铁货
IRC

IRC Limited

HONG KONG STOCK CODE 股份代號：1029

INTERIM REPORT
中期報告 2020

ABOUT US

IRC is the largest iron ore mining operator in the Russian Far East. Our world-class operations focus on producing high-quality iron ore concentrates, with long-term relationships with customers in China and Russia.

WHY IRC

IRC is unique in the iron ore market due to its competitive advantages, namely superior geology and direct access to China, the world's largest iron ore market, through established world-class infrastructure.

2020 AND BEYOND

K&S mine, our 3.2 million tonnes per annum iron ore project, has started commercial production and is ramping up to near full capacity. The mine produces 65% iron ore concentrates at some of the most competitive cost levels in the industry. In long term, we will have optionalities of doubling the production capacity of the Group and beyond by developing K&S Phase II and other exploration projects.

CONTENTS

CHAIRMAN AND CEO REPORT

Dear Shareholders and Stakeholders,

The first six months of 2020 has been a significant time for the development of IRC.

Despite the lingering effects of the global economic downturn which began 2019 and continued to impact the commodity market in 2020, IRC achieved its maiden underlying profit in the first half of this year. While the profit is modest, the milestone is significant. We are unlocking the great potential that we see in the Company – pushing productivity performance benchmarks and delivering volume growth from operations. We are doing so in a safe and responsible manner, maintaining strict capital discipline and creating sustainable business in every sense.

FINANCIAL PERFORMANCE – MAIDEN UNDERLYING PROFIT

We continue to reap the benefits of the transformation of the Company. Our much-upgraded assets and our focus on efficiency and productivity underpinned strong operational performance, allowing IRC to stage a turnaround of its financial results to report maiden underlying profit in the first half of 2020.

During the 6-month period, 1.4 million tonnes of 65% iron ore concentrate had been sold, 11.4% higher than the same period last year. We saw a significant growth in the Group's revenue, from US$89.2 million to US$106.2 million. Despite a 19.0% increase in revenue, site operating expenses and service costs excluding depreciation did not inflate proportionately and only recorded a 8.2% increase, courtesy of the depreciation in Russian Rouble and our tight cost control measures. EBITDA of the Group has more than doubled, surging from US$13.2 million in the first half of 2019 to US$33.2 million in 2020. Profit for the period amounted to US$5.9 million, a remarkable turnaround from last year's loss of US$25.2 million. It should be noted that our 2020 bottom line would have been further improved to US$9.6 million were it not for hedging of iron ore in a backwardation market which, for this reason, no new iron ore hedging has been entered into in 2020.

Our underlying results, which do not include the effect of non-recurring/non-operating items and foreign exchange and are good indications of our actual performance, improved from last year's loss of US$8.2 million to this year's profit of US$5.7 million.

Benefitting from the positive operating results, we continue to strengthen our balance sheet by reducing our debt level. Loan balance was reduced from US$221.9 million at the end of 2019 to US$211.9 million as of 30 June 2020.

We are pleased with the financial results of IRC in the first half of 2020 and are striving for further improvements as K&S continues to raise its production level.

K&S – RAMPING UP PRODUCTION

The ramp-up programme of K&S is moving forward and the mine operated at a capacity of 89% in the first half of 2020, up 11% when comparing with the same period last year. This was more than satisfactory when account is taken of the operating headwinds we faced. During the period, production was hindered by various bottlenecks and production issues, such as the logistic issues of the Russian railway and the mining volume lag of the third-party mining contractors. These issues were mostly out of our hands. Thanks to the full commitments and dedications of the experienced K&S site team, they were swiftly resolved or mitigated.

Understandably, the final leg of the ramping up program takes more time and is the most challenging, given that the production process needs to be meticulously fine-tuned to its optimum. That said, K&S has demonstrated its ability to operate at full capacity last October. We are confident of the mine producing at full capacity on a continuous basis once the remaining production bottlenecks are resolved.

While we are currently operating at a high capacity, it is worth reminding ourselves that IRC has the track record of running a mine at higher than its designed capacity, as we did with our Kuranakh mine. We see K&S having the ability to do the same, and we look forward to seeing the mine coming-of-age to unleash its full potential.

FAVOURABLE IRON ORE PRICE AND FOREIGN EXCHANGE ENVIRONMENTS

Despite the political unrest and the COVID-19 pandemic putting the global economy on its back foot, iron ore was one of the best performing commodities in the first half of 2020. With increasing global recognition of high-quality iron ore, the 65% iron ore Platts benchmark was the standout commodity with its price surging by 9% from US$104.0 per tonne at the end of 2019 to US$113.6 per tonne as of 30 June 2020. The benchmark iron ore price continued its upward trend in July and August of 2020 and surged pass the US$130 per tonne mark at the time of writing this report. The positive impacts of the stronger iron ore pricing level will be reflected in the operating results of IRC in the second half of 2020. The strong pricing environment is attributable to strong demand and decreasing supply. The demand for key steel-making raw materials, iron ore, was resilient during the first six months of 2020, backed by strong crude steel production in China and supply shortages.

On the demand side, the Chinese government has recently pledged to increase its expenditure on infrastructure as part of its economic stimulus plan, increasing its demand for iron ore to produce steel for infrastructure and other construction projects. With regard to the supply of iron ore, Brazil, one of the major iron ore exporting nations, is experiencing growing numbers of COVID-19 cases which have partially restricted its ability to mine and ship iron ore. In the first half of 2020, one of the largest iron ore producers, Vale, was confronted with various incidents, including rain and shipping delays. In addition, three of its high-grade iron ore mines were closed for about 2 weeks for COVID-19 reasons. The solid demand of iron ore coupled with the supply disruption fostered a strong iron ore pricing environment in the first half of 2020.

Shareholders should remember that the headline benchmark prices for all commodities are based on a fungible product at a specified location and thus that the delivered price will be different to that on the futures exchange. Transportation and handling costs and the level of deleterious elements in the concentrate delivered will have an effect.

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 reduce 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.

Apart from the good iron ore price, IRC also benefitted from the weak Russian Rouble. Given the depressed crude oil price, the ongoing COVID-19 pandemic in Russia and the political factors, the Russian Rouble was under pressure in 2020. The currency lost 7% against the US dollar with the average exchange rate depreciated from RUB65/USD in 2019 to RUB70/USD in the first half of 2020. As most of IRC's expenses are Rouble denominated, the weak currency allows IRC to lower its cost level in US dollar terms. The Group also took the opportunity to lock-in the weak Rouble exchange rate by hedging, and recorded a hedging gain of US$0.5 million in the first half of 2020.

SAFEGUARD OF OUR HEALTH AND SAFETY

The COVID-19 has triggered unprecedented impacts to the world, disrupting the global economy and affecting the health of millions of people. The significant challenges posed by the pandemic have dramatically changed the dynamics of many industries, including mining. Our Company rapidly aligned operations with government guidelines and worked with our local communities to implement measures aiming to safeguard the health and safety of our employees, partners and communities. We are proud of our workforce, who have quickly adapted to the situations as we work alongside government directives to collectively mitigate the risks associated with COVID-19. We are confident that these measures are sufficient to ensure that production continues in a safe manner.

Currently, there are a small number of employees at K&S testing positive to COVID-19 but most of the patients are asymptomatic. They have been quarantined and are under appropriate medical treatments. To date, there has been no material impact on IRC's operations due to the virus.

COST SAVING – AMUR RIVER BRIDGE

Transportation logistics play a significant part in the profitability of a mining company. With the mine being so close to the Russian-Chinese border, K&S enjoys an exclusive geographical advantage. A new trade corridor, the Amur River Bridge, is set to further enhance this competitive advantage.

According to the report of the Russian media citing the interim governor of the Jewish Autonomous Region, the Bridge is expected to complete in December 2021 and will be operational from March 2022 onwards. It is not without disappointment that we are seeing a delay in the commissioning of the Bridge. But all is not lost if we look at this over a longer time horizon. With K&S being a 20-plus years' project, a 1-year bridge delay will not change the fundamental prospect of the mine.

The Amur River Bridge is a game changer for K&S, as it not only reduces transportation distance and shipment time but also promotes a closer cooperation between Russia and China which K&S could benefit.

OUTLOOK

We are pleased that much has been achieved in the first half of 2020. That said, continuous improvement is our goal and we are not resting on our laurels. We believe that the foundations of our Company are in place for further enhancement in operational and financial performance. Looking to the future, we are committed to ensuring that IRC continues to adhere and prosper in a sustainable manner. We shall increase our production from our world-class assets to maximise shareholders' value.

Finally, we would like to thank all members of the "IRC family", our shareholders and stakeholders for their continued support.

Peter Hambro
Chairman

Yury Makarov
Chief Executive Officer

RESULTS OF OPERATIONS

The following table summarises the consolidated results of the Group for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June		
	2020	2019	Variance
Key Operating Data			
Iron Ore Concentrate			
– Production volume (tonnes)	***1,395,411***	*1,221,249*	*14.3%*
– Sales volume (tonnes)	***1,380,516***	*1,239,397*	*11.4%*
Achieved Selling Price (US$/tonne)			
– based on wet metric tonne	***76.8***	*71.4*	*7.6%*
– based on dry metric tonne	***82.6***	*77.2*	*7.0%*
– based on dry metric tonne before hedging	***85.4***	*86.5*	*(1.3)%*
Cash Cost (US$/tonne)	***48.8***	*51.2*	*(4.7)%*
Consolidated Income Statement (US$'000)			
Revenue before hedging losses	**109,836**	99,904	9.9%
Hedging losses	**(3,663)**	(10,660)	(65.6)%
Net Revenue	**106,173**	89,244	19.0%
Site operating expenses and service costs before depreciation and amortisation	**(71,342)**	(65,924)	8.2%
General administration expenses before depreciation and amortisation	**(4,267)**	(5,118)	(16.6)%
Other income, gains and losses	**2,410**	508	>100%
EBITDA excluding non-recurring/non-operating items and foreign exchange	**32,974**	18,710	76.2%
Depreciation and amortisation	**(13,465)**	(14,919)	(9.7)%
Financial costs	**(13,338)**	(12,738)	4.7%
Income tax (expense)/credit & non-controlling interests	**(431)**	728	N/A
Underlying gains/(losses) – excluding non-recurring/non-operating items and foreign exchange	**5,740**	(8,219)	N/A
Net foreign exchange gains/(losses)	**5,228**	(5,520)	N/A
Write-off of unamortised loan costs	**–**	(11,465)	N/A
Provision for expenses related to deferred contract payments*	**(5,027)**	–	N/A
Profit/(loss) attributable to Owners of the Company	**5,941**	(25,204)	N/A
Underlying Results (US$'000)			
EBITDA			
– Mine in production	**35,850**	23,683	51.4%
– Group	**33,175**	13,190	>100%
– Group (excluding non-recurring/non-operating items and foreign exchange)	**32,974**	18,710	76.2%
Underlying gains/(losses) – excluding non-recurring/non-operating items and foreign exchange	**5,740**	(8,219)	N/A

* An entity within the Group is currently initiating legal proceedings against the said contract counterparty 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.

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 gains/(losses) excluding non-recurring/non-operating items and foreign exchange" are the key performance indicators for IRC.

EBITDA

IRC delivered a Group EBITDA of US$33.2 million, an improvement of 151.5% compared to US$13.2 million in the first half of 2019. The growth was primarily driven by higher production volume, strong iron ore price, and favourable foreign exchange movements.

From the operation point of view, the successful ramping up of K&S gave rise to solid improvements in production with the mine operated at an average capacity of 89% in the first half of 2020, 11% higher than the same period last year. In terms of iron ore price, despite the impact of COVID-19 to the global economy, the Platts 65% iron ore benchmark price in the first half of 2020 rose by 9% to close at US$113.6 per tonne. Average Platts 65% iron ore price in the first half of 2020 was US$105.8 per tonne which is comparable to the price level in the first half of 2019 of US$105.3 per tonne. Since the Group's major operating expenses are denominated in Russian Roubles while revenue is denominated in US Dollars, the 13% depreciation of Russian Rouble in the first half of the year had a positive impact on EBITDA with the cash cost having reduced by 4.7% to US$48.8 per tonne. These favourable factors contributed to the strong EBITDA that the Group achieved in the first half of 2020.

Underlying gains/(losses) – excluding non-recurring/non-operating 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 the first half of 2020, IRC reported a foreign exchange gain of US$5.2 million, mainly due to the depreciation of Russian Rouble, while a loss of US$5.5 million was recorded in the same period last year. This US$10.7 million swing in foreign exchange plays a significant part to the profitability of the Group. The Group's 2020 results are also affected by a non-cash provision of US$5.0 million which has been made for expenses related to deferred contract payments. An entity within 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 the first half of 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 has refinanced the ICBC loan facility in the first half of 2019, this necessitated an accounting adjustment to fully write off this unamortised cost of in the statement of profit or loss in the first half of 2019, instead of amortising the cost over the remaining loan term. The write-off did not have any cash impact on the Group.

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

	For the six months ended 30 June	
US$'000	**2020**	2019
Profit/(loss) attributable to owners of the Company	**5,941**	(25,204)
Foreign exchange	**(5,228)**	5,520
Provision for expenses related to deferred contract payments	**5,027**	–
Write-off of unamortised loan costs	**–**	11,465
Underlying gains/(losses) – excluding non-recurring/non-operating items and foreign exchange	**5,740**	(8,219)

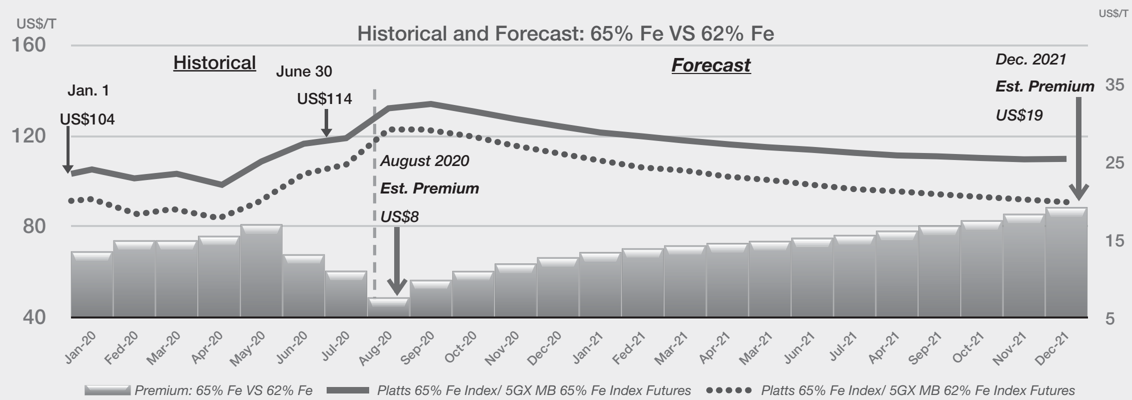
RESULTS OF OPERATIONS (CONTINUED...)

REVENUE

Iron ore concentrate

IRC's main revenue source comes from the sales of 65% iron ore concentrates produced by the K&S mine. Production and sales volumes of K&S continue to increase since the start of the commercial production in 2017. The amount of iron ore sales of K&S increased to 1,380,516 tonnes in the first half of the year, a growth of 11.4% compared to the same period last year.

In the first half of 2020, iron ore was one of the best performing commodities. During the 6-month period, the Platts 65% iron ore benchmark rose by 9% benefitting from increased demand for iron ore in China and restricted supply from major iron ore producers. The average selling price of iron ore concentrate achieved by IRC was US$76.8 per wet metric tonne (wmt) (30 June 2019: US$71.4 per wmt), an increase of 7.6%. On the basis of dry metric tonne, the selling price increased by 7.0% to US$82.6 per tonne.



** Source: Bloomberg (as of 21 August 2020)*

K&S had a positive first six months in 2020 with sales volume increasing by 11.4% over the corresponding period of the previous year. This translated to a 9.9% increase in Revenue before losses on iron ore hedging, from US$99.9 million to US$109.8 million.

Iron ore hedging was entered into to manage the downside risks of iron ore price movements and was not speculative in nature. Losses on iron ore hedging in the first half of 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$3.7 million (30 June 2019: US$10.7 million). The net revenue for the first half of 2020, after taking into account the effect of iron ore hedging, was US$106.2 million, 19.0% higher than that of the first half of 2019. In 2020, no new iron ore hedges have been entered into as the market remains in backwardation.

With better achieved selling prices and higher sales volumes, the Group's net revenue grew by 19.0% to US$106.2 million.

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$144,000 in the first half of the year (2019: US$698,000).

SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

Site operating expenses and service costs mainly represent the mining and operating expenses incurred by the Group's sole operating mine, the K&S project, for the sale of the iron ore concentrate. K&S commenced commercial production in 2017 and gradually ramped up to close to full production capacity. Site operating expenses and service costs before depreciation and amortisation increased to US$71.3 million in the first half of 2020 (30 June 2019: US$65.9 million) to accommodate the increased operational scale. The 8.2% cost increase compares favourably with the 19.0% sales revenue increase, demonstrating the positive effects of strict cost control by IRC and Rouble depreciation.

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

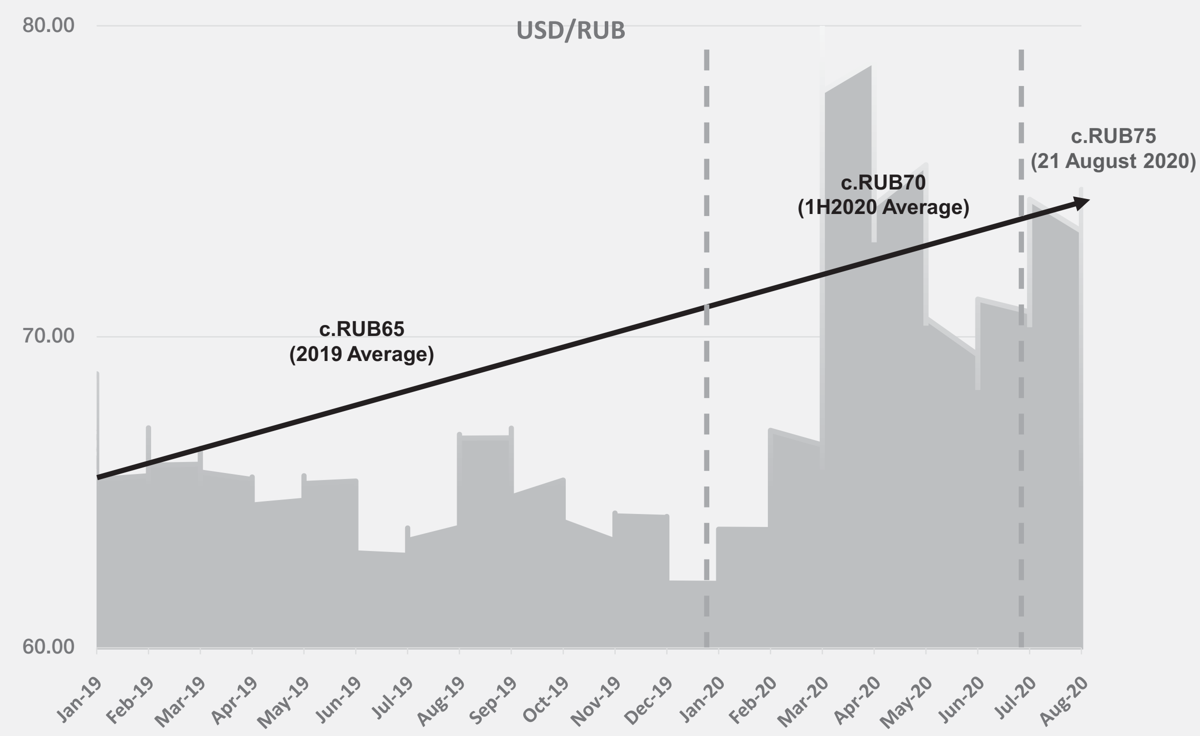
	For the six months ended 30 June	
	2020 Cash cost per tonne US$/t	2019 Cash cost per tonne US$/t
Mining	**14.9**	13.4
Processing and drying	**9.6**	10.8
Production overheads, site administration and related costs	**9.6**	10.6
Transportation to customers	**15.0**	15.6
Movements in inventories and finished goods	**0.1**	0.8
Currency hedge results	**(0.4)**	–
Net cash cost	**48.8**	51.2

The production efficiency of K&S was improved and the cash cost per tonne sold in the first half of 2020 decreased by c.5% to US$48.8 despite an average inflation rate of 2.6% in Russia. Owing to economies of scale and depreciation of Russian Rouble, processing and drying, and production overheads, site administration and related costs on a per-tonne basis reduced by c.11% and c.9% respectively. Transportation cost to customers has also reduced. When the Amur River Bridge is operational, the transportation cost to customers in China could additionally save up to US$5 per tonne.

Towards the end of June 2020, the Russian Rouble remained weak and closed at RUB70 to the US dollar. While the Group's income is mainly US Dollars denominated and therefore unaffected by the weakness of Roubles, the Group's operating costs, which are mostly denominated in Roubles, would be reduced as Roubles depreciates.

RESULTS OF OPERATIONS (CONTINUED...)

The chart below shows the depreciation of the Roubles since January 2019:



* *Source: Bloomberg* (as of 21 August 2020)

GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

Special attention continues to be paid to controlling administration costs. Successful implementation of cost controls continued to deliver benefits, with the Group's general administration expenses before depreciation and amortisation amounted to US$4.3 million, a decrease of c.16.6% compared to the first half of 2019. Certain administrative and travelling activities have been deferred due to COVID-19.

OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses primarily constituted the lease income derived from the sub-letting part of the floor space of buildings owned by the Group and subleased machineries and wagons.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation decreased by 9.7% from US$14.9 million in the first half of 2019 to US$13.5 million in the first half of 2020, mainly due to the lower volumes of ore mined.

FINANCIAL COSTS

Financial costs reflect primarily the interest expenditures on loans from Gazprombank and guarantee fee accrued for Petropavlovsk. The increase was mainly due to the higher guarantee fee provided.

INCOME TAX (EXPENSE)/CREDIT

The income tax expense of US$0.4 million (30 June 2019 income tax credit: US$0.7 million) reflects the Russian corporate tax charges on the Group's income and gain on disposals of assets, as well as deferred tax provision.

NET FOREIGN EXCHANGE GAINS/(LOSSES)

The foreign exchange gains of US$5.2 million in 2020 was mainly due to the change in the dollar value of balance sheet items following the depreciation of Russian Rouble.

PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

Improving EBITDA and foreign exchange gain led to positive operating results for the Group. The Group reported a profit attributable to owners of the Company of US$5.9 million in 2020 (30 June 2019: loss of US$25.2 million).

SEGMENT INFORMATION

The mine in production segment, which represents the production and sales of the K&S mine, generated an EBITDA of US$35.9 million (30 June 2019: US$23.7 million), reflecting a 51.4% increase. The segment posted a profit of US$22.5 million in the first six months of 2020, after taking the depreciation and amortisation costs into account. Kuranakh is under administration and in care and maintenance. The engineering segment recorded minimal losses.

CASH FLOW STATEMENT

The following table summarises key cash flow items of the Group for the six months ended 30 June 2020 and 30 June 2019:

	For the six months ended 30 June	
US$'000	**2020**	2019
Net cash generated from operations	**20,290**	13,069
Interest paid	**(9,335)**	(10,138)
Capital expenditure	**(2,969)**	(1,695)
Taxes refunded (paid)	**1,101**	(37)
(Repayments) and proceeds of borrowings, net	**(10,331)**	8,990
Loan guarantee and debt arrangement fees paid	**–**	(9,450)
Other payments, lease liabilities and adjustments, net	**1,932**	(1,067)
Net movement during the year	**688**	(328)
Cash and bank balances (including time and restricted deposits)		
– At 1 January	**4,292**	8,614
– At 30 June	**4,980**	8,286

The net cash generated from operations was US$20.3 million (30 June 2019: US$13.1 million), mainly due to improved performance of the K&S mine. Due to the timing of cashflows, the accounts receivable balance rose along with the increase in the scope of operation and higher selling price of iron ore. Following the receipt of sales proceeds after the period end, the accounts receivable balance reduced to a normal level, and the cash balance of the Group increased to c.US$17 million in mid-August 2020. Due to one-off interest repayments through temporary bridge loan and early repayment on ICBC loan facility in the first half of 2019, interest payment in 2020 decreased from US$10.1 million to US$9.3 million. Capital expenditure of US$3.0 million was incurred mainly by the K&S mine to support the ramping up of its production. During the first six months of 2020, in accordance with the loan repayment schedule, the Group repaid the principal of the Gazprombank's borrowings totalling US$10.3 million.

RESULTS OF OPERATIONS (CONTINUED...)

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share Capital

There were no changes in the share capital of the Company in the first half of 2020.

Cash Position and Capital Expenditure

As at 30 June 2020, the carrying amount of the Group's cash, deposits and bank balances was approximately US$5.0 million (31 December 2019: US$4.3 million). The cash balance on 30 June 2020 was relatively low due to the temporary increase in receivables because of timing of funds receipt. In mid-August 2020, cash balance has increased to c.US$17 million.

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2020, US$73.2 million (30 June 2019: US$66.6 million) was incurred on development and mining production activities. No exploration activity was carried out in the first half of 2020 and 2019. The following table details the capital and operating expenditures in the first half of 2020 and 2019:

	For the six months ended 30 June					
	2020			2019		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
Kuranakh	**0.6**	**–**	**0.6**	–	–	–
K&S development	**70.2**	**2.3**	**72.5**	64.9	1.5	66.4
Exploration projects and others	**0.0**	**0.1**	**0.1**	0.0	0.2	0.2
	70.8	**2.4**	**73.2**	64.9	1.7	66.6

The table below sets out the details of material new contracts and commitments entered into during first half of 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 six months ended 30 June	
US$'m	**Nature**	**2020**	2019
K&S	Purchase of property, plant and equipment	**0.1**	–
	Sub – contracting for mining works	**–**	0.9
	Sub – contracting for railway and related works	**0.3**	0.2
Others	Other contracts and commitments	**0.3**	0.6
		0.7	1.7

Borrowings and Charges

As at 30 June 2020, the Group had gross borrowings of US$214.2 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. The Group's weighted average interest rate decreased to approximately 7.6% (30 June 2019: 9.7%) per annum following the falling market LIBOR rate in 2020.

The interest of the Gazprombank facility is determined based on LIBOR. The three-month LIBOR fell from an average of 2.33% in 2019 to 0.31% on 30 June 2020. The lower LIBOR rate allows IRC to reduce its finance costs.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Roubles, 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 low-90s to protect against currency appreciation. If deemed appropriate, the Group may consider entering into further foreign exchange hedging contracts, and the hedging is not of a speculative nature and is for purposes of risk management only.

Employees and Emolument Policies

As of 30 June 2020, the Group employed approximately 1,635 people (30 June 2019: 1,667 people). Total staff costs excluding share-based payments amounted to US$11.5 million during the reporting period. (30 June 2019: US$12.3 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.

PROJECT REVIEW

K&S

100% owned

Key facts:

65%
Fe grade

3.2Mtpa
Production capacity

11Mtpa
Ore process capacity

240km
To Chinese border

841Mt
Total resources

346Mt
Total reserves

20 years +
Mine life

OVERVIEW

K&S, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits, Kimkan and Sutara. The K&S Phase I is to produce 3.2 million tonnes of iron ore concentrate per annum with a grade of 65% Fe. There is an option for a Phase II expansion to produce a total of 6.3 million tonnes of 65% iron ore concentrate per annum. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase I production facility to increase the production capacity to approximately 4.6 million tonnes per annum. The Phase I Processing Plant was built by CNEEC and funded through a project finance facility provided by ICBC. In 2018, IRC successfully entered into a refinancing facility agreement with the leading Russian bank, Gazprombank, to fully replace the ICBC's finance facility and the refinancing was completed in 2019. The principal repayment of the Gazprombank facility is weighted towards the latter part of the loan term, so that the repayment pattern will better align with the ramp-up of K&S.

K&S enjoys tremendous geological advantage. The Trans-Siberian Railway is directly linked to the mine site, making it easy to deliver its product to customers. With the use of the Amur River Bridge, which is expected to be completed by the end of 2021, the transportation cost and distances can be further reduced. K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is situated 4 km from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also on a federal highway 130 km away from the regional capital Birobidzhan and 300 km from Khabarovsk, the principal city of the Russian Far East.

PRODUCTION CAPACITY OF K&S RAMPED UP CLOSE TO FULL CAPACITY

The K&S ramp-up programme went well in the first half of the year and the mine operated at an average capacity of 89%. Although K&S had the potential to run at a higher capacity, the K&S site team encountered certain issues which limited the plant's performance. The Drying Unit is an essential part of the K&S production process as it extracts excess moisture from the iron ore concentrate in order to prevent the product from freezing under the cold weather, enabling production throughout the year. During the first quarter of 2020, the Drying Unit experienced certain capacity issues which affected shipments. Fortunately, mitigating measures had been successfully implemented. The need of the Unit was also gradually reduced towards the end of the first quarter with the warm spring weather. Rectification works to address the capacity issues will be carried out in summer. Apart from the limitation of the Drying Unit, K&S's operation was also affected by minor logistical issues with the Russian railway and mining issues with the third-party mining contractors. With the well-experienced site team, IRC remains confident that the remaining issues will be resolved timely, allowing K&S to maintain a stable high production level. The current focus is on capacity building and catching up with past deficits.

COVID-19

Due to COVID-19, the land border crossing points between Russia and China were temporarily closed for passengers and cargo trucks. However, Grodekovo-Suifenhe rail border crossing, which K&S uses for its shipments to the Chinese customers, has been so far unaffected.

K&S has set up an emergency response office to prevent the spread of COVID-19 and has taken the necessary organisational and administrative measures to prevent the spread of virus. A contingency plan for K&S, including quarantine arrangement, medical screening, travel restriction and reduction in face-to-face interaction, is in place. While the production at K&S will continue uninterrupted, employees from head office and administrative staff are encouraged to work from home. Currently, there is a small number of employees at K&S testing positive to COVID-19 but most of the patients are asymptomatic. They have been quarantined and are under appropriate medical treatments. To date, there has been no material impact on IRC's operations due to the virus. The Group has taken the necessary measures to support the prevention of the COVID-19 at its operations and will continue to monitor closely the situation.

PRODUCTION

During the first half of 2020, 4,678,000 tonnes of ore was fed to primary processing and 3,142,487 tonnes of pre-concentrate was produced. These were 20.3% and 18.5% respectively higher than those of the same period last year. 1,395,411 tonnes of iron ore concentrate was produced, a growth of 14.3% over the first six months of 2019.

SALES & MARKETING

When comparing with the first half of 2019, sales volume increased by 11.4% to 1,380,516 tonnes during the reporting period. As K&S is producing more iron ore concentrate, it has also successfully diversified its customer base by selling to customers in various countries and regions, including Russia and China. During the first six months, the Chinese government has pledged to increase its infrastructure expenditure in order to compensate for the impact of the pandemic, increasing the demand for iron ore to produce steel for infrastructure and other constructive projects. The Group supplied about 67% of its iron ore concentrate to Chinese customers and the rest was supplied to Russian customer during the period. As part of the sales and marketing program, K&S is also starting to sales to new seaborne customers in China. Customers diversification allows the Group to better manage transportation, marketing and pricing risks, as well as enhance its negotiating power for better sales terms.

UNIT CASH COST

In view of the fact that K&S has not yet achieved its full production capacity, the unit cash cost per tonne of US$48.8 in the first half of 2020 has not yet reached its optimum level. Taking into account the possible further depreciation of Rouble, the decreasing LIBOR interest rate and the opening of the Amur River Bridge to minimise transportation costs, potentially, there is room for K&S to further control its cost level when the mine is fully operational.

SAFETY

LTIFR is a calculation of the number of lost-time injuries per one million hours worked. During the reporting period, the K&S maintained high safety with no injuries and the LTIFR was zero (30 June 2019 LTIFR: 1.45).

MINING

The Kimkan operation covers an area of approximately 50km^2 and comprises two key ore zones – Central and West. Open pit mining is currently carried out at both zones.

During the reporting period, the third-party mining contractors experienced certain mining issues, including the shortage of explosives which caused a decline in the volume of waste removal and led to slowing down of ore mining. To mitigate, K&S had to process lower grades ore from the stockpiles. The beneficiation properties of the feedstock were therefore affected, which in turn affected production volume. The mining contractors are pushing to try to catch up with the mining volume lag. During the period, the mining contractors mined 4,394,700 tonnes of ore, drilled 222,472 metres and blasted 6,539,286 cubic metres at K&S, 371,600 tonnes, 53,886 metres and 458,814 cubic metres respectively lower than the same period last year.

AMUR RIVER BRIDGE/TONGJIANG BRIDGE

Amur River Bridge is a national initiative to build a railway bridge across the Amur River border between Russia and China. The Amur River Bridge has been praised as one of the major projects between the two nations. Such infrastructure projects are expected to bring closer economic cooperation which IRC could benefit from.

The main span of the Amur River Bridge has been connected and the construction and installation of the relevant infrastructure works and border checkpoints are subject to completion. According to the report of the Russian media citing the interim governor of the Jewish Autonomous Region, the Bridge is expected to complete in December 2021 and will be operational from March 2022 onwards. The current total distance from K&S to the Chinese border (Suifenhe) is approximately 1,000 km. K&S mine is situated approximately 240 km from the bridge site and IRC's nearest customer within China is approximately 180 km away from the railway bridge. Thus, IRC will benefit from the Bridge with reduced transportation distance and shipment time. The railway 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. Shipping time to customers in China will be reduced from 3-5 days to 1-3 days.

Kuranakh

100% owned

Key facts:

62.5%
Fe grade

48%
TiO_2 grade

900Ktpa
Fe production capacity

160Ktpa
TiO_2 production capacity

85km^2
Total iron ore licence area

17Mt
Total resources

20 years +
Mine life

OVERVIEW

Kuranakh, 100% owned by IRC, is the Group's first mining operation and the first vertically integrated titanomagnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and has moved to care and maintenance since the beginning of 2016 due to the challenging operating environment on the commodity market at that time. The mine is currently under administration in order to minimise the costs, and still has the option of re-opening.

The Kuranakh mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers an area of approximately 85km^2 and comprises the Kuranakh and Saikta open-pit mines, the on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a quality content of 62.5% Fe and an ilmenite concentrate with a quality content of 48% TiO_2. Concentrates can be directly loaded onto rail wagons for shipment via the BAM and Trans-Siberian Railways to customers in Russia and China and abroad via the Russian Pacific Sea ports.

SAFETY

As the mine was moved into care and maintenance and is now under administration, there was no injuries and the LTIFR was zero during the first six months of 2020 (30 June 2019 LTIFR: 0).

IN CARE & MAINTENANCE AND UNDER ADMINISTRATION

Kuranakh is currently under administration and no production or sales were generated in the first half of 2020. Although the subsidiary holding Kuranakh has applied for liquidation in order to save on-going costs, IRC retains the option of re-opening Kuranakh or pursuing other development alternatives.

Garinskoye

99.6% owned

Key facts:

68%
Fe grade

>3,500km²
Total iron ore licence area

4.6Mtpa
Fe production capacity

260Mt
Total resources

26Mt
Total reserves

20 years +
Mine life

OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration project. The project provides an opportunity for a low cost DSO-style operation that can be turned into a large-scale and long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans-Siberian Railways. With exploration licences for ground covering an area of over 3,500 km^2, the project is the largest in the IRC portfolio in terms of area.

CURRENT DEVELOPMENT

There are two possibilities for Garinskoye to develop. The first option is to develop a large-scale 4.6 million tonnes per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO-style operation that does not require a rail connection and can be started in advance of a larger conventional operation. The DSO-style plan comprises a pit with a reserve of 20.2 million tonnes, a grade of 48% Fe, and a stripping ratio of 1.7:1 m^3 per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure by adding a further wet magnetic separation stage to produce a high-grade "super-concentrate" with a 68% iron ore content.

In 2013, IRC conducted an internal Bankable Feasibility Study. A third-party verification and a fatal flaws analysis for the DSO-style operation was carried out in 2004.

The Company is currently reviewing the options on how to move the project forward.

Other Projects

EXPLORATION PROJECTS & OTHERS

IRC's other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. This seeks to add value through the discovery of new resources and the increase and confirmation of mineable reserves. Currently, IRC retains these valuable licenses for later development until the market conditions improve. Apart from exploration projects, IRC is also active in the complementary business of the Steel Slag Reprocessing Plant (SRP) and a mining consultancy services agency (Giproruda). As far as the SRP project is concerned, its feedstock was based on the concentrate from Kuranakh, and the latter was moved to care and maintenance during 2016. Successfully sourced feedstock from China, the SRP project with Jianlong Steel recommenced operation in the first half of 2019 although its contribution to the Group is not material. Below is a summary of the current portfolio of exploration projects for the Group:

Project	Products/Service	Location
Kostenginskoye* (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Peterburg, Russia

* Resource base for K&S

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS

As at 30 June 2020, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company at 30 June 2020
Peter Hambro	Beneficial interest	15,330,000	0.22%
Yury Makarov	Beneficial interest	30,911,505	0.44%
	Contingent beneficial interest*	53,851,086	0.76%^
Raymond Kar Tung Woo	Beneficial interest	7,435,360	0.10%
Danila Kotlyarov	Contingent beneficial interest*	53,851,086	0.76%^

* The interest relates to the share options granted by the Company on 20 November 2015 and on 29 September 2017. Details of the share option scheme are set out on page 159 of the 2019 Annual Report of the Company under the heading "SHARE-BASED PAYMENTS TRANSACTIONS".

^ These percentages are calculated on the basis of 7,093,386,381 Shares in issue as at 30 June 2020.

Long positions in shares of an associated corporation

As at 30 June 2020, Peter Hambro, Non-Executive Director, and Yury Makarov, Executive Director, beneficially hold 20,450,395 shares and 75,278 shares of Petropavlovsk PLC ("Petropavlovsk") respectively. Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and accordingly an associated corporation of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk, a substantial shareholder of the Company, and its subsidiaries (the "Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No Director or entity connected with a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the six months ended 30 June 2020.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2020, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of director	Capacity	Number of shares in the Company	Percentage of issued shares in the Company as at 30 June 2020
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	31.10%
Cayiron Limited*	Beneficial interest	2,205,900,000*	31.10%

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC.

Save as disclosed above and those disclosed under "Directors' Interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 June 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 30 June 2020, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Corporate Governance and Other Information

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. The Group believes that conducting its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2019 Annual Report of the Company.

During the six months ended 30 June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the period 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 the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Petropavlovsk is connected party of the Group and transactions with this entity during the six months ended 30 June 2020 are set out in note 18 to the condensed consolidated financial statements.

The 2020 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF IRC LIMITED
鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 23, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2020

		Six months ended 30 June	
	NOTES	**2020** **US$'000** **(unaudited)**	2019 US$'000 (unaudited)
Revenue	3	**106,173**	89,244
Operating expenses	5	**(75,609)**	(71,042)
Depreciation and amortisation	5	**(13,465)**	(14,919)
Other income, gains and losses	6	**2,611**	(5,012)
Financial costs	7	**(13,338)**	(24,203)
Profit (loss) before taxation		**6,372**	(25,932)
Income tax (expense) credit	8	**(440)**	708
Profit (loss) for the period		**5,932**	(25,224)
Profit (loss) for the period attributable to:			
Owners of the Company		**5,941**	(25,204)
Non-controlling interests		**(9)**	(20)
		5,932	(25,224)
Earnings (loss) per share (US cents)	10		
Basic		**0.08**	(0.36)
Diluted		**0.08**	(0.36)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED...)

For the Six Months Ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	**5,932**	(25,224)
Other comprehensive income (expense) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(775)**	630
Fair value loss on cash flow hedge instruments	**(981)**	(31,815)
Release of fair value loss on hedging instruments in cash flow hedges	**3,124**	10,660
Total comprehensive income (expense) for the period	**7,300**	(45,749)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**7,463**	(45,854)
Non-controlling interests	**(163)**	105
	7,300	(45,749)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	NOTES	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets		20,035	19,877
Property, plant and equipment	11	503,938	513,306
Right-of-use assets	11	8,714	9,334
Interest in a joint venture		–	–
Inventories		14,804	14,804
Other non-current assets		36	55
		547,527	557,376
CURRENT ASSETS			
Inventories		23,990	25,291
Trade and other receivables	12	27,005	14,301
Income tax receivables		–	1,125
Other financial assets	15	1,070	–
Time deposits		708	661
Bank balances		4,272	3,631
		57,045	45,009
Asset classified as held for sale		–	5,045
		57,045	50,054
TOTAL ASSETS		604,572	607,430
CURRENT LIABILITIES			
Trade and other payables	13	(75,771)	(72,328)
Lease liabilities		(3,526)	(3,331)
Income tax payable		(272)	–
Borrowings – due within one year	14	(19,869)	(20,703)
Other financial liabilities	15	(3,212)	(4,285)
		(102,650)	(100,647)
NET CURRENT LIABILITIES		(45,605)	(50,593)
TOTAL ASSETS LESS CURRENT LIABILITIES		501,922	506,783

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED...)

At 30 June 2020

	NOTES	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(2,597)**	(2,522)
Provision for close down and restoration costs		**(15,945)**	(17,461)
Lease liabilities		**(5,639)**	(7,595)
Borrowings – due more than one year	14	**(191,981)**	(201,204)
		(216,162)	(228,782)
TOTAL LIABILITIES		**(318,812)**	(329,429)
NET ASSETS		**285,760**	278,001
CAPITAL AND RESERVES			
Share capital	16	**1,285,158**	1,285,158
Capital reserve		**17,984**	17,984
Reserves		**16,225**	14,244
Accumulated losses		**(1,033,280)**	(1,039,221)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**286,087**	278,165
NON-CONTROLLING INTERESTS		**(327)**	(164)
TOTAL EQUITY		**285,760**	278,001

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2020

	Total attributable to owners of the Company									
	Share capital US$'000	Capital reserve[(a)] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Hedging reserve US$'000	Other reserve[(b)] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2019 (audited)	1,285,158	17,984	16,156	(22,706)	–	23,766	(1,000,552)	319,806	(296)	319,510
Loss for the period	–	–	–	–	–	–	(25,204)	(25,204)	(20)	(25,224)
Other comprehensive income (expenses) for the period										
Exchange differences on translation of foreign operations	–	–	–	505	–	–	–	505	125	630
Fair value loss on cash flow hedge instruments	–	–	–	–	(31,815)	–	–	(31,815)	–	(31,815)
Release of fair value loss on hedging instruments in cash flow hedges	–	–	–	–	10,660	–	–	10,660	–	10,660
Total comprehensive income (expenses) for the period	–	–	–	505	(21,155)	–	(25,204)	(45,854)	105	(45,749)
Share based payment expense	–	–	737	–	–	–	–	737	–	737
Balance at 30 June 2019 (unaudited)	1,285,158	17,984	16,893	(22,201)	(21,155)	23,766	(1,025,756)	274,689	(191)	274,498
Balance at 1 January 2020 (audited)	1,285,158	17,984	16,806	(22,043)	(4,285)	23,766	(1,039,221)	278,165	(164)	278,001
Profit for the period	–	–	–	–	–	–	5,941	5,941	(9)	5,932
Other comprehensive income (expenses) for the period										
Exchange differences on translation of foreign operations	–	–	–	(621)	–	–	–	(621)	(154)	(775)
Fair value loss on cash flow hedge instruments	–	–	–	–	(981)	–	–	(981)	–	(981)
Release of fair value loss on hedging instruments in cash flow hedges	–	–	–	–	3,124	–	–	3,124	–	3,124
Total comprehensive (expenses) income for the period	–	–	–	(621)	2,143	–	5,941	7,463	(163)	7,300
Share based payment expense	–	–	459	–	–	–	–	459	–	459
Balance at 30 June 2020 (unaudited)	1,285,158	17,984	17,265	(22,664)	(2,142)	23,766	(1,033,280)	286,087	(327)	285,760

(a) The amounts represent deemed contribution from the then ultimate holding company of the Company for (1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the Company in prior years and (2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company of the Company.

(b) The amounts arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited, 2) transfer of share-based payment reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution, and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund SPC – Tiger Global SP ("Tiger Fund").

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net cash generated from operations	**20,290**	13,069
Income tax refunded (paid)	**1,101**	(37)
NET CASH FROM OPERATING ACTIVITIES	**21,391**	13,032
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and exploration and evaluation assets	**(2,969)**	(1,695)
Time deposits placed	**(47)**	(682)
Restricted deposits withdrawn	**–**	977
Proceeds on disposal of property, plant and equipment and asset classified as held for sale	**3,646**	92
Interest received	**26**	26
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**656**	(1,282)
FINANCING ACTIVITIES		
Repayment of lease liabilities	**(1,528)**	(1,326)
Interest expenses paid	**(9,335)**	(10,138)
Repayment of borrowings	**(10,331)**	(231,010)
Proceeds from borrowings	**–**	240,000
Loan guarantee and debt arrangement fees paid	**–**	(9,450)
NET CASH USED IN FINANCING ACTIVITIES	**(21,194)**	(11,924)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	**853**	(174)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**3,631**	7,637
Effect of foreign exchange rate changes	**(212)**	141
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, represent by bank balances	**4,272**	7,604

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements 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 Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group's, net current liabilities position of approximately United States Dollars ("US$") 45,605,000 as at 30 June 2020 and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations and cash and cash equivalents.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore sales and sales prices and the US$/Ruble exchange rates for a fifteen month period after 30 June 2020. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

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

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries has had a negative impact on the global economy, business environment and demand for iron ore which could directly and indirectly affect the operations of the Group. However, global demand for iron ore remains strong and with supply being impacted by environment events, the price per metric tonne has been high throughout the period. As the Group's main customer is domiciled in the People's Republic of China, demand for the Group's product has not been adversely affected.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the trade receivables measured at fair value through profit or loss ("FVTPL") and derivative financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, 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 Group's condensed 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 period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impact of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

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 period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED...)

For the Six Months Ended 30 June 2020

3. REVENUE

Disaggregation of revenue from contracts with customers

Six months ended 30 June 2020 (unaudited)

Segments	Mine in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	98,357	–	98,357
Delivery services	7,672	–	7,672
Engineering services	–	144	144
	106,029	144	106,173
Geographical markets			
PRC	70,616	–	70,616
Russia	35,413	144	35,557
	106,029	144	106,173
Timing of revenue recognition			
A point of time	98,357	–	98,357
Over time	7,672	144	7,816
	106,029	144	106,173

3. REVENUE (CONTINUED)

Six months ended 30 June 2019 (unaudited)

Segments	Mine in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	75,209	–	75,209
Delivery services	13,337	–	13,337
Engineering services	–	698	698
	88,546	698	89,244
Geographical markets			
PRC	30,720	–	30,720
Russia	57,826	698	58,524
	88,546	698	89,244
Timing of revenue recognition			
A point of time	75,209	–	75,209
Over time	13,337	698	14,035
	88,546	698	89,244

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2020 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	106,029	–	144	–	106,173
Segment revenue	106,029	–	144	–	106,173
Site operating expenses and service costs	(83,489)	(44)	(586)	(590)	(84,709)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 5(a))	(13,310)	–	(57)	–	(13,367)
Segment results	22,540	(44)	(442)	(590)	21,464
General administrative expenses					(4,267)
General depreciation					(98)
Other income, gains and losses					2,611
Financial costs					(13,338)
Profit before taxation					6,372

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	88,546	–	698	–	89,244
Segment revenue	88,546	–	698	–	89,244
Site operating expenses and service costs	(79,473)	(168)	(1,093)	(6)	(80,740)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 5(a))	(14,610)	(140)	(66)	–	(14,816)
Segment results	9,073	(168)	(395)	(6)	8,504
General administrative expenses					(5,118)
General depreciation					(103)
Other income, gains and losses					(5,012)
Financial costs					(24,203)
Loss before taxation					(25,932)

5. OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Site operating expenses and service costs[(a)]	**84,709**	80,740
General administrative expenses[(b)]	**4,365**	5,221
	89,074	85,961

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Subcontracted mining costs and engineering services	**23,233**	24,941
Railway tariff	**21,298**	19,416
Depreciation and amortisation	**11,679**	13,114
Staff costs	**8,832**	9,355
Materials usage	**5,388**	6,537
Other expense	**5,311**	3,112
Electricity	**3,705**	3,543
Property tax	**2,871**	2,909
Depreciation of right-of-use assets	**1,688**	1,702
Fuel	**1,189**	1,090
Movement in finished goods and work in progress	**1,122**	(4,777)
Professional fees*	**508**	728
Mine development costs capitalised in property, plant and equipment	**(2,115)**	(930)
	84,709	80,740

5. OPERATING EXPENSES (CONTINUED)

(b) General Administrative Expenses

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Staff costs other than share-based payments	**2,627**	2,984
Share-based payments	**459**	737
Professional fees*	**640**	762
Depreciation	**98**	103
Other expenses	**541**	635
	4,365	5,221

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

6. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Net foreign exchange gain (loss)	**5,228**	(5,520)
Rental income	**2,312**	497
Interest income on cash and cash equivalents	**26**	26
Gain (loss) on disposal of property, plant and equipment and asset classified as held for sale	**221**	(15)
Fair value loss on trade receivables	**(149)**	–
Other provision	**(5,027)**	–
	2,611	(5,012)

7. FINANCIAL COSTS

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest expense on borrowings	**8,976**	9,418
Guarantee fee	**3,388**	1,943
Finance expenses on early repayment of bank loan	**–**	11,465
Interest expense on lease liabilities	**475**	671
Unwinding of discount on environmental obligation and long-term construction costs payable	**499**	706
	13,338	24,203

8. INCOME TAX (EXPENSE) CREDIT

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Russia Corporate tax	**(290)**	(19)
Deferred tax (expense) credit	**(150)**	727
	(440)	708

Russia Corporate tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2020 and 2019.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is exempted from Russia Corporate tax for the period from 2016 to 2021 and then, will be taxed at a reduced rate of 10% in the following 5 years increasing to 20% thereafter.

No tax from other jurisdictions has been recognised as the Group had no assessable profit arising in or derived from any other jurisdictions for the six months ended 30 June 2020 and 2019.

9. DIVIDENDS

No dividends were paid, declared or proposed to owners of the Company during both the six months ended 30 June 2020 and 2019.

10. EARNINGS (LOSS) PER SHARE

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

Earnings (loss)

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Earnings (loss) for the purposes of basic and diluted earnings (loss) per ordinary share being profit (loss) for the period attributable to owners of the Company	**5,941**	(25,204)

Number of shares

	Six months ended 30 June	
	2020	2019
	Number	Number
	'000	'000
Number of ordinary shares for the purposes of basic and diluted earnings (loss) per ordinary share	**7,093,386**	7,093,386

The computation of earnings (loss) per share for the period ended 30 June 2020 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares. For the period ended 30 June 2019, the exercise of share options would result in a decrease in loss per share.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period, the Group spent approximately US$2.8 million (for the six months ended 30 June 2019: US$1.7 million) on the mine development and acquisition of property, plant and equipment.

The depreciation charge for the six months ended 30 June 2020 is approximately US$13,465,000 (for the six months ended 30 June 2019: US$14,919,000).

During the current interim period, the lease agreements had been modified for the use of additional wagons and office premises for additional lease terms of 2.5 years and 2 years respectively. The Group is required to make fixed monthly payments over the rental period. On the effective date of lease modification, the Group recognised a right-of-use asset of US$1,063,000 and lease liability of US$1,063,000.

At 30 June 2020, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (31 December 2019: Nil).

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Trade receivables	**16,637**	3,190
Value-added tax recoverable	**4,814**	4,429
Prepayments to suppliers	**3,185**	4,094
Amounts due from customers under engineering contracts	**79**	36
Other receivables	**2,290**	2,552
	27,005	14,301

Unbilled receivables under engineering contracts are expected to be billed and settled within one year and relate to long-term contracts in progress.

The Group allows an average credit period of 30 days to individual third party customers. Except for trade receivables measured at FVTPL, the Group applies the simplified approach in accordance to HKFRS 9 to measure expected credit loss ("ECL") which used a lifetime ECL, the directors of the Company considered that the lifetime ECL allowance is insignificant as at 30 June 2020 and 31 December 2019.

The following is an analysis of the trade receivables by age, presented based on the invoice date.

	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Less than one month	**16,602**	3,156
One month to three months	**–**	34
Over six months	**35**	–
Total	**16,637**	3,190

13. TRADE AND OTHER PAYABLES

	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Accruals and other payables	**41,902**	38,269
Construction cost payables	**22,694**	22,694
Trade payables	**10,685**	10,107
Interest payables	**410**	576
Advances from customers	**80**	682
	75,771	72,328

For individual third party trade creditors, the average credit turnover period on purchase of goods and services for the period was 32 days (31 December 2019: 12 days).

The following is an aged analysis of the trade creditors based on invoice date.

	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Less than one month	**7,199**	6,722
One month to three months	**3,364**	3,159
Over three months to six months	**22**	125
Over six months	**100**	101
Total	**10,685**	10,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED...)

For the Six Months Ended 30 June 2020

14. BORROWINGS

	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Bank loans		
Gazprombank JSC	**211,806**	221,849
Other loans		
EPC – Finance LLC	**44**	58
Total	**211,850**	221,907
Secured	**211,806**	221,849
Unsecured	**44**	58
	211,850	221,907
Carrying amounts repayable		
Within one year	**19,869**	20,703
More than one year, but not exceeding two years	**20,517**	20,375
More than two years, but not exceeding five years	**61,420**	61,125
More than five years	**110,044**	119,704
Total	**211,850**	221,907
Presented as:		
Current liabilities	**19,869**	20,703
Non-current liabilties	**191,981**	201,204
	211,850	221,907

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

14. BORROWINGS (CONTINUED)

The Group is required to comply with certain restrictive financial covenants and undertaking requirements.

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 equal 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 Industrial and Commercial Bank Of China ("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 will be 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 30 June 2020 and 31 December 2019, the full 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$52,937,000, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk plc.

14. BORROWINGS (CONTINUED)

Bank loan from Gazprombank JSC (Continued)

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) the Group must provide quarterly reporting; and

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

i) Net Debt/EBITDA ratio:

- For the twelve months periods ending on 30 June 2019 and 31 December 2019 of less than 6.5 times
- For the twelve months periods ending 30 June 2020 and 31 December 2020 of less than 5.0 times
- For the twelve months periods 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 the combined amount of short-term borrowed funds plus long-term borrowed funds and leasing obligations less cash or cash equivalents; and

– EBITDA is defined as profit before tax for the last twelve months plus interest expenses for the last twelve months less interest incomes for the last twelve months plus depreciation for the last twelve months and 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 periods ending 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 plus cash payments for servicing the principal debt and cash payments for interest payments; divided by

– Cash payments for servicing the principal debt and cash payments for interest payments.

For the twelve months period ended 30 June 2020 and 31 December 2019, 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.

14. BORROWINGS (CONTINUED)

Loan from EPC-Finance LLC

On 27 April 2019, LLC Petropavlovsk Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB6,000,000 from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is be repayable on 27 April 2022 (31 December 2019: 27 April 2020).

As of 30 June 2020, the total borrowings of US$211,806,000 (31 December 2019: US$221,849,000) was borne by LLC KS GOK, a wholly owned subsidiary of the Group.

15. OTHER FINANCIAL ASSETS/(LIABILITIES)

	Current	
	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)
Derivatives under hedge accounting		
Commodity Swap Contracts	**(3,212)**	(4,285)
Currency Swap Contracts	**1,070**	–

Cash flow hedges

At the end of the reporting period, the Group had commodity swap contracts and currency swap contracts designated as highly effective hedging instruments in order to manage i) the Group's iron ore price exposure in relation to iron ore forecast sales and ii) to minimise the exchange rate exposure in relation to operating costs.

The fair value of commodity swap contracts and currency swap contracts at the end of the reporting period are provided by counterparty financial institutions.

During the period ended 30 June 2020, the net loss on changes in fair values of the commodity swap and currency swap contracts under cash flow hedges amounting to US$981,000 (six months ended 30 June 2019: US$31,815,000) has been recognised in other comprehensive income, and the fair value losses of the hedging instruments amounting to US$3,124,000 (six months ended 30 June 2019: US$10,660,000) were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss upon the settlement.

16. SHARE CAPITAL

There were no movements in the issued share capital of the Company during the six months ended 30 June 2020 and 2019. Details of the share capital of the Company at 30 June 2020 and 31 December 2019 are as follows:

	Number of shares	Share capital US$'000
Issued and fully paid		
At 1 January 2020 and 30 June 2020	7,093,386,381	1,285,158

At 30 June 2020, the rights granted to Tiger Capital Fund to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") in December 2016 remained outstanding and expire in December 2021. No Option Shares granted were exercised or lapsed during the six months ended 30 June 2020.

17. CONTINGENCIES

In the current interim period, the Group has contingent liabilities in respect of a legal claim raised by one of its customers, due to disagreements in the way of selling prices were determined. The aggregate amount that could be required to be paid by the Group to that customer amounted to approximately US$3.7 million. At the end of reporting period, the Group has assessed the legal claim by the abovementioned customer and has determined it is not probable that the Group would be required to pay such claim amounting to US$3.7 million. Accordingly, the Group has determined a provision for this claim is not required as at 30 June 2020.

18. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in this report, during the six months ended 30 June 2020, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties.

As disclosed below, Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms in which Petropavlovsk PLC provides a guarantee securing the Gazprombank Facility.

Related parties transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below.

	Services provided[a] Six months ended 30 June		Services received[b] Six months ended 30 June	
	2020 US$'000 (unaudited)	2019 US$'000 (unaudited)	**2020 US$'000 (unaudited)**	2019 US$'000 (unaudited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**3,388**	690
CJSC Pokrovsky Rudnik	**4,547**[d]	–	**–**	1,804[c]
MC Petropavlovsk	**–**	159	**20**	19
LLC Gidrometallurgia	**58**	60	**–**	–
LLC BMRZ	**–**	–	**–**	4
Perter Hambro Mining Engineering CJSC	**–**	–	**37**	–

18. RELATED PARTY DISCLOSURES (CONTINUED)

Related parties transactions (Continued)

(a) Amounts represent fee received/receivable from related parties for provision of helicopter services and administrative support.

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support, and interest payable/paid on short term loan.

(c) The amounts represent interest on loan borrowings from a related party.

(d) Amounts represent the sale of a helicopter to a related party.

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

Related parties balances

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[(a)]		Amounts owed to related parties[(b)]	
	As at 30 June 2020 US$'000 (unaudited)	As at 31 December 2019 US$'000 (audited)	**As at 30 June 2020 US$'000 (unaudited)**	As at 31 December 2019 US$'000 (audited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**15,580**	12,192
OJSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**16**	18	**78**	88
CJSC Albynsky Rudnik	**134**	151	**–**	–
CJSC Pokrovskiy Rudnik	**162**	183	**–**	1,615
Malomirsky Rudnik	**9**	11	**–**	–
MC Petropavlovsk	**841**	951	**1,967**	1,985
LLC Gidrometallurgia	**2**	4	**–**	–
Peter Hambro Mining Engineering CJSC	**–**	23	**–**	–

(a) The amounts are recorded in other receivables, which are not in trade nature, unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period. All the outstanding balances are current.

(b) The amounts are recorded in other payables, which are not in trade nature, unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period. All the outstanding balances are current.

18. RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Compensation

The remuneration of directors, which represent members of key management, during the period was as follows:

	Six months ended 30 June	
	2020	2019
	US$'000	US$'000
	(unaudited)	(unaudited)
Short-term benefits	**952**	1,062
Post-employment benefits	**62**	45
Share-based payments	**141**	185
	1,155	1,292

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

ASP	Achieved selling price
Board	The Board of Directors
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	INCOTERM Cost and Freight
CIM	The Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Concentrate	The clean product recovered from a treatment plant
COVID-19	Infectious disease first identified in December 2019
DAP	INCOTERM Delivery at Place
Deposit	Mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	The directors of the Company
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users. Raw material for iron ore concentrate, isometric mineral, Fe
EAO	Jewish Autonomous Region, an oblast of the Russian Federation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, Procurement and Construction contract
Exploration	Method by which ore deposits are evaluated
Fe	The chemical symbol for iron
Feasibility study	An extensive technical and financial study to assess the commercial viability of a project
Flotation	A mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
FOB	INCOTERM Free on Board

GLOSSARY (CONTINUED...)

Gazprombank	Gazprombank, is a private-owned Russian bank, the third largest bank in Russia by assets
GDP	Gross domestic product
General Nice	General Nice Development Limited is a Hong Kong incorporated holding company which trades and produces steel raw material commodities in China and globally
Geophysical	Prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
Geotechnical	Referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
Grade	Relative quantity or the percentage of ore mineral or metal content in an ore body
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong	The Hong Kong Special Administrative Region of the PRC
HSE	Health, Safety and Environment
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
Ilmenite	Iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time
K&S	A magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked
Magnetite	Fe_3O_4; major mineral in banded iron formations, generally low grade (1.5-40% iron)
Metallurgical	Describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
Mill	Equipment used to grind crushed rocks to the desired size for mineral extraction
Mineralisation	Process of formation and concentration of elements and their chemical compounds within a mass or body of rock

GLOSSARY (CONTINUED...)

NI 43-101	Also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface
Optimisation	Co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/economic operation
Ore	Material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
Ore-field	A zone of concentration of mineral occurrences
Ore body	Mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserves	The parts of a Mineral Resource that can at present be economically mined
Petropavlovsk	Petropavlovsk plc, the London Stock Exchange quoted, Russian gold mining company
Precious metal	Gold, silver and platinum group minerals
Primary	Characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures etc.; original
Processing	Methods employed to clean, process and prepare materials or ore into the final marketable product
Recovery	Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
Resources	The concentration of material of economic interest in or on the earth's crust
ROM	Run-of-mine. This is recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Russian Far East	Refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean
Shareholder(s)	Holder of the Share(s)
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tailings	Material that remains after all metals/minerals considered economic have been removed from the ore
TiO_2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
Titanomagnetite	Concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
Tonne/t	1 wet metric tonne (1,000 kg)
Treatment plant	A plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
US Dollar or US$	United States Dollar

GLOSSARY (CONTINUED...)

LIST OF ABBREVIATIONS

°C	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
dmt	dry metric tonne, a unit of mass equivalent to 1,000 kg
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
ha	hectares
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
nm	not measured
sq.m.	square metre, a unit of area
t	a wet metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO_2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide
wmt	wet metric tonne, a unit of mass equivalent to 1,000 kg

All dollars refer to United States Dollars unless otherwise stated.

All maps and diagrams in this report are for illustration purposes only and are not to scale.

Production volumes disclosed in this interim report 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 approximately 3,155 thousand wet metric tonne, and achieved capacities for past periods are re-calculated as a percentage of this amount, where applicable, for comparison purposes.

CORPORATE INFORMATION

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Stock Exchange of Hong Kong: 1029

As at 30 June 2020

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CHAIRMAN

P.C.P. Hambro

DEPUTY CHAIRMAN

D.R. Bradshaw

EXECUTIVE DIRECTORS

Chief Executive Officer: Y.V. Makarov

NON-EXECUTIVE DIRECTORS

P.C.P. Hambro
D. Kotlyarov

INDEPENDENT NON-EXECUTIVE DIRECTORS

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith
R.K.T. Woo
M.J. Davison

EMERITUS DIRECTOR

Dr P.A. Maslovskiy

COMMITTEES OF THE BOARD

Audit Committee

C.F. Li *(Chairman)*
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith *(Chairman)*
D.R. Bradshaw
C.F. Li

Health, Safety and Environment Committee

D.R. Bradshaw *(Chairman)*
C.F. Li
J.E. Martin Smith

Nomination Committee

P.C.P. Hambro *(Chairman)*
D.R. Bradshaw
J.E. Martin Smith

AUTHORISED REPRESENTATIVES FOR THE PURPOSES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Y.V. Makarov
J.S.C. Yuen

COMPANY SECRETARY

J.S.C. Yuen

AUDITOR

Deloitte Touche Tohmatsu, *Certified Public Accountants*
Registered public interest entity auditors

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MILESTONES

Our Future	K&S	Full capacity to 3.2mt per year Doubling production (Phase II)
	Kuranakh	Restart the mine
	Garinskoye	Trial production
	Bolshoi Seym	Iron ore and ilmenite production
1H2020	IRC	Maiden underlying profit
	K&S	Stable production capacity of 89%
2019	IRC	ICBC refinancing completed
	K&S	Operated at 100% of designed capacity in October
	SRP	Vanadium joint venture recommence operation
2018	K&S	Entry into refinancing facility with Gazprombank Operated at 105% of designed capacity during a 24-hour run Produced over 2.2 million tonnes in 2018
2017	K&S	Commercial production (Phase I) 90%-capacity loading test Produced over 1.5 million tonnes in 2017
2016	IRC	Tiger Capital shares subscription
	K&S	Trial production commenced and ramp-up First iron ore concentrate production Final hot commissioning and testing
2015	IRC	Completed fully underwritten Open Offer
	K&S	Ongoing commissioning and testing
2014	K&S	Commissioning Programme commenced
2013	IRC	General Nice strategic alliance
	K&S	Ongoing construction
2012	Kuranakh	Ilmenite production full capacity
	Garinskoye	DSO operation announced
	Exploration	Ilmenite & Molybdenum Exploration acquisitions
2011	IRC	Group reserves increase threefold
	Kuranakh	Full year production targets exceeded
	K&S	First drawdown ICBC facility Optimisation Study to double K&S production
2010	IRC	HKEx listing
	Kuranakh	Commissioned Iron ore production full capacity
	K&S	US$340m ICBC facility US$400m CNEEC EPC contract
	SRP	First production

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