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铁货 IRC

IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2024 HALF-YEARLY PRODUCTION AND SALES DECLINED DUE TO ORE AND MINING ISSUES AND PROFIT WARNING

CONFERENCE CALL

A conference call will be held today at 1:30pm Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 1854109#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 10 August 2024 at http://www.ircgroup.com.hk/en/ir_presentations.php

Friday, 9 August 2024: The Board ("**Board**") of Directors ("**Directors**") of IRC Limited ("**IRC**" or the "**Company**", together with its subsidiaries, the "**Group**") is pleased to provide the Second Quarter Trading Update for the three months ended 30 June 2024 ("**Q2 2024**").

HIGHLIGHTS – Q2 2024

K&S

- 13.2% increase in production volume over the previous quarter (i.e. the three months ended 31 March 2024) ("**Q1 2024**"), mainly due to comparison being made against a relatively lower base of Q1 2024. Production continued to be hampered by low ore grades and quality as Kimkan deposit depletes. In the first six months ended 30 June 2024 ("**1H 2024**"), production volume was 13.5% lower than that of the first six months ended 30 June 2023("**1H 2023**").

- Sales volume increased by 12.6% over Q1 2024, in line with the production increase in this quarter. Sales volume in 1H 2024 was 18.6% lower than that in 1H 2023.

- Sutara stripping operations started in Q2 2024, while mining operations started in July 2024.

Corporate & Industry

- Cash balance decreased to US$39.4 million (31 March 2024: US$49.8 million) and net debt increased to US$23.9 million (31 March 2024: US$13.4 million), mainly due to issues with bank fund transfers leading to delay in receipt of cash from customers. IRC is working on resolving the issue.

- The MIC Invest Limited Liability Company ("**MIC**") loan principal repayment instalment of US$4.5 million was due on 20 June 2024. In light of the bank fund transfer issues, MIC has agreed to extend the repayment deadline to 15 August 2024. It is expected that IRC would be able to settle the repayment instalment before the extended deadline.

- Average Platts 65% iron ore index decreased by 7.4% over US$136 per tonne for Q1 2024 to US$126 per tonne for Q2 2024.

- Russian Rouble remained stable at an average of RUB91 per US Dollar (Q1 2024: RUB91 per US Dollar).

- IRC's 2024 Annual General Meeting was held on 26 June 2024, all the proposed resolutions were duly passed.

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2024

SUMMARY OF PERFORMANCE

	Q2 2024	Q1 2024	Change	Q2 2023	Change	**1H 2024**	1H 2023	Change
Platts 65% Fe (average US$ per tonne)	**126**	136	-7.4%	124	1.6%	**131**	132	-0.8%
Iron ore concentrate								
– Production (tonnes)	**601,029**	531,172	13.2%	647,486	-7.2%	**1,132,201**	1,308,821	-13.5%
– Sales (tonnes)	**592,421**	526,329	12.6%	679,167	-12.8%	**1,118,750**	1,374,549	-18.6%

During Q2 2024, 601,029 tonnes of iron ore concentrate were produced, 13.2% higher when compared with that in Q1 2024, mainly because the comparison was made against a smaller reference point, as production volume in the last quarter was relatively low due to production issues including the ore quality issue, low mining volume and lack of mining fronts at the depleting Kimkan deposit, which continued to affect the production during Q2 2024. For the 1H 2024, K&S operated at an average capacity of approximately 72% to produce 1,132,201 tonnes of iron ore concentrate, 13.5% lower than the 1,308,821 tonnes of iron ore produced during 1H 2023.

In line with the higher quarterly production volume, sales volume in Q2 2024 also improved by 12.6% quarter-to-quarter. However, on a half-year basis, sales volume in 1H 2024, which amounted to 1,118,750 tonnes was 18.6% behind that of the 1,374,549 tonnes sold during 1H 2023.

Cash balance decreased to US$39.4 million (31 March 2024: US$49.8 million) and net debt increased to US$23.9 million (31 March 2024: US$13.4 million). This is mainly because in Q2 2024, IRC encountered difficulties with bank fund transfers, resulting in delays in receiving sales proceeds from customers. In addition, intra-Group fund transfers faced similar issues. IRC is addressing these issues to minimise their impacts.

The MIC loan principal repayment instalment of US$4.5 million was due on 20 June 2024. In light of the bank fund transfer issues, MIC had agreed to extend the repayment deadline to 15 August 2024. It is expected that IRC would be able to settle the repayment instalment before the extended deadline.

PROFIT WARNING

The Board wishes to advise its shareholders and potential investors that, pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), based on the preliminary assessment of the unaudited consolidated management accounts of the Group for 1H 2024 and the information currently available to the Board and before taking into account any possible adjustments (including but not limited to provision for assets impairment losses or reversal of assets impairment losses as at 30 June 2024, if any) in connection with the finalisation of the interim results of the Group for the Current Period, the Group expects to record a loss attributable to the owners of the Company of between approximately US$10 million to US$20 million as compared to the profit attributable to the owners of the Company of US$8 million for 1H 2023, excluding assets impairment. The Board considers that the expected deterioration in the Group's financial performance in 1H 2024 compared to 1H 2023 is mainly due to:

1) the significant decrease in production and sales volumes of K&S, due to issues with ore quality and mining. Sales volume in the 1H 2024 was 18.6% lower than that in the 1H 2023; and

2) the high Russian inflation rate due to geopolitical issues. With the Group's operation mostly being conducted in Russia, the high inflation rate resulted in increase in costs.

It should be noted that the Company is still in the process of assessing if provision for assets impairment losses or reversal of assets impairments losses is required as at 30 June 2024 (As at 30 June 2023: asset impairments losses of US$73.6 million). The Company will make a further announcement about any such impairment, as and when appropriate.

The information contained in this announcement is based on the preliminary review and assessment by the Board with reference to the latest available financial and other information, and such information has not been audited nor reviewed by the auditor of the Company thus may be subject to further adjustments. The Group's interim results for 1H 2024 may differ from the information contained in this announcement. Shareholders and potential investors of the Company are advised to read carefully the interim results announcement of the Company for 1H 2024 for further details, which is expected to be published by the end of August 2024 in compliance with the Listing Rules.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company and, in case of doubt, to seek independent advice from professionals or financial advisers.

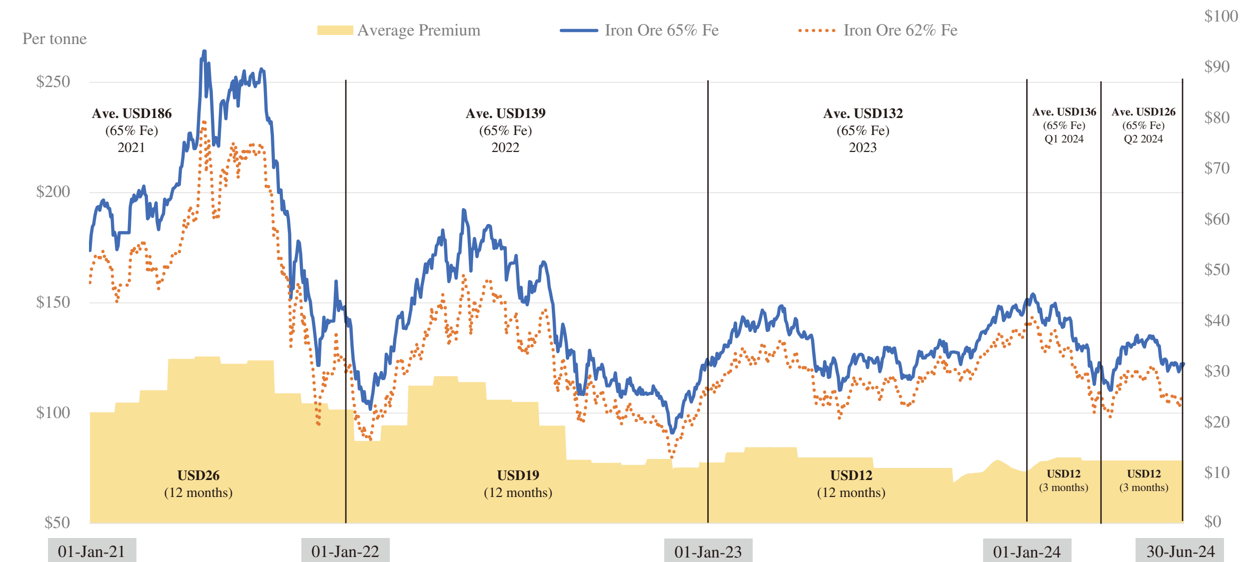
Commenting on the performance of IRC in Q2 2024, Denis Cherednichenko, Chief Executive Officer of IRC said, *"While quarterly production and sales volumes in Q2 2024 had improved, it is worth noting that we are making comparison against relatively low operating figures in the last quarter. On a half-yearly basis, we are considerably behind of what we achieved in the 1H 2023, mainly due to issues with ore quality and mining. These production challenges continue to linger, and the situation is unlikely to significantly improve until Sutara is operational. Commissioning Sutara is at the top of our agenda, and we are firing all cylinders to develop this pit. We are pleased to inform we have commenced the stripping operations and mining operations at Sutara in Q2 2024 and in July 2024 respectively.*

Due to issues with bank funding transfers, we are experiencing certain difficulties in treasury management, leading to deterioration of cash and net debt balances. We are actively addressing the issues to mitigate the impacts."

MARKETING, SALES AND PRICES

Iron Ore

In Q2 2024, iron ore prices decreased with the average Platts 65% iron ore price dropping to US$126 per tonne, a 7.4% decrease quarter over quarter. Lower iron ore price was due to high supply and weak demand expectations. In early June 2024, the PRC government announced RMB1 trillion worth of stimulus measures for the property market which served as a positive boost in the short term. However, prices of iron ores soon fell as it was perceived that the supporting measures launched by the PRC government had no direct impact on steel consumption.



* Source: Platts (as of 30 June 2024)

Platts 65% Iron Ore Price vs 62% Iron Ore Price

The selling price of the K&S's product is determined with the reference to the international Platts iron ore price indices. The achieved selling price of K&S in Q2 2024 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2024 interim results announcement due for release by the end of August 2024.

Iron Ore Hedging

Currently, IRC does not have any open iron ore hedging position, given that it is difficult to achieve meaningful hedges with the forward iron ore curve in backwardation. IRC would continue to monitor the price movements and could enter into hedging transactions if the hedging terms are considered favourable.

Foreign Exchange Movements and Hedging

During Q2 2024, Russian Rouble remained at a relatively weak level and stabilised at an average of RUB91 per US Dollar (Q1 2024: RUB91 per US Dollar).

The Movement of Russian Rouble

** Source: Bank of Russia (as of 30 June 2024)*

The weakening of the Russian Rouble has a positive impact on the Group's operating margin, as the operating costs of the Group are mainly denominated in Russian Roubles and revenue is mainly determined based on US Dollars. However, a weaker Russian Rouble contributes to a more inflationary environment, complicating cost control efforts.

The Group currently does not have any currency hedging position. To provide protection against the appreciation of the currency, the Group will closely monitor the foreign exchange movements of Russian Rouble and may take various hedging instruments to protect against the appreciation risk of the Russian Rouble if appropriate. It should be noted that the hedging (if executed) is not speculative in nature and is for risk management purposes.

OPERATIONS

K&S (100% owned)

The K&S Mine is located in the Jewish Autonomous Region (EAO) of the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also on a federal highway 130 km away from the regional capital Birobidzhan and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S – Sales, Production and Sutara Development

During Q2 2024, 601,029 tonnes of iron ore concentrate were produced, 13.2% higher when compared with that in Q1 2024, mainly because the comparison was made against a smaller reference point, as production volume in the previous quarter was relatively low due to production issues. For 1H 2024, K&S operated at an average capacity of approximately 72% to produce 1,132,201 tonnes of iron ore concentrate, 13.5% lower than the 1,308,821 tonnes produced during 1H 2023.

In line with the higher quarterly production volume, sales volume in Q2 2024 also improved by 12.6% quarter-to-quarter. However, on a half-year basis, sales volume in 1H 2024 of 1,118,750 tonnes was 18.6% behind that of the 1,374,549 tonnes sold in 1H 2023.

Production in Q2 2024 continued to be hampered by the lower yield of iron ore concentrate from ore due to the lower content of iron magnetic properties in the ore processed. K&S comprises of two main pits, Kimkan and Sutara. The Kimkan operation comprises two key ore zones – Central and West. Open pit mining at the Kimkan deposit is currently carried out at both zones. Mining works were originally performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S has started to mine at the Kimkan West pit, which has lower grades of iron ore magnetic properties than Kimkan Central. Proactive measures had been taken to address the ore quality issue. By taking advantage of IRC's extensive operational experience and after making certain upgrades and modifications to K&S's plant and its production process, the plant is able to process lower quality ore without compromising the quality of the final product. This has allowed K&S to process the current ore from Kimkan more effectively and mitigate the impact to the minimum.

Despite the upgrades and modifications to K&S's plant and production process, poorer beneficiation properties of the ore blend fed to the processing plant have resulted in a lower yield of commercial concentrate from the ore than designed. This is currently affecting K&S's ability to increase production capacity. The production capacity issues are expected to improve when the Sutara pit becomes operational. The Company expects the Sutara pit will be the long-term solution as the geological information confirms that the ore at Sutara has higher grades of iron magnetic properties.

The lower mining volume and shortage of mining fronts at the pit site continued to affect the mining efficiency. K&S has been working with the contractors to resolve the issues.

Key mining data of K&S for Q2 2024

K&S	**Q2 2024**	Q1 2024	Changes
Mining (tonnes)	**1,433,300**	1,486,500	-3.6%
Drilling (metres)	**148,445**	129,993	14.2%
Blasting (cubic metres)	**3,670,100**	3,034,800	20.9%
Rock mass moved (cubic metres)	**4,282,200**	4,084,900	4.8%
Ore fed to the primary processing plant (tonnes)	**2,191,200**	2,130,900	2.8%
Pre-concentrate produced (tonnes)	**1,478,123**	1,416,988	4.3%

In light of the ore quality and mining issues, K&S plant is utilising the stockpiles of the low-quality ore, which was accumulated in the previous years. This has allowed K&S to compensate for the decreasing ROM (Run-of-Mine) ore feed with the stockpiled ore feed. As a result, despite a 3.6% decrease of mining volume in Q2 2024, processing plant feed has increased by 2.8%. While this provides a positive impact on working capital movement, stockpile ore has lower iron content and higher impurities.

K&S continued using the Amur River Bridge (the "**Bridge**") for railway shipments to the Chinese customers with about 398.2 kt and 805.8 kt of iron ore concentrate being delivered via the Bridge during Q2 2024 and 1H 2024 respectively. Although shipments made via the Bridge do not save much costs due to the high bridge tariff, this transportation route helps alleviate the railway congestion issues and allows K&S to ship its products more efficiently to its customers.

Seaborne sales continued to be suspended due to the volatile operating environment which makes such sales uneconomical. IRC continues to monitor the market situation and adjust its marketing strategy accordingly.

K&S – Sutara Development

K&S started to mine ore from Sutara in July 2024. Total capital expenditure required to bring the Sutara pit into operation by 30 June 2024 amounted to approximately US$39.6 million. It is estimated that the remaining capital expenditure is approximately US$17.8 million, and it is expected to be spent over the second half of 2024 and 2025, after the mining works have been started. The capital expenditure is self-funded by the cashflow generated by K&S.

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability, and IRC will continue to apply stringent cost control measures.

Inflation is a key concern among Russian businesses. Annual inflation in Russia stood at 9.2% in June 2024, significantly higher than the 4% which Russia's financial authorities had been targeting. The central bank of Russia is forecasting inflation of as much as 7% for the full year of 2024.

The relevant cash cost information for 1H 2024 will be analysed and disclosed in the 2024 interim results announcement due for release by the end of August 2024.

Impact of U.S. Sanctions Against Russia

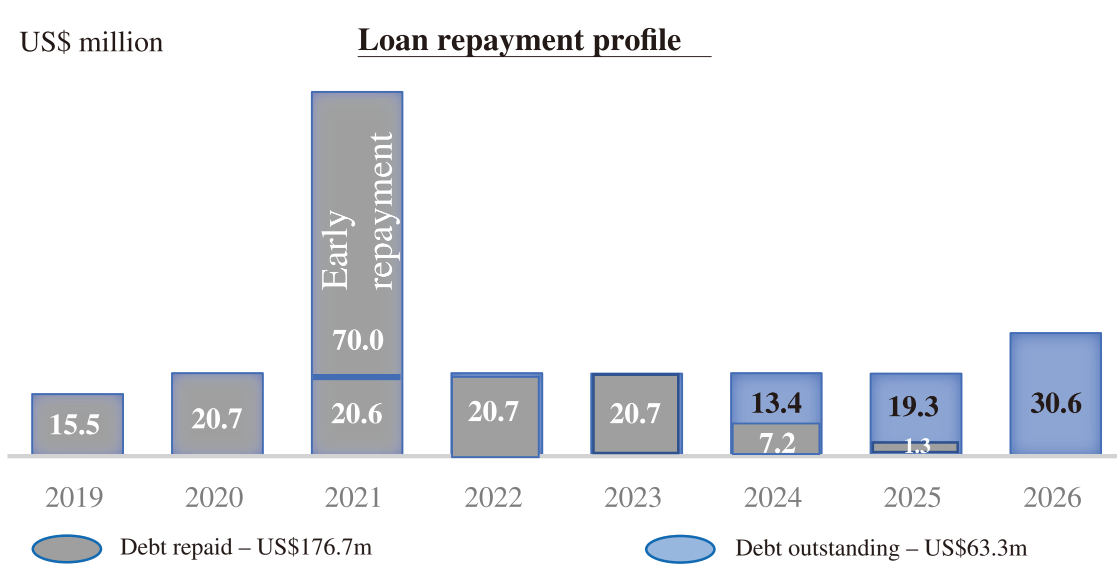
IRC is listed on the Hong Kong Stock Exchange with operational mines in Russian Far East. Most of the Group's suppliers and customers are based in China and Russia. The Company continues to review and consider the impact, if any, of the UK, EU and US sanctions. As of now, and so far as the Board is aware, based on its current assessment and the information currently available, the sanctions have no material direct impact on the Group or its operations. Although the Group's operations and activities in Russia and elsewhere are currently continuing as usual, as the geopolitical situation continues to develop, there is a risk of supply chain disruptions affecting K&S's operation, the purchase of mining fleet, inter-bank funding movements, and the development of the Sutara pit. The Company will continue to closely monitor sanctions developments and will, if necessary, make further announcement(s).

CORPORATE AND INDUSTRY UPDATE

Group's Cashflow Position and Loan Facility

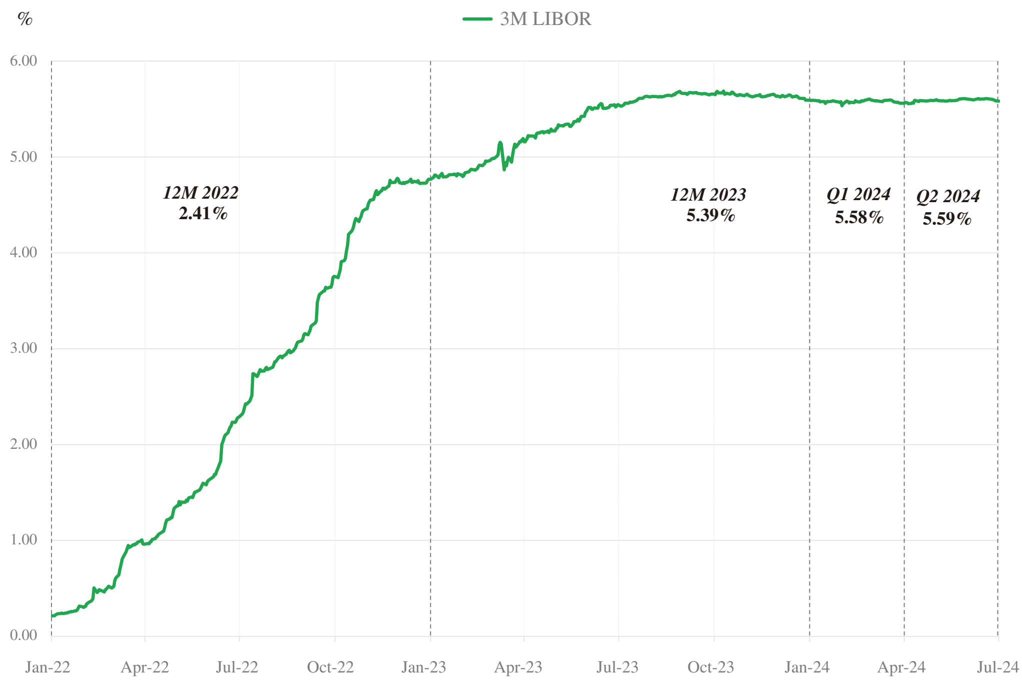
The loan from MIC is to be repaid on a quarterly basis, and the June 2024 repayment instalment of US$4.5 million was due on 20 June 2024. In light of the bank fund transfer issues, MIC had agreed to extend the repayment deadline to 15 August 2024. It is expected that IRC would be able to settle the June 2024 repayment instalment before the extended deadline.

IRC drew down the US$240 million loan facility in 2019 and since then IRC has repaid US$176.7 million and the total debt due to MIC amounted to US$63.3 million as of 30 June 2024, including the June 2024 instalment which will fall due on 15 August 2024 after extension. The repayment profile of the loan is as follows:



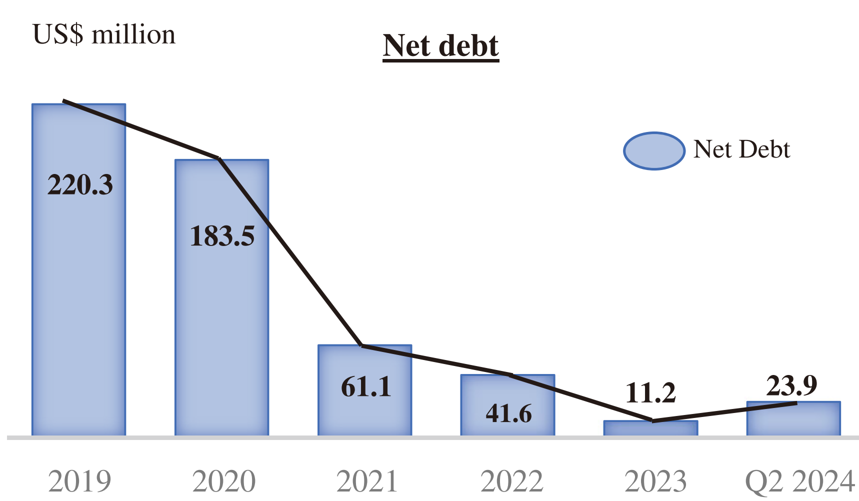
Source: IRC Limited (as of 30 June 2024)

The interest rate of the loan facility is determined based on London Interbank Offered Rate ("**LIBOR**"). The global inflation is pushing interest rate into an aggressive position. The average three-month LIBOR interest rate remained at a high level of 5.59% in Q2 2024 (Q1 2024: 5.58%). Fortunately, the significant reduction in the loan principal has put IRC in a better position to withstand the volatile interest rates. In addition, the loan is no longer being guaranteed, saving the Group from making guarantee fee payments to guarantor.



Source: Bloomberg (as at 30 June 2024)

Cash balance decreased to US$39.4 million (31 March 2024: US$49.8 million) and net debt increased to US$23.9 million (31 March 2024: US$13.4 million). This is mainly because IRC encountered difficulties with bank fund transfers, resulting in delays in receiving sales proceeds from customers. In addition, intra-Group fund transfers faced similar issues. IRC is addressing these issues to minimise their impacts.



Source: IRC Limited (as of 30 June 2024)

2024 Annual General Meeting ("AGM")

The Company's 2024 AGM was held on 26 June 2024 and all the proposed resolutions were duly passed at the AGM.

Amur/Heilongjiang River Bridge

As reported in the Company's previous trading update, the Bridge has commenced operation and more shipments have been made via the Bridge. In Q2 2024, about two-thirds of K&S's shipments were made via the Bridge.

The K&S mine is situated approximately 240 kilometres from the Bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the Bridge. Thus, IRC as well as its customers will benefit from the project with the reduced transportation distance and shipment time. The Bridge can also alleviate the railway congestion of the region. Shipping time to customers in China will be reduced from 3-5 days to 1-3 days.

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

Production volumes disclosed in this announcement are determined net of the excessive moisture content within the products, as shipped to the customers. Production rate of K&S is calculated based on an annual production capacity of approximately 3,155 thousand wet metric tonnes.

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

Hong Kong, People's Republic of China
Friday, 9 August 2024

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

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