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

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO IMPAIRMENT OF ASSETS**

Reference is made to the announcement of IRC Limited (the “**Company**”) dated 30 March 2023 in relation to its annual results for the year ended 31 December 2022 (the “**Announcement**”) and the annual report of the Company for the year (the “**Year**”) ended 31 December 2022 (the “**2022 Annual Report**”). As disclosed in the Announcement and the 2022 Annual Report, the Company recognised an impairment loss of approximately US\$103.2 million regarding the K&S mine and other assets (the “**Impairment Loss**”) as at 31 December 2022. The purpose of this supplemental announcement is to provide additional information in respect of the Impairment Loss for reference and consideration by the shareholders and investors of the Company. Unless otherwise defined, capitalised terms used herein shall have the same meanings ascribed to them in the Announcement and/or the 2022 Annual Report.

### **REASONS FOR AND THE CIRCUMSTANCES LEADING TO THE IMPAIRMENT LOSS**

In 2022, it was noted that, among other factors, the country risk premiums of Russia and China had increased which led to an increase in the discount rate to be used to calculate the present value of the cash flows of the K&S mine. The increase in discount rate could result in a reduction in the recoverable amount of the K&S mine.

According to the requirements of the Hong Kong Accounting Standards 36 – “Impairment of Assets”, where there are any indication of impairment in value of an asset, the Company should estimate its recoverable amount. If the impairment results of the recoverable amount indicates that the recoverable amount of the asset is lower than its book value, the Company shall write down the book value of such asset to its recoverable amount, recognise the impairment loss of such asset into profit or loss for the current period and make corresponding provision for impairment of assets concurrently.

As set out in Note 9 to the consolidated financial statements of the Group for the Year in the 2022 Annual Report, the Group made a provision for asset impairment loss of approximately US\$103.2 million for the year ended 31 December 2022. The Impairment Loss comprised of impairment losses totaling to (i) approximately US\$94.6 million in respect of the property, plant and equipment and right-of-use assets of the K&S mine, as determined based on the key assumptions and parameters further set out in this announcement below; (ii) approximately US\$8.4 million in respect of the full impairment of certain of the construction in progress mining assets as construction were not planned in the future; and (iii) approximately US\$0.2 million in respect of the full impairment of one of the exploration and evaluation assets of the Group due to the revocation of the exploration license during the Year.

## **DETAILS OF THE IMPAIRMENT ASSESSMENT OF THE K&S MINE**

The Company has consistently applied the income approach for the valuation of the K&S mine as at 31 December 2022. The income approach has been applied for the valuation of the K&S mine as the economic benefit streams can be identified and ascertained based on the mining plans and planned capital expenditure to be incurred, as well as other cost estimate. This method is commonly used in, and widely accepted for, the valuation of mineral assets and resources projects.

In determining the recoverable amount of the value of the K&S mine as at 31 December 2022 and 2021 respectively, the Company used certain key assumptions and parameters, details of which are stated below:

	For the year ended 31 December		Basis and reason(s) for changes
	2022	2021	
<b>Methodology</b>	Income Approach	Income Approach	Consistent valuation approach has been applied.
<b>Key assumptions</b>			
1. Average production volume per annum over the life of mine (per wet metric tonnes)	3,126 kt	3,176 kt	Determined based on the then latest production plan and mining schedule.  As at 31 December 2022, the average grade of Fe <sub>magn</sub> in the feed over the life of the K&S mine decreased based on the then recent results of operations as compared to that as at 31 December 2021, leading to the decrease of the concentrate yield from ore processed.

	<b>For the year ended 31 December</b>		
	<b>2022</b>	<b>2021</b>	<b>Basis and reason(s) for changes</b>
2. Platts 65% iron ore price (US\$ per dry metric tonne)	2023 (Year 1): 127.5 2024 (Year 2): 120.7 2025-2027 (Year 3-5): average 112.6 2028 and thereafter (Year 6 and onwards): 112.5 growing in line with the implicit GDP deflator in the United States with the nominal discount rate being applied.	2022 (Year 1): 136.6 2023 (Year 2): 121.2 2024-2026 (Year 3-5): average 107.5 2027 and thereafter (Year 6 and onwards): 99.6 flat, with the real discount rate being applied.	<p>For Year 1 &amp; 2: Price determined based on the iron ore forward curve. The Platts 65% iron ore average price was recorded at US\$131 per tonne as at 31 December 2022, being US\$9 per tonne lower than that of 31 December 2021, such decline in the Platts 65% iron ore average price for the Year yielded an expectation of prolonged price decline in the near future.</p> <p>For Year 3-5: Price determined based on consensus forecast on iron ore, adjusted in line with the exchange-traded iron ore futures curve as of the corresponding valuation date.</p> <p>For Year 6 and onwards: Price determined based on the latest forward looking analysts' consensus on iron ore for future years available as at the end of the respective reporting periods, growing in line with implicit GDP deflator in the United States.</p>
3. Russian Rouble exchange rate (to 1 US\$)	2023 (Year 1): 68 2024 (Year 2): 77 2025-2027 (Year 3-5) average: 85 2028 and thereafter (Year 6 and onwards): 88	2022 (Year 1): 75 2023 (Year 2): 75 2024-2026 (Year 3-5) average: 74 2027 and thereafter (Year 6 and onwards): 76	Determined based on consensus economics' forecast.
4. Inflation rate	2.27%	2.33%	Determined based on forecast of the implicit GDP deflator in the United States applicable as at the end of the respective reporting periods.
5. Discount rate			
– nominal, pre-tax	15.66%	13.48%	Determined based on the weighted average cost of capital as calculated using the then prevailing market data, namely risk-free rate, equity risk premium, country risk premiums of Russia and China and cost of debt.
– real, pre-tax	13.39%	11.15%	
			The increase in discount rate was mainly due to the increase in country risk premiums in Russia and China.

As shown above, the primary changes in the valuation assumptions as at 31 December 2022, as compared to that as at 31 December 2021, include the adoption of different iron ore prices, Rouble exchange rates, inflation rates and discount rates on the basis as set out under in the column headed “Basis and Reason(s) for changes” in the table above.

In accordance with the aforesaid key assumptions and parameters as adopted by the Group in the impairment assessment of the K&S mine as at 31 December 2022, the recoverable amount of the property, plant and equipment and right-of-use assets of the K&S mine was calculated based on the value of future cash flows and was determined to be in the amount of approximately US\$433.3 million as at 31 December 2022. As the carrying value of the K&S mine of approximately US\$527.9 million (before taking into account the impairment provision made for the 6 months ended 30 June 2022) exceeds the recoverable amount of approximately US\$433.3 million, an impairment loss in the amount of approximately US\$94.6 million was recognised in profit or loss as at 31 December 2022.

The above additional information does not affect other information contained in the Announcement or the 2022 Annual Report. Save as disclosed, all other information contained in the Announcement and the 2022 Annual Report remains unchanged.

By Order of the Board  
**IRC Limited**  
**Denis Cherednichenko**  
*Chief Executive Officer*

Hong Kong, People’s Republic of China  
Thursday, 14 September 2023

*As at the date of this announcement, the executive Director and Chief Executive Officer is Mr. Denis Cherednichenko. The Chairman and non-executive Director is Mr. Nikolai Levitskii. The independent non-executive Directors are Mr. Dmitry Dobryak, Ms. Natalia Ozhegina, Mr. Alexey Romanenko and Mr. Vitaly Sheremet.*

**IRC Limited**

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