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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 2016

CONFERENCE CALL

A conference call will be held today at 11h00 Hong Kong time to discuss the Second Quarter Trading Update. The number is +852 2112 1700 and the passcode is 1167522#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 23 July 2016 at www.ircgroup.com.hk/html/ir_call.php.

Friday, 22 July 2016: 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 2016.

HIGHLIGHTS

- K&S produced its maiden ore at the end of May with premium Fe grade of 65.5%. First 1,000 tonnes of iron ore concentrates produced during test runs of the processing plant in July.
- K&S commissioning is on-going – 60% loading test has commenced – one step closer to the completion and handover of operational plant of K&S.
- As previously guided, operating plant completion and commercial production expected in Q3 2016.
- ICBC confirmed that all conditions precedent to the grant of the ICBC waivers have been fulfilled and the waivers are now effective.

SECOND QUARTER TRADING UPDATE

FOR THE THREE MONTHS ENDED 30 JUNE 2016

As announced in our last quarterly trading update, Kuranakh has been moved to care and maintenance. All remaining stockpile of ore were utilised in the last quarter and therefore there is no production in this quarter. The last shipments of product rendered a small amount of sales of 6,767 tonnes of iron ore concentrates and 18,564 tonnes of ilmenite during the second quarter of 2016. The care and maintenance programme involves only limited cost now and going forward which relieves the Group’s cash flow.

		Q2 2016	Q2 2015	Change	1H 2016	1H 2015	Change
Iron Ore (62.5% Fe)	Production (tonnes)	–	283,221	N/A	188,111	566,349	-67%
	Sales (tonnes)	6,767	281,060	-98%	219,352	535,048	-59%
	Average Price (US\$/t)	41	49	-17%	39	54	-27%
Ilmenite (48% TiO ₂)	Production (tonnes)	–	49,045	N/A	34,043	95,702	-64%
	Sales (tonnes)	18,564	65,280	-72%	60,044	110,568	-46%
	Average Price (US\$/t)	N/A*	N/A*	N/A*	116	120	-5%

* Quarterly Ilmenite ASP not disclosed for commercial reasons

Commenting on the quarter, Yury Makarov, Chief Executive Officer of IRC said, “During the second quarter, we are thrilled to have announced the production of maiden ore which means we are not far from the completion of the plant soon. Now we are focusing every effort to fix the normal teething issues which have been identified ahead of the commercial production of K&S and we are working out the most efficient solutions. While some problems have already been sorted out, others require more testing and fine tuning.

In June, we have commenced the 60% loading test at K&S, which allows us to assess in a detailed way the performance and efficiency of the plant when operating under stress. After the test, we will be able to pinpoint areas needing particular attention and rectification, paving way for our commercial production. Currently, we are at the last step to the full completion for production of K&S, we thank stakeholders for their patience and soon we will be able to yield the fruits of our efforts.”

MARKETING, SALES AND PRICES

Iron Ore

Sales for iron ore concentrates from the Kuranakh Mine are secured under a long-term offtake agreement and prices are calculated on the INCOTERM “DAP” (Delivered at Place) basis. During the quarter, IRC’s average achieved selling price for iron ore was US\$41 per tonne, a 17% decrease compared to the US\$49 per tonne in the second quarter 2015. Only 6,767 tonnes of iron ore have been sold in the second quarter, as Kuranakh has moved to care and maintenance.

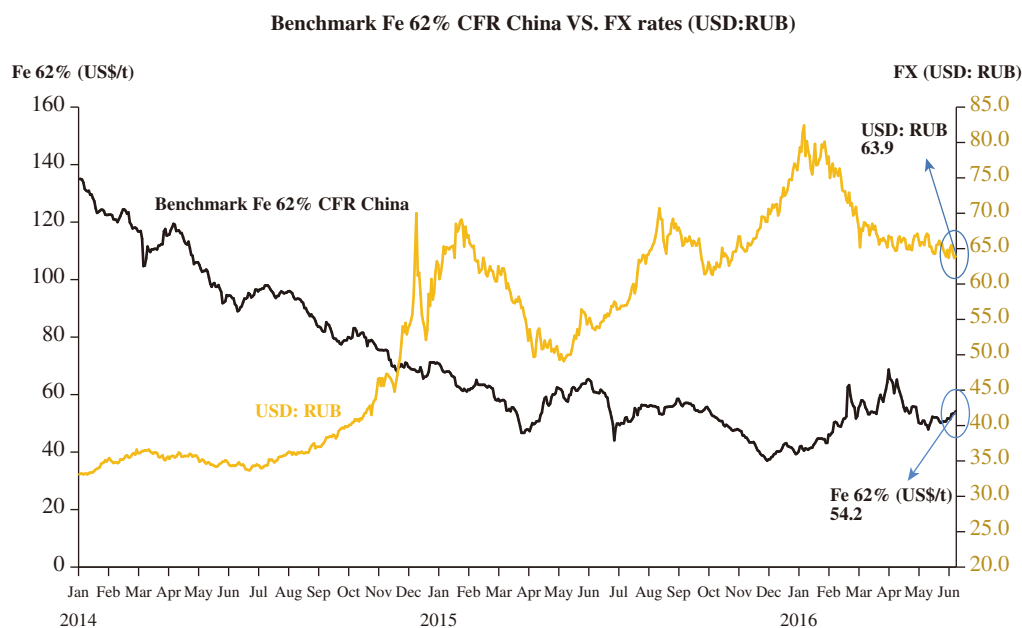
The iron ore price rebounded in early second quarter of 2016. The spot price of benchmark 62% iron content delivered to the Chinese port of Qingdao achieved an average of US\$51 per tonne in the second quarter. The benchmark market prices surged to over US\$70 per tonne, the highest since January 2015 and fell back to close the quarter at US\$54 per tonne. Market analysts explained the surge was mainly related to China’s investment fever in the iron ore futures market. Despite the large movements in prices, the market fundamentals are broadly unchanged – demand growth is slow and the market remains well supplied. However, rally showed that the market generally has a better expectation in the future of the iron ore market than at the beginning of the year.

Ilmenite

As Kuranakh has been moved to care and maintenance, during the second quarter, ilmenite sales only totalled 18,564 tonnes, a 72% decrease compared to same period last year. The ilmenite market is less transparent than other commodities but generally ilmenite prices remain more stable over time than those of iron ore. For commercial reasons IRC does not publish quarterly prices. The half-yearly average selling price of ilmenite of the Group was US\$116 per tonne.

Foreign Exchange

The Rouble continued to remain in a weak level against the US dollar in the second quarter 2016 although there are some appreciation supports from gains in oil prices. General market analysts forecast that the Rouble will remain stable against the US dollar at a level above 60. The USD:RUB exchange rate closed at 64 by the end of the second quarter. The weakness in the Rouble renders a positive impact on the Group’s operating margins as it partly offsets the effects of falling iron ore prices, with the Group’s operating costs mainly in Roubles and revenues mainly in US Dollars.



*Source: Bloomberg (as of 30 June 2016)

OPERATIONS

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. The Kuranakh Mine is the largest regional employer, bringing a much needed boost to the local economy through fiscal contributions and stakeholder and biodiversity conservation programmes.

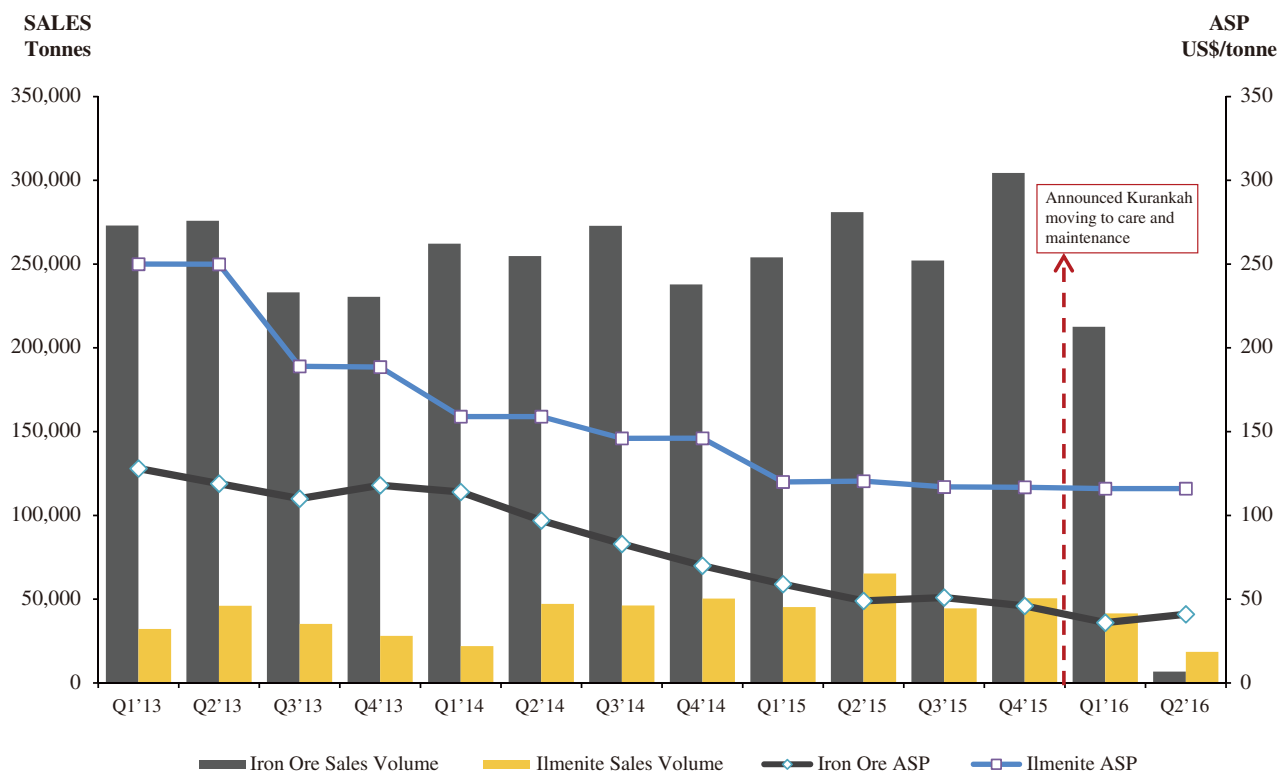
Production and Financials

As announced in our last quarterly trading update, Kuranakh has been moved to care and maintenance status. All remaining stockpile of ore were utilised in the last quarter and therefore there is no production in this quarter. The last shipments of product rendered a small amount of sales of 6,767 tonnes of iron ore concentrates and 18,564 tonnes of ilmenite during the second quarter of 2016.

The care and maintenance programme involves only limited cost now and going forward in order to relief the Group's cash flow. The Company has reduced the number of staff at Kuranakh to minimum levels for equipment maintenance and security. Certain personnel have been relocated to K&S where production will soon commence. The only major non-operating cost that the site will bear is domestic property taxes however relief will be sought for these.

Kuranakh Sales and Average Selling Prices (ASP)

Q1 2013 to Q2 2016



As the Company has moved Kuranakh to care and maintenance, there is no production during the quarter, therefore RoM tonnage for the quarter was nil. Also, as there are no remaining stockpiles, the Crushing and Screening Plant did not process any raw materials during the quarter.

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 130 kilometres from 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 Hot Commissioning Progress

With reference to the announcement on 23 June 2016, K&S hot commissioning is on-going with slight delay. Some teething issues were detected and IRC are working closely with CNEEC to resolve the issues. Subject to these technical issues being resolved, the operating plant is expected to be handed over to IRC in Q3 2016. After a short but efficient ramp up process, the plant is expected to operate at its full capacity, producing 3.2 million tonnes of 65.8% Fe high grade premium iron ore concentrates per annum. The plant is capable to be further expanded to produce 6.3 million tonnes per annum when markets allow. Production guidance of 2016 will be provided when K&S is closer to full commissioning.

The Group has commenced the 60% loading test at K&S – one step closer to the full completion of the plant. The Company's Run of Mine (ROM) ore stockpiled earlier for commissioning testing ran through the entire K&S processing circuit. Loading test is an essential part of the commissioning programme as it enables the Company to validate alignment and calibration of all components of the crushing & screening process, as well as the dry and wet separation plant.

As announced previously, IRC is entitled to claim certain liquidated damages from CNEEC for the delay of handover of the operational plant of K&S to the Company. However, the first priority will be working together to resolve the teething issues identified for commercial production the soonest.

Mining

Stripping and mining activities were suspended as the stockpile necessary to commence operations has already been built up. When full commissioning approaches, the mining contractor will start preparations for mining works recommencement, firstly with drilling and blasting operations to prepare ore volumes in the open pit, and later with excavation and hauling operations to replenish ore stockpile that will be used for plant feeding.

Production and Marketing

At the end of May 2016, K&S successfully produced its maiden iron ore concentrate. It is the first time that the ore went through the whole processing cycle, and produced a maiden concentrate with 65.5% Fe content. During the second quarter, 44,597 tonnes of ore were fed to primary processing and 33,403 tonnes of pre-concentrate were produced at K&S. While K&S continues to conduct an array of final testing for hot commissioning completion, more concentrates have been produced and accumulated. As of 15 July 2016, more than 1,000 tonnes of iron ore concentrates have been produced and stored in the wet concentrate storage while waiting for the stockpile of concentrates to accumulate to a more significant level. Currently, the Group is finalising details contract agreements with a number of potential customers. Further details will be announced in due course.

CORPORATE UPDATE

Loan Waivers Obtained from ICBC and Group's Cashflow Position

As set out in the announcement on 23 June 2016, the Group has successfully obtained loans waivers from ICBC, as all conditions precedent have been fulfilled. The waivers obtained include a waiver from the obligation of the Group to maintain cash deposits of c. US\$26 million with ICBC from 21 June 2016 to 30 June 2018 (both days inclusive), and a waiver from the obligations of the Group and Petropavlovsk plc to comply with certain financial covenants from 21 June 2016 to 31 December 2017 (both days inclusive).

K&S is fully funded for completion and IRC's cashflow position remains stable. The unaudited cash balance at the end of the second quarter of 2016 was US\$26.6 million. This figure includes US\$2.0 million in the debt service reserve account and US\$2.8 million in the term deposits, but does not include US\$37.0 million of fully funded bond payments that ICBC hold on IRC's behalf as down payments on construction work at K&S. Total debt outstanding was US\$255 million, representing solely by the ICBC credit facility for K&S. The working capital facility for the Kuranakh project was fully repaid at the end of the first half of 2016.

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, and later sold by the Group to Russian and Chinese development Funds in November 2014. In early June, the regional government of the Jewish Autonomous Region announced that the Russian part of the Amur River Bridge will 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 media, the Chinese side of the bridge has been completed.

IRC's 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 could halve the transport costs of K&S and further confirming IRC as one of the lowest cost iron ore projects in the world.

General Nice and Minmetal Cheerglory Strategic Investment

In January 2013, IRC announced a two-stage transaction for a US\$238 million subscription for new shares by strategic Chinese investors General Nice and Minmetals Cheerglory.

To date, our strategic partner and second largest shareholder, General Nice has invested approximately US\$170 million under the subscription agreement. This represents more than 80% of their total subscription obligation under the strategic investment agreement entered into in 2013. Although full completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US\$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 30 June 2016.

IRC continues to be in discussions with General Nice, Mr Cai Sui Xin (Chairman of General Nice) and Minmetals Cheerglory about completion of General Nice's subscription obligations and the settlement of the interest due to date and other potential alternative options.

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

Hong Kong, People's Republic of China
Friday, 22 July 2016

As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr George Jay Hambro, Mr Cai Sui Xin (Benjamin Ng as his alternate) and Mr Raymond Kar Tung Woo. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr Chuang-Fei Li and Mr Jonathan Martin Smith.

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