light of the market competition and the present state of the Russian economy. Further to address this issue, IRC has been diversifying its customer base by selling to customers in the more southern part of China and delivering by sea-borne routes. Here we have found that the delivered price that we can achieve in these locations is much closer to the benchmark price. However, the transportation costs and handling costs are higher and thus the margin we achieve at present is still similar to or lower than that in our traditional market place. Possibly, though, if the southern market becomes more significant, the supply of concentrate in the north-east will be reduced and the discounts that we are forced to offer may shrink. In addition, the Amur River Bridge, which would improve the logistic efficiency and transport costs of both IRC and its Chinese customers, would open the door to renegotiate sales terms and to reduce the discounts.

In 2020, the average selling price of iron ore concentrate achieved by IRC before hedging was US$100 per dry metric tonne (2019: US$87), an increase of 14.9% over 2019.

Iron ore hedging is entered into to manage the downside risks of iron ore price movements and is not speculative in nature. Losses on iron ore hedging in 2020 were lower than in the same period last year. During the reporting period, hedging reduced IRC's revenue, and therefore its profitability, by US$11.9 million (31 December 2019: US$23.3 million). The net revenue for 2020, after taking into account the effect of iron ore hedging, was US$224.6 million, 26.8% higher than that of the 2019.

In the first quarter of 2021, IRC took the opportunity to lock-in the strong iron ore price by hedging about 40% of K&S's expected 2021 production volume. The hedging is mostly done by zero-cost collars using options on the 62% iron ore index, with puts' strike at about US$100 per tonne and calls' strike at about US$175 per tonne. A small part of the hedging is performed by buying put options of 62% iron ore index at US$100 per tonne. It should be noted that the hedging is not speculative in nature and is for risk management purposes.

Engineering Services

Revenue from Giproruda, the Group's small-scale engineering services division, was not material to the Group but diversified the Group's revenue. Revenue from the segment was US$0.2 million in the year (31 December 2019: US$1.4 million).

SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

Site operating expenses and service costs primarily reflect the mining and operating expenses incurred by the K&S project, the Group's sole operating mine, in relation to the sales of iron ore concentrates. K&S began commercial production in 2017 and gradually ramped up to close to full production capacity. With the increasing operating scale, the total cost also increased accordingly. While sales volume raised by 4.6%, site operating expenses and service costs before depreciation and amortisation only increased by 3.5% to US$139.8 million in 2020 (31 December 2019: US$135.1 million). The cost increase also compares favourably with the 26.8% growth in sales revenue.

The table below illustrates the details of the key cash cost components of iron ore concentrate sold on a per wet metric tonne basis:

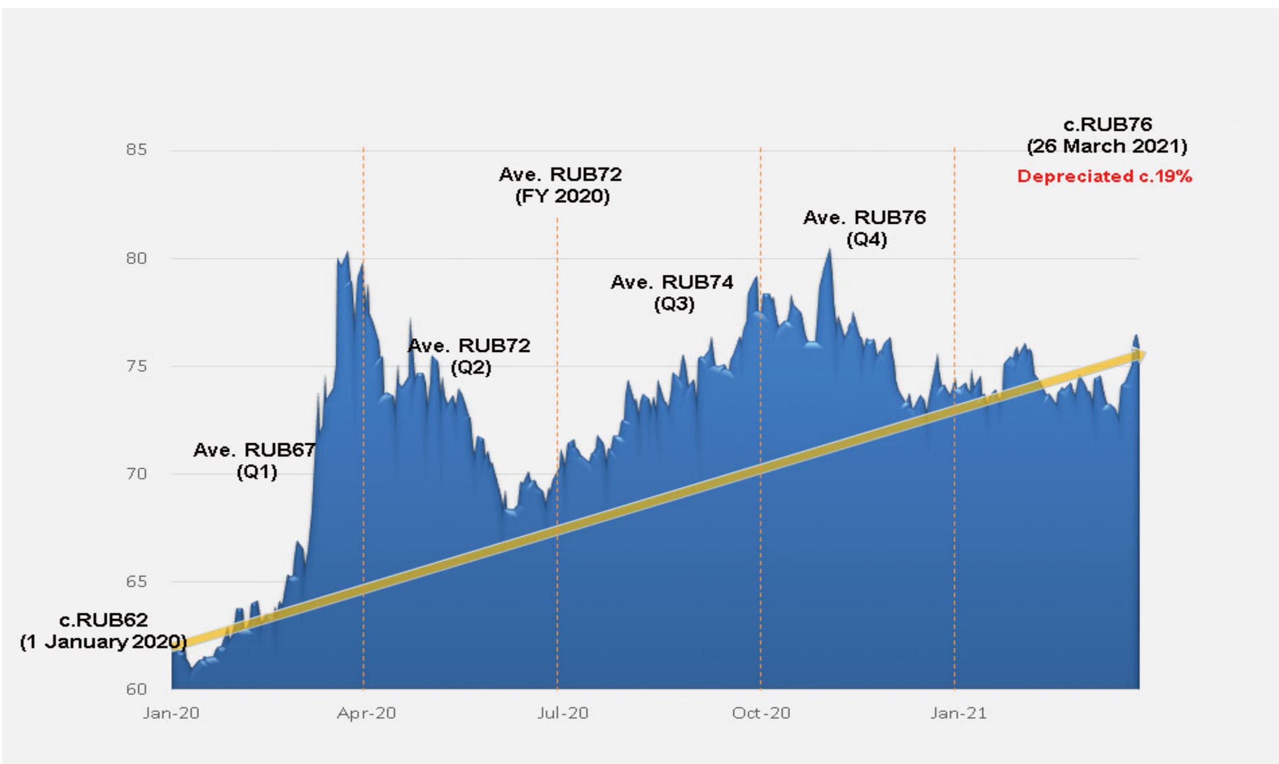
	For the year ended 31 December	
	2020	2019
	Cash cost per tonne	Cash cost per tonne
	US$/t	*US$/t*
Mining	**17.3**	14.6
Processing and drying	**10.8**	10.9
Production overheads, site administration and related costs	**10.0**	11.6
Transportation to customers	**15.2**	15.9
Movements in inventories and finished goods	**(1.8)**	(0.3)
Currency hedge results	**(0.3)**	–
Net cash cost*	**51.2**	52.7

* *Per wet metric tonne sold*

K&S continued to implement effective cost control policies and, together with the Russian Rouble depreciation, the overall cash cost has decreased by 2.8% to US$51.2 per tonne. It is expected that the railway transportation cost to customers in China will be further reduced once the Amur River Bridge is in operation in 2022.

Russian Rouble devalued significantly in March 2020 and fell to its lowest level in more than four years. According to the media, the depreciation was mainly due to the crash of oil prices following the breakdown of the Russia-Saudi Arabia pact to limit production at that time. Falling oil prices put the currency under pressure, as Russia relies relatively heavily on energy exports for a large portion of its budget. For the remainder of 2020, the Russian Rouble remained weak and closed to the US dollar at RUB74. While the Group's revenues are mainly US dollars denominated and therefore unaffected by Rouble's weakness, the Group's operating costs, which are mostly denominated in Rouble, would be reduced in US dollar terms as Rouble depreciates.

The chart below shows the depreciation of the Rouble since January 2020:



* *Source: Bloomberg (as of 26 March 2021)*

GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

Special attention continues to be paid to the control of administrative costs. Efficient implementation of cost controls continued to deliver benefits, with the Group's 2020 general administration expenses before depreciation and amortisation decreased by 13.6% to US$9.2 million when comparing with the year 2019. Due to COVID-19, certain administrative and travelling activities have been deferred.

OTHER INCOME, GAINS AND LOSSES, AND OTHER ALLOWANCES

Other income, gains and losses, and other allowances were mainly the rental income derived from the sub-letting part of the floor space of buildings owned by the Group and sub-leased machineries and wagons.

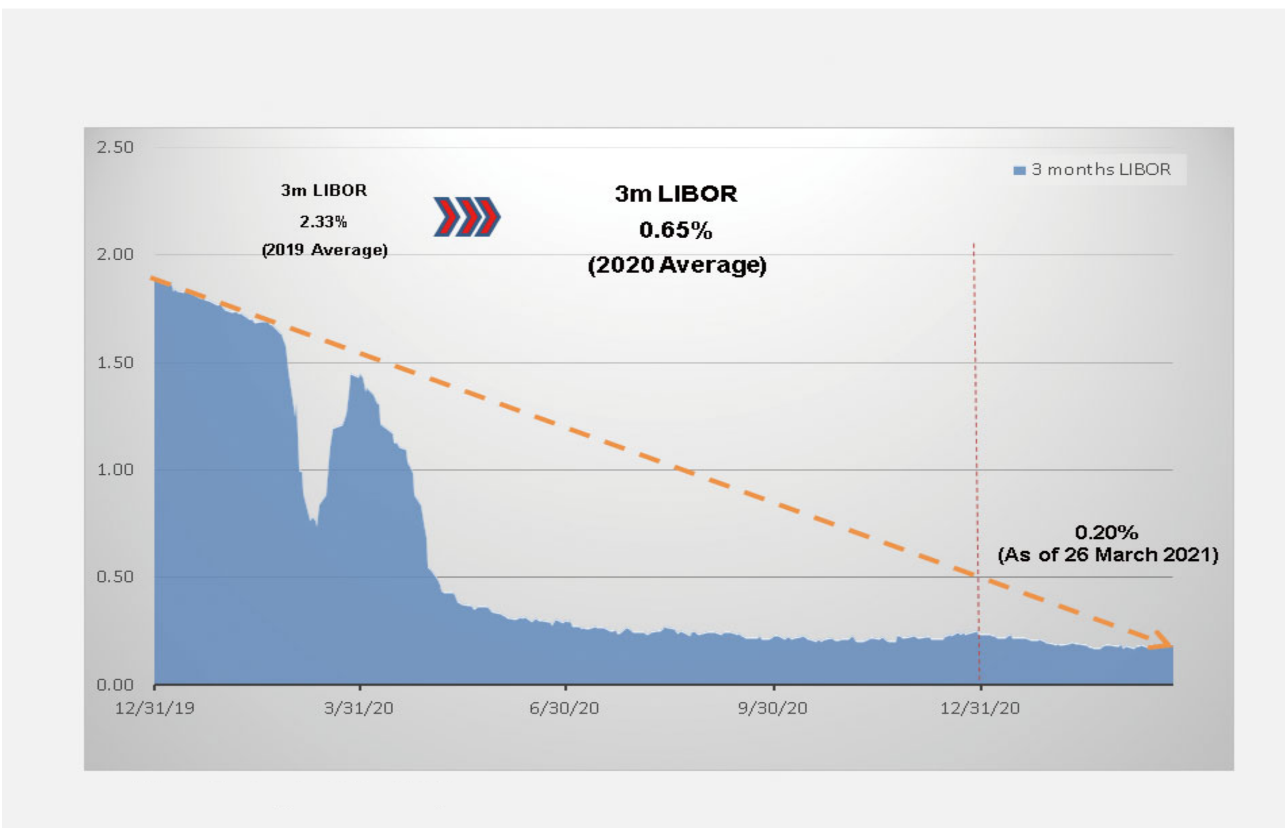
DEPRECIATION AND AMORTISATION

Depreciation and amortisation charges in 2020 of US$28.8 million was comparable to that of last year (2019: US$ 28.5 million).

FINANCIAL COSTS

Financial costs reflect primarily the interest expenditure on loans from Gazprombank and guarantee fee accrued for Petropavlovsk PLC. In 2020, financial costs reduced by 13.1% to US$25.2 million, mainly due to the decrease in LIBOR during the year.

The chart below shows a sharp decrease in LIBOR in 2020:



* *Source: Bloomberg (as of 26 March 2021)*

INCOME TAX (EXPENSE)/CREDIT AND NON-CONTROLLING INTERESTS

Income tax expense of US$1.6 million (31 December 2019 income tax credit: US$3.2 million) mainly represents an under-provision of withholding tax in previous year as well as the deferred tax charges.

NET FOREIGN EXCHANGE GAINS/(LOSSES)

The foreign exchange gains of US$7.7 million in 2020 was mainly attributable to the depreciation of Russian Rouble.

PROFIT/(LOSS) ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Improving EBITDA has resulted in positive operating results for the Group. Taking into account reversal of impairment losses of US$75.8 million, net foreign exchange gains of US$7.7 million and the reduction in finance costs, the Group reported a profit of US$100.6 million in 2020 (31 December 2019: loss of US$38.7 million).

SEGMENT INFORMATION

The mine in production segment, which represents the K&S mine's production and sales, generated an EBITDA of US$86.8 million (31 December 2019: US$44.1 million), reflecting a 96.8% increase. In 2020, this segment posted a profit of US$58.3 million, after taking into account the depreciation and amortisation costs. Mines in development, engineering and other segments were not material to the total revenue, and recorded a total losses of US$2.2 million in the reporting period.

CASH FLOW STATEMENT

The following table summarises the key cash flow items of the Group for the year ended 31 December 2020 and 31 December 2019:

	For the year ended 31 December	
US$'000	**2020**	2019
Net cash generated from operations	**62,871**	32,427
Repayments of borrowings, net	**(20,658)**	(1,340)
Interest paid	**(15,978)**	(20,756)
Capital expenditure	**(5,812)**	(5,047)
Loan guarantee and debt arrangement fees paid	**(5,000)**	(9,450)
Repayment of lease liabilities	**(3,832)**	(2,953)
Proceeds on disposal of property, plant and equipment	**4,023**	1,950
Income tax paid, interest received and other adjustments, net	**465**	847
Net movement during the year	**16,079**	(4,322)
Cash and bank balances (including time deposits)		
– At 1 January	**4,292**	8,614
– At 31 December	**20,371**	4,292

Net cash generated from operations amounted to US$62.9 million for the year ended 31 December 2020, compared to US$32.4 million in 2019, an increase of 93.9%. The increase in the net cash inflow in 2020 was mainly due to the improvement in revenue from the K&S mine. Due to the timing of cashflows, the receivable balance rose along with an increase in the scope of operation and an increase in the selling price of iron ore. With lower financing costs, interest payment decreased from US$20.8 million to US$16.0 million in 2020. The capital expenditure of US$5.8 million was incurred mainly by the K&S mine for the development of the Sutara pit at K&S. During the year of 2020, in accordance with the loan repayment schedule, the Group made principal repayments totalling US$20.7 million to the Gazprombank, and settled loan guarantee fee of US$5.0 million to Petropavlovsk PLC.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

There was no change in the share capital of the Company in 2020.

Cash Position and Capital Expenditure

As at 31 December 2020, the carrying amount of the Group's cash, deposits and bank balances amounted to approximately US$20.4 million (31 December 2019: US$4.3 million). The cash balance increased significantly on 31 December 2020 as a result of the Group's improved profitability for the year.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2020, US$145.6 million (31 December 2019: US$140.1 million) was incurred on development and mining production activities. No exploration activity was carried out in 2020 and 2019. The following table details the capital and operating expenditures in 2020 and 2019:

	For the year ended 31 December					
	2020			2019		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
K&S development	**137.6**	**5.6**	**143.2**	131.7	4.6	136.3
Exploration projects and others	**2.2**	**0.2**	**2.4**	3.4	0.4	3.8
	139.8	**5.8**	**145.6**	135.1	5.0	140.1

The table below sets out the details of material new contracts and commitments entered into during 2020 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramping up to full capacity.

		For the year ended 31 December	
US$'m	**Nature**	**2020**	2019
K&S	Purchase of property, plant and equipment	**0.1**	–
	Sub-contracting for mining works	**0.1**	0.9
	Sub-contracting for railway and related works	**1.0**	0.2
Others	Other contracts and commitments	**1.2**	0.7
		2.4	1.8

Borrowings and Charges

As at 31 December 2020, the Group had gross borrowings of US$203.9 million (31 December 2019: US$224.6 million), mainly represents the long-term borrowing drawn from the Gazprombank loan facility which is guaranteed by Petropavlovsk PLC. The interest of the Gazprombank facility is determined with reference to LIBOR. The three-month LIBOR fell from an average of 2.33% in 2019 to 0.65% in 2020. The lower LIBOR allowed Group's weighted average interest rate to decrease to approximately 7.6% (31 December 2019: 9.2%) per annum.

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 relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily by holding the relevant currencies. The Group has hedged about one quarter of the expected Rouble expenditure in 2020 from April onwards using zero-cost collars with puts' strike varying in the mid-70s and calls' strike in the mid-90s to protect against currency appreciation. In 2021, about 10% of the Group's expected Rouble expenditure is hedged by zero-cost collars at similar pricing levels to those of the 2020 hedges. If deemed appropriate, the Group may consider entering into further foreign exchange hedging contracts. The Group's hedging is not of a speculative nature and is for purposes of risk management.

Employees and Emolument Policies

As of 31 December 2020, the Group employed approximately 1,665 people (31 December 2019: 1,760 people). Total staff costs excluding share-based payments amounted to US$25.7 million during the reporting period. (31 December 2019: US$26.0 million). The emolument policy of the Group is set up by the Remuneration Committee and the remuneration is determined on the basis of the merits, qualifications and competence of the employees with regard to market conditions and trends.

CHAIRMAN AND CEO REPORT

Dear Shareholders and Stakeholders,

Maiden Underlying Profit

It is indeed most gratifying to be able to report a net profit for the year of US$100.6 million, a significant improvement over the results in 2019.

But it is IRC's underlying results that will make the year 2020 go down in the history of the Company as a milestone year, because it is the year when the Company achieved its first ever profit from mining, processing and selling 65% iron ore concentrate. This positive result of trading, which is what our company is all about, is known as an Underlying Profit, since the rest of the net profit is derived from being required to write back previous, non-cash impairment provisions. It also presages the substantial EBITDA result which is described below.

Though buffeted by headwinds in the past, these have been managed to allow IRC to achieve its maiden underlying profit of US$24.2 million, a turnaround from last year's loss of US$21.0 million. 2020 is a year of which we can be justifiably proud and points to the great potential inherent in our business in the future. Our cash flow generation and improved profitability have enabled us to reduce debt, thanks to our significant progress made in increasing our production capacity. This is enabling us to continue the development of our business and consolidating our position as a leading iron ore producer in the Russian Far East region, both now and in the years to come.

Outstanding Financial Performance

Despite the numerous challenges that the Group faced during the year, IRC delivered a revenue of US$224.6 million, up 26.8% from last year. Strong revenue growth coupled with good cost control give IRC a record EBITDA (excluding non-recurring items and foreign exchange) of US$79.7 million, more than double of what the Company achieved in 2019. Underlying profit amounted to US$24.2 million, a turnaround from last year's loss of US$21.0 million. With the successful operation of K&S and the increase in the international iron ore price, IRC recorded a reversal of previous asset impairment losses of US$75.8 million, bringing the 2020 net profit figure to US$100.6 million.

It should be noted that the 2020 net profit figure is struck after including a non-cash negative provision of US$7.1 million which has been made for expenses related to deferred contract payments. This is related to a Group company that is currently involved in legal proceedings against a contract counterparty. Although IRC believes that these expenses will ultimately not be payable, being prudent and to comply with the accounting requirements, this provision has been made.

We continue to strengthen our balance sheet by reducing our debt level and building up more cash. The outstanding loan balance decreased from US$224.6 million to US$203.9 million while we improved our cash position from US$4.3 million at the end of last year to US$20.4 million at the 2020 year end. Our net asset value per share has also increased by 35.5% from HK$0.31 to HK$0.42.

Key Competitive Advantages

IRC has a number of distinct advantages, giving the Company an edge over its industry peers. With these advantages, IRC is well placed fully to unlock its potential.

High production rate – In 2020, significant progress was made in improving K&S's production capacity. The mine achieved a solid production rate of 87% to produce 2.7 million tonnes of iron ore, a production record in the history of the Company. We believe that our performance could have been further improved if not for the unexpected challenges we faced, including the exceptional rainy conditions in the summer, mining issues of our third party mining contractors, as well as railway logistical issues towards the end of the year due to COVID-19. These issues were beyond our control and were not helpful in our quest to achieve full capacity operation, but it is comforting to note that they are non-recurring individual incidents and do not bear long term impacts to the operation of K&S.

Strong iron ore price – Iron ore is one of the best performing commodities in 2020. The Platt's 65% iron ore price index dipped to its lowest point of 2020 in February on the back of the COVID-19 outbreak, which brought the global economy almost to a standstill. Fortunately, China embraced resilience in its battle against the virus and proved its capability to cope with the pandemic, as the country took the lead in economic recovery. China's solid demand for iron ore in the second half of the year was a catalyst for a price rebound. At the same time, supply concerns also contributed to the price surge, with lower supply estimates from Vale, the world's second-largest iron ore producer. By the end of 2020, the 65% iron ore price had risen to its highest level in the last four years with an annual gain of approximately 67% when comparing to the level at the 2019 year end. The strong pricing environment continues into the first quarter of 2021.

In the longer term, we are cautiously optimistic that the demand for iron ore will remain stable, since we believe that iron ore will continue to be needed for infrastructure projects and other investments, as China and the rest of the world regain momentum to rebuild the economy post-COVID.

Devaluation of Russian Rouble – One of the other key positive factors this year has been Russian Rouble depreciation, which has helped to reduce our cost levels. The COVID-19 pandemic, declining crude oil prices and a slew of geopolitical issues weighed heavily on the Russian Rouble and its exchange rate weakened to RUB81 to the US dollar at one point, and closed the year at RUB74. Russian Rouble depreciated by about 16% in 2020. Since our operating costs are mostly denominated in Russian Rouble while our revenue is in US Dollar, the weak Rouble has a positive impact on IRC's operating margin.

Amur River Bridge – Logistics are the key to success in any bulk commodity business and IRC's assets are well placed in this connection. Transportation is a significant component in our cost structure as about one-third of our cash cost is transport-related. The majority of K&S's production is transported to its China-based customers by rail and currently the routing is relatively circuitous and has no back-haul. This will change when the Amur River Bridge comes into play in 2022. Being the first rail bridge between Russia and China across the Amur River and located some 240 kms from the K&S operations, the opening of this transport link will be very helpful, since it will significantly reduce the freight distance to our major customers and improve logistics efficiency.

Progress Towards our ESG Responsibilities

Environmental, Social and Governance (ESG) is now a major component in today's mining business. Our world-class mining and processing operations produce a high-grade iron ore concentrate, which is a preferred raw material for blast furnaces for steel mills increasing productivity and keeping pollution in check. IRC strives to provide cleaner, greener, and more sustainable resources for the world's needs and at the same time to meet the fast-growing demands for iron ore.

Apart from assuming our ESG responsibilities, the health and safety of our employees are on the top of our agenda. We have put in place a wide range of measures to help safeguard our people and host communities from the spread of COVID-19, as well as other social and economic effects of the pandemic. Our overwhelming priority is the safety and health of our staff and their families. We are continuing to operate only where we can do so safely and by having all appropriate health measures in place. We have a number of COVID-19 cases but most of the patients are asymptomatic or have fully recovered, and the pandemic has no material impact on IRC so far. Our ability to continue operating while demonstrating that we can do so safely, is not only a vital factor in sustaining the much-needed economic activity up and down our value chain, but also enables us to provide essential community services to the region where K&S operates. In 2020, K&S reported a Lost Time Injury Frequency Rate (LTIFR) of 0.35, an improvement of 0.69 from the previous year.

Outlook

"K&S" comprises two open pits, "Kimkan" and "Sutara". So far, we have been mining ore from the Kimkan, but we are already starting to develop Sutara to ensure supply of feedstock for the rest of the mine life. The development of Sutara has always been in our mining plan and it is expected to come on-line by the end of 2022 or early 2023.

Being one of the world's leading economies, China has experienced a sustained and robust recovery from a pandemic-driven slump last year, with infrastructure investment a key pillar of growth. This is boosting demand for steel and good prices for iron ore concentrate. On the supply side, major suppliers of iron ore appear to remain conservative in terms of expected production and shipments in 2021. Against this backdrop, IRC will endeavour to seize the market opportunities and to strive for even better results in 2021.

IRC's philosophy is to achieve long-term value for the best interests of all shareholders, customers, employees, government and society. We would like to thank our fellow Board members and everyone in the IRC family for their loyalty and hard work. But above it all, we wish to express our sincere gratitude to our shareholders for the trust and faith they have put in IRC. We can say with confidence that the Company will continue to improve its performance in the coming years. However, this is only possible through tireless efforts and the dedication and commitment of our team that helped us reach where we are now, and we look forward to their continued commitments on the journey ahead.

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 2020, 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 Director and senior management of the Company, to approve the annual results on its behalf.

2020 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	NOTES	**2020** *US$'000*	2019 *US$'000*
Revenue	*4*	**224,591**	177,164
Operating expenses	*6*	**(149,027)**	(145,793)
Depreciation and amortisation	*6*	**(28,818)**	(28,504)
Reversal of impairment losses	*7*	**75,832**	–
Other income, gains and losses		**5,149**	(4,250)
Allowance for financial assets measured at amortised costs		**(458)**	(23)
Financial costs	*8*	**(25,157)**	(40,421)
Profit (loss) before taxation		**102,112**	(41,827)
Income tax (expense) credit	*9*	**(1,602)**	3,157
Profit (loss) for the year		**100,510**	(38,670)
Profit (loss) for the year attributable to:			
Owners of the Company		**100,551**	(38,669)
Non-controlling interests		**(41)**	(1)
		100,510	(38,670)
Earnings (loss) per share (US cents)	*11*		
Basic		**1.42**	(0.55)
Diluted		**1.42**	(0.55)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 US$'000	2019 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets		**20,165**	19,877
Property, plant and equipment		**566,016**	513,306
Right-of-use assets		**7,025**	9,334
Interest in a joint venture		**–**	–
Inventories		**14,470**	14,804
Other non-current assets		**11**	55
		607,687	557,376
CURRENT ASSETS			
Inventories		**30,130**	25,291
Trade and other receivables	*12*	**22,924**	14,301
Other financial assets		**9**	–
Income tax receivables		**–**	1,125
Time deposits		**–**	661
Bank balances		**20,371**	3,631
		73,434	45,009
Asset classified as held for sale		**–**	5,045
		73,434	50,054
TOTAL ASSETS		**681,121**	607,430
CURRENT LIABILITIES			
Trade and other payables	*13*	**(72,977)**	(72,328)
Lease liabilities		**(3,528)**	(3,331)
Income tax payable		**(1,393)**	–
Borrowings – due within one year	*14*	**(20,082)**	(20,703)
Other financial liabilities		**–**	(4,285)
		(97,980)	(100,647)
NET CURRENT LIABILITIES		**(24,546)**	(50,593)
TOTAL ASSETS LESS CURRENT LIABILITIES		**583,141**	506,783
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(2,609)**	(2,522)
Provision for close down and restoration costs		**(12,554)**	(17,461)
Lease liabilities		**(3,694)**	(7,595)
Borrowings – due more than one year	*14*	**(181,998)**	(201,204)
		(200,855)	(228,782)
TOTAL LIABILITIES		**(298,835)**	(329,429)
NET ASSETS		**382,286**	278,001

	2020	2019
	US$'000	*US$'000*
CAPITAL AND RESERVES		
Share capital	**1,285,158**	1,285,158
Capital reserve	**17,984**	17,984
Reserves	**18,235**	14,244
Accumulated losses	**(938,670)**	(1,039,221)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**382,707**	278,165
NON-CONTROLLING INTERESTS	**(421)**	(164)
TOTAL EQUITY	**382,286**	278,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on the Main Board of the Hong Kong Stock Exchange (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 carried out in Russia and the Group predominantly serves the Russian and Chinese markets.

2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2020 and 2019 included in this preliminary announcement of annual results 2020 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 Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2020 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 2020 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 Companies Ordinance.

The consolidated financial statements have been prepared on a going concern basis. As at 31 December 2020, the Group had net current liabilities of approximately US$24.5 million (2019: US$50.6 million). The management of the Group has prepared a cash flow forecast which involves judgments and estimations based upon key input variables and market conditions including the expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and operating costs. 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.

However, if the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including obtaining debt financing from its majority shareholder, entering into negotiations with banks or other investors for additional debt or equity financing.

The Group believes it will have sufficient liquidity based upon the credit facilities (set note 14) and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

4. REVENUE

Disaggregation of revenue from contracts with customers

For the year ended 31 December 2020

Segments	**Mine in production** *US$'000*	**Engineering** *US$'000*	**Total** *US$'000*
Types of goods or services			
Sale of iron ore concentrate	**216,666**	**–**	**216,666**
Delivery services	**7,716**	**–**	**7,716**
Engineering services	**–**	**209**	**209**
	224,382	**209**	**224,591**
Geographical markets			
People's Republic of China ("PRC")	**196,932**	**–**	**196,932**
Russia	**27,450**	**209**	**27,659**
	224,382	**209**	**224,591**
Timing of revenue recognition			
A point of time	**216,666**	**–**	**216,666**
Over time	**7,716**	**209**	**7,925**
	224,382	**209**	**224,591**

For the year ended 31 December 2019

Segments	Mine in production *US$'000*	Engineering *US$'000*	Total *US$'000*
Types of goods or services			
Sale of iron ore concentrate	153,708	–	153,708
Delivery services	22,102	–	22,102
Engineering services	–	1,354	1,354
	175,810	1,354	177,164
Geographical markets			
PRC	76,901	–	76,901
Russia	98,909	1,354	100,263
	175,810	1,354	177,164
Timing of revenue recognition			
A point of time	153,708	–	153,708
Over time	22,102	1,354	23,456
	175,810	1,354	177,164

5. 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.

- 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 Kuranakh Project, which has been under care and maintenance and did not generate any income in 2020. For management purpose, the project is reclassified from the "Mine in Production" segment to "Other" segment. This segment also 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 2020

	Mines in production *US$'000*	**Mines in development** *US$'000*	**Engineering** *US$'000*	**Other** *US$'000*	**Total** *US$'000*
Revenue					
External sales	**224,382**	**–**	**209**	**–**	**224,591**
Segment revenue	**224,382**	**–**	**209**	**–**	**224,591**
Site operating expenses and service costs	**(166,074)**	**(81)**	**(1,102)**	**(1,178)**	**(168,435)**
Site operating expenses and service costs include:					
Depreciation and amortisation	**(28,518)**	**–**	**(107)**	**–**	**(28,625)**
Segment profit (loss)	**58,308**	**(81)**	**(893)**	**(1,178)**	**56,156**
General administrative expenses					**(9,217)**
General depreciation					**(193)**
Reversal of impairment losses					**75,832**
Other income, gains and losses					**5,149**
Allowance for financial assets measured at amortised cost					**(458)**
Financial costs					**(25,157)**
Profit before taxation					**102,112**
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	**5,583**	**–**	**–**	**72**	**5,655**
Exploration and evaluation expenditure capitalised	**–**	**288**	**–**	**–**	**288**
Right-of-use assets capitalised	**823**	**–**	**–**	**343**	**1,166**
Segment assets	**648,755**	**19,392**	**3,946**	**7,453**	**679,546**
Central cash and cash equivalents					**1,575**
Consolidated assets					**681,121**
Segment liabilities	**(60,174)**	**(603)**	**(191)**	**(33,178)**	**(94,146)**
Borrowings					**(202,080)**
Deferred tax liabilities					**(2,609)**
Consolidated liabilities					**(298,835)**

For the year ended 31 December 2019

	Mines in production *US$'000*	Mines in development *US$'000*	Engineering *US$'000*	Other *US$'000*	Total *US$'000*
Revenue					
External sales	175,810	–	1,354	–	177,164
Segment revenue	175,810	–	1,354	–	177,164
Site operating expenses and service costs	(159,677)	(268)	(1,977)	(1,502)	(163,424)
Site operating expenses and service costs include:					
Depreciation and amortisation	(27,987)	(182)	(129)	–	(28,298)
Segment profit (loss)	16,133	(268)	(623)	(1,502)	13,740
General administrative expenses					(10,667)
General depreciation					(206)
Other income, gains and losses					(4,250)
Allowance for financial asset measured at amortised cost					(23)
Financial costs					(40,421)
Loss before taxation					(41,827)
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	7,526	2,287	1	126	9,940
Exploration and evaluation expenditure capitalised	–	380	–	–	380
Right-of-use assets capitalised	61	–	–	282	343
Segment assets	574,808	24,370	5,307	1,104	605,589
Central cash and cash equivalents					1,841
Consolidated assets					607,430
Segment liabilities	(65,970)	(5,126)	(428)	(33,476)	(105,000)
Borrowings					(221,907)
Deferred tax liabilities					(2,522)
Consolidated liabilities					(329,429)

Non-current assets by location of asset

The Group's non-current assets are substantially located in Russia.

Information about major customers

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

	2020	2019
	US$'000	*US$'000*
EVRAZ Group	**27,450**	98,909
Heilongjiang Xianglong International Trading Corporation Limited	**180,816**	75,186

6. OPERATING EXPENSES

	2020	2019
	US$'000	*US$'000*
Site operating expenses and service costs, including depreciation and amortisation	**168,435**	163,424
General administration expenses, including depreciation and amortisation	**9,410**	10,873
	177,845	174,297

7. REVERSAL 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 constantly improving in production volume, 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 life of mine extension, continued improvements in K&S Project's production and in the spot iron ore price during the year ended 31 December 2020, management revisited the assessment of the recoverable amount of the K&S Project and resulted in a reversal of the impairment charge of US$75.8 million in the consolidated statement of profit or loss. No impairment or reversal of impairment have been made in the 2019.

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 appropriate discount rates in order to calculate the present values of the cash flows. The real discount rate used was 9.7% (2019: nominal 12.0%). 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 2020, the recoverable amount of the property, plant and equipment and right-of-use assets of the K&S Project is approximately US$570.0 million (2019: recoverable amount of the property, plant and equipment and right-of-use assets of the K&S Project is approximately US$519.1 million).

8. FINANCIAL COSTS

	2020	2019
	US$'000	*US$'000*
Interest expense on borrowings	**16,673**	19,954
Guarantee fee	**6,654**	6,300
Finance expense on early repayment of bank loan	**–**	11,465
Interest expense on lease liabilities	**870**	1,200
Unwinding of discount on environmental obligation and long-term construction costs payable	**960**	1,502
	25,157	40,421

9. INCOME TAX EXPENSE (CREDIT)

	2020	2019
	US$'000	*US$'000*
Current tax:		
Russia Corporate tax	**1,411**	59
United Kingdom Corporation tax	**–**	45
Cyprus Corporate tax	**–**	5
	1,411	109
Overprovision in prior year:		
Russia Corporate tax	**–**	(2,137)
Deferred tax expense (credit)	**191**	(1,129)
	1,602	(3,157)

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 2017. The K&S Project is exempted from Russian Corporate tax for the period from 2017 to 2021 and, will be taxed at a reduced rate of 10% for the following 5 years increasing to 20% thereafter.

United Kingdom Corporation tax is calculated at 19% of the estimated assessable profit for both years.

Cyprus Corporate tax is calculated at 12.5% of the estimated assessable profit for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

10. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS (LOSS) PER SHARE

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

Profit (loss) for the year

	2020	2019
	US$'000	*US$'000*
Profit (loss) for the purposes of basic and diluted earnings (losses) per ordinary share being profit (loss) for the year attributable to owners of the Company	**100,551**	(38,669)

Number of shares

	2020	2019
	Number	Number
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**7,093,386**	7,093,386

The computation of diluted earnings (loss) per share for the years ended 31 December 2020 does not assume the exercise of share options granted by the Group. For the year ended 31 December 2019, the exercise of share options would result in a decrease in loss per share. The exercise price of those options was higher than the average market price for the Company's shares.

12. TRADE AND OTHER RECEIVABLES

	2020	2019
	US$'000	*US$'000*
Trade receivables	**6,151**	3,190
Value-added tax recoverable	**9,739**	4,429
Prepayments to suppliers	**5,007**	4,094
Amounts due from customers under engineering contracts	**15**	36
Other receivables	**2,012**	2,552
	22,924	14,301

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

	2020	2019
	US$'000	*US$'000*
Less than one month	**6,109**	3,156
One month to three months	**9**	34
Over six months	**33**	–
Total	**6,151**	3,190

13. TRADE AND OTHER PAYABLES

	2020	2019
	US$'000	*US$'000*
Trade payables	**7,508**	10,107
Advances from customers	**78**	682
Interest payables	**427**	576
Construction cost payables	**22,694**	22,694
Accruals and other payables	**42,270**	38,269
	72,977	72,328

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

	2020	2019
	US$'000	*US$'000*
Less than one month	**7,453**	6,722
One month to three months	**14**	3,159
Over three months to six months	**18**	125
Over six months	**23**	101
Total	**7,508**	10,107

14. BORROWINGS

	2020	2019
	US$'000	*US$'000*
Bank loans		
Gazprombank JSC	**202,045**	221,849
Other loans		
EPC – Finance LLC	**35**	58
Total	**202,080**	221,907
Secured	**202,045**	221,849
Unsecured	**35**	58
	202,080	221,907
Carrying amounts repayable		
Within one year	**20,082**	20,703
More than one year, but not exceeding two years	**20,538**	20,375
More than two years, but not exceeding five years	**61,509**	61,125
More than five years	**99,951**	119,704
Total	**202,080**	221,907
Presented as:		
Current liabilities	**20,082**	20,703
Non-current liabilities	**181,998**	201,204
	202,080	221,907

Loan from EPC-Finance LLC

LLC Petropavlovsk – Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB4,580,000 (2019: RUB6,000,000) from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is repayable on 27 April 2022 (2019: 27 April 2020). As at 31 December 2020, RUB2,580,000 (equivalent to US$35,000) had been drawn down.

Bank loan from Gazprombank JSC

On 18 December 2018, the Group entered into two facility agreements for a loan in aggregate of US$240,000,000 (the "Gazprombank Facility"). The Gazprombank Facility will mature in 2026 and consists of two tranches. The principal under the first tranche amounts to US$160,000,000 with interest being charged at the London Inter-bank Offer Rate ("LIBOR")+5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US$80,000,000 with interest being charged at LIBOR+7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in quarterly payments during the term of the Gazprombank Facility.

On 19 March 2019, the Group drew down on the Gazprombank Facility to repay the bank loan from ICBC in full of approximately US$169,637,000 and to finance the K&S Project's working capital of approximately US$3,000,000.

On 21 March 2019, the Group further drew down on the Gazprombank Facility to repay the loans from CJSC Pokrovskiy Rudnik in full of approximately US$56,211,000.

The remaining amounts of the Gazprombank Facility were drawn down and used for the following purposes: (i) to finance the K&S Project's working capital of approximately US$5,000,000 and (ii) to repay part of the guarantee fee of approximately US$6,000,000 owed by the Group to Petropavlovsk PLC in respect of their guarantee of the ICBC Facility Arrangement.

As at 31 December 2020 and 31 December 2019, the full credit facility amount of US$240,000,000 has been fully drawn down.

The Gazprombank Facility is secured by i) a charge over the property, plant and equipment with net book value of US$52,334,000, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk PLC.

The drawn down of the Gazprombank Facility is subject to the following requirements:

a) LLC KS GOK must maintain an authorised capital not less than RUB9.1 billion;

b) LLC KS GOK must provide quarterly reporting; and

c) LLC KS GOK must meet the following financial covenants:

   i) Net Debt/EBITDA ratio:

      - For the twelve months period ended on 30 June 2019 and 31 December 2019 of less than 6.5 times

      - For the twelve months period ending 30 June 2020 and 31 December 2020 of less than 5.0 times

      - For the twelve months period ending 30 June 2021 and 31 December 2021 of less than 3.5 times and,

      - Starting from the twelve months period ending on 30 June 2022, of less than 3.0 times

      Where:

      – Net Debt is defined as short-term borrowed funds add long-term borrowed funds add leasing obligations less cash or cash equivalents; and

      – EBITDA is defined as profit before tax for the last twelve months add interest expenses for the last twelve months less interest incomes for the last twelve months add depreciation for the last twelve months add adjustments to exclude exchange rate revaluation and other non-monetary items for the last twelve months and add lease payments for the last twelve months.

   ii) Debt Service Coverage Ratio (DSCR):

      - For the twelve months period ended on 30 June 2019 or 31 December 2019 – not less than 1.1 times

      - Starting from the twelve months period ending on 30 June 2020 – not less than 1.2 times

      where DSCR is defined as:

      – Incoming cash balance add free cash flow of LLC KS GOK to the share capital add cash payments for servicing the principal debt add cash payments for interest payments; divided by

      – Cash payments for servicing the principal debt add cash payments for interest payments

For the twelve months period ended 30 June 2020, LLC KS GOK has complied with the Net Debt/EBITDA ratio covenant and obtained a waiver from Gazprombank JSC to comply with the DSCR covenant.

For the year ended 31 December 2020, LLC KS GOK has complied with the Net Debt/EBITDA ratio and the DSCR covenants.

As of 31 December 2020, the total borrowings of US$202,045,000 (31 December 2019: US$221,849,000) was borne by LLC KS GOK, a wholly owned subsidiary of the Group.

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 2020 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 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to 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 2020 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above website in due course.

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

Production volumes disclosed in this announcement are determined net of the excessive moisture content within the products, as shipped to the customers, and comparative figures are adjusted accordingly to conform with the current period's presentation. Production rate of K&S is calculated based on an annual production capacity of c.3,155 thousand wet metric tonnes, and achieved capacities for past periods are re-calculated as a percentage of this amount, where applicable, for comparison purposes.

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

Hong Kong, People's Republic of China
Tuesday, 30 March 2021

As at the date of this announcement, the Executive Director of the Company is Mr Yury Makarov. The Non-Executive Directors are Mr Peter Hambro, Mr Danila Kotlyarov, Mr Denis Alexandrov and Mr Aleksei Kharitontsev. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Chuang-Fei Li, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo and Mr Martin Davison.

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