

NOTES TO THE 3RD INTERIM FINANCIAL REPORT – 30 SEPTEMBER 2005

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with MASB 26, Interim Financial Reporting and paragraph 9.22 of the Bursa Malaysia Securities Berhad Listing Requirements.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2004. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2004.

The accounting policies and methods of computation used in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2004.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2004 was not qualified.

3. Seasonal or Cyclical Factors

There were no significant seasonal or cyclical factors affecting the business operations of the Group.

4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cashflow because of their nature, size or incidence in the current financial year-to-date.

5. Changes in Estimates

There was no changes in estimates that have had a material effect in the current quarter.

6. Issuance and Repayment of Debt and Equity Securities

There were no issuance and repayment of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter.

7. Dividends

The amount of dividends paid or declared during the financial period ended 30 September 2005 were as follows :

	Net Amount Jan/Sep 2005 RM'000	Net Dividend Per Share Jan/Sep 2005 Sen
2004, Special Interim		
10 sen less tax per share paid on 28.03.05	5,400	7.2
2004, 2nd Interim		
15 sen less tax per share paid on 28.03.05	8,100	10.8
2005, Interim		
15 sen less tax per share paid on 28.09.05	8,100	10.8
	21,600	28.8

8. **Segmental Reporting**

The Company and its principal subsidiaries operate principally within one industry. The segmental reporting by geographical locations for the current financial year-to-date was as follows :-

Geographical Location	Total Assets Employed RM'000	Revenue RM'000	Pre-Tax Profit RM'000
Malaysia	618,922	1,362,332	36,036
Indonesia	402,868	484,384	43,113
Others	62,327	33,780	31,710
	1,084,117	1,880,496	110,859
Consolidation adjustments related to intra group transactions	(357,939)	(539,321)	(36,696)
	726,178	1,341,175	74,163

9. **Property, Plant and Equipment**

The valuation of land and buildings have been brought forward without amendment from the previous audited annual financial statements for the year ended 31 December 2004.

10. **Events subsequent to Balance Sheet Date**

There was no material events subsequent to balance sheet date as at 2 November 2005, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report except as noted under Note 18 and 21.

11. **Changes in the Composition of the Company**

There was no change in the composition of the Company for the current quarter including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

12. Changes in Contingent Liabilities and Contingent Assets

At 2 November 2005, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report, there were no material changes in contingent liabilities or contingent assets since 31 December 2004.

13. Capital Commitments

The amount of capital commitments as 30 September 2005 was as follows :

	30.09.2005 RM'000
Approved but not contracted	-
Contracted but not provided for	2,117
	2,117

14. Related Party Transactions

The following are significant related party transactions :

	9 months ended 30.09.2005 RM'000
Sales to an associate, Redring Solder (M) Sdn Bhd	14,433

The above transactions arose in the normal course of business on arm's length basis.

15. Taxation

Taxation comprises the following :

	9 months ended 30.09.2005 RM'000
Current taxation	
Malaysian income tax	8,097
Foreign tax	13,545
Deferred tax	(1,230)
Associates	264
Total	20,676

The effective tax rate for the current year was lower than the statutory tax rate in Malaysia mainly due to certain incomes accrued not subject to tax.

16. Profit on Sale of Unquoted Investment and/or Property

There was no profit on sale of unquoted investment and/or property for the current quarter.

17. **Purchase and Sale of Quoted Securities**

There was no purchase or sale of quoted securities in the current quarter.

18. **Status of Corporate Proposal**

As announced to Bursa Malaysia on 15 April 2005, the public shareholding spread of the Company had fallen below 10% of its total issued and paid-up share capital at 13 April 2005, subsequent to the unconditional take-over offer by Straits Trading Amalgamated Resources Sdn Bhd (“STAR (M)”), a wholly-owned subsidiary of The Straits Trading Company Limited (“STC”) to acquire 14,849,100 ordinary shares of RM1.00 each in Malaysia Smelting Corporation Berhad (“MSC”). Accordingly pursuant to paragraph 8.15(4) of the Listing Requirements of Bursa Malaysia, trading in MSC shares was suspended on 31 May 2005.

It was further announced to Bursa Malaysia that it is stipulated in the Offer Document that STAR (M) and STC intend to maintain the listing status of MSC and they will explore various options to address the shareholding spread of MSC within three months from 13 April 2005, being the closing date of the offer, or such other time as may be approved by Bursa Malaysia and that any proposal will, however, be subject to STAR (M) and the persons acting in concert retaining an equity interest of more than 50% in MSC.

In relation to this, the Company has been informed that Commerce International Merchant Bankers Berhad, on behalf of STC, that STC had been granted by Securities Commission an extension of up to 31 December 2005, to work with the other substantial shareholder to address the shortfall in the public shareholding spread.

The Company had applied and obtained from Bursa Malaysia an extension of up to 31 December 2005 to comply with the public shareholding spread requirement as was announced by the Company to Bursa Malaysia on 8 August 2005.

19. **Group Borrowings and Debts Securities**

Group borrowings as at 30 September 2005 comprise the following :

	30.09.2005
	RM'000
a) Short Term Borrowings (unsecured)	
Foreign currency trade finance	104,262
Revolving credit	37,570
Bankers' acceptance	156,324
	298,156
Current portion of term loans	12,545
	310,701

	30.09.2005
	RM'000
b) Long Term Borrowings (unsecured)	
Term Loans	9,324
Amount denominated in foreign currency	'000
Foreign currency trade finance (US dollar)	27,751
Revolving credit (US dollar)	10,000
Term loan 1 (US dollar)	3,750
Term loan 2 (Australian dollar)	2,625

Foreign currency trade finance and revolving credit are utilized for working capital requirements involving purchases and sales of tin concentrates and tin metal denominated in US dollar. Term loans are utilized for investments denominated in US dollar and Australian dollar respectively.

Short term borrowings bear interest at rates ranging from 2.96% to 6.50% (2004 : 1.52% to 6.50%) per annum. The US dollar term loan 1 is repayable by 8 semi-annual instalments of USD1.25 million each commencing 5 April 2003 with interest rate at 1% above 3 months Singapore Interbank Offer Rate for US dollar. The Australian dollar term loan 2 is repayable by 8 semi-annual instalments of AUD525,000 each commencing 17 April 2004 with interest rate at 1.15% above 3 months cost of fund for Australian dollar.

20. Financial Instrument with Off Balance Sheet Risk

As at 2 November 2005, the Group had the following outstanding financial instruments :

- a) Forward foreign currency hedging contracts in respect of the Group's sales and purchases of tin :-

Currency	Contract Amount Million	Equiv. Amount RM'000	
USD	2	7,543	Different maturity dates up to November 2005
Indonesian Rupiah	407,466	157,900	Different maturity dates up to February 2007
		165,443	

- b) A cross currency swap contract with a bank for the balance of AUD2.10 million term loan with a USD1.47 million term loan.

21. **Material Litigation**

Outstanding litigations as at 2 November 2005, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report are :

- a) On 2 November 2004, an Originating Summons was filed by a third party (the plaintiff) against the Company and 3 other parties. The Plaintiff had sought inter alia, a declaration that the award for the sale of 97,232,142 ordinary shares of RM1.00 each in Rahman Hydraulic Tin Sdn Bhd (RHT) to the Company pursuant to the open tender process and the subsequent Share Sale Agreement for the RHT shares are null and void.

The Plaintiff also filed an injunction seeking an Order, inter alia, to restrain the Defendants from proceeding with the Share Sale Agreement until the outcome of their Originating Summons is known, alternatively in the event the transfer of shares is perfected, the Company is restrained from dealing and managing the affairs of RHT.

The Plaintiff's Originating Summons and his application for an injunction were dismissed by the High Court of Malaya with costs on the 25 February 2005.

The Plaintiff has filed an Appeal to the Court of Appeal on the 8 March 2005 in respect of the dismissal of the Originating Summons and the injunction. No date has been fixed by the Court of Appeal to date.

- b) At the time of takeover of RHT on 22 November 2004, the following legal suits were pending against RHT :
- i) On 22 August 2002, a Summons in Chambers (ex-parte) was served on RHT and 3 others by a party (the "Plaintiff") for the rejection of its proposal to acquire the mining lease and the related assets of RHT. The Plaintiff's application for Judicial Review was dismissed by the Court with cost and the Plaintiff has filed a Notice of Appeal. No date has been fixed for hearing for the Notice of Appeal.
- ii) On 17 November 2003, a claim by eleven (11) ex-workers for notice pay and retrenchment benefits amounting to RM125,723.40 was made at the Labour Court against RHT. This action has since been dismissed.
- iii) Two former directors of RHT have made a claim for compensation amounting to approximately RM2.4 million pursuant to Service Agreements entered on 31 March 2000 between them and RHT. One of the directors has commenced proceedings in the Industrial Court for wrongful dismissal as the Managing Director. The claim has been dismissed by the Chairman of the Industrial Court. However, the said director has appealed against the decision.

In accordance with the Sale of Shares Agreement dated 1 October 2004 between the vendor of RHT and the Company (the Purchaser), the vendor shall do the necessary to defend and settle all legal suits against RHT in relation to matters occurred prior to completion date, being 22 November 2004 or shall cause these legal suits to be transferred from RHT to the vendor. Accordingly, RHT had made an application to substitute itself with the vendor pursuant to the Workout Proposal dated 19 April 2004.

The case of application by RHT to substitute itself with the vendor is at the time fixed for hearing. It is presently fixed for mention on 14 November 2005 pending filing of Affidavit in Reply by the vendor's solicitors.

- c) 43 employees retrenched by the Company under its manpower rationalization scheme carried out on 31.10.2002, filed appeal with the Jabatan Perhubungan Perusahaan. The case has been referred to the Industrial Court for a decision under Section 20(3) of the Industrial Relations Act 1967.

The Plaintiff were seeking :

- i) reinstatement to their former position without any loss in service and/or seniority;
- ii) backwages in respect of basic wages, annual increments, annual bonus, etc.
- iii) if reinstatement is not in order, compensation for loss of wages from the date of dismissal to the date of the Award together with compensation in lieu of reinstatement at one month's last drawn salary for each year of service.

The Company maintains that it had acted fairly and had not breached any rules or regulations in the implementation of the retrenchment exercise.

The case was scheduled for hearing between 19 to 22 September 2005 but subsequently postponed to a later date in 2006 to be advised by the Registrar.

- d) As announced to Bursa Malaysia on 21 October 2005, the Company received a copy of Writ of Summons together with the Statement of Claim both dated 1 September 2005 from ZR Network Sdn Bhd (ZR) on 10 October 2005.

The Company was alleged to have breached the agreement made with ZR on 16 May 2003 by willfully interfering and preventing the issuance of renewal of mining lease to ZR which caused them to suffer loss. The Statement of Claim seeks compensation for damages amounting to RM45 million or such amount as the Court deemed fit, an interest of 8% p.a. on the judgement sum that remains unpaid after the date of judgement and the cost of litigation as well as any other relief that the Court deems appropriate.

The Company maintains that ZR had failed to perform their part of the Agreement by obtaining the renewal or extension of the Mining Right and lease of the Mining Land from Perak State Authority to and in the name of ZR within the stipulated period and a reasonable extension thereof. This entitled the Company to terminate its agreement with ZR pursuant to clause 8A.1 of the Agreement. In relation to this, the Company had filed an action against a shareholder and director of ZR to recover a sum of RM350,000 paid, being RM250,000 as deposit upon signing of the Agreement and RM100,000 as advance for the balance purchase price.

The Company also strongly refutes the allegation by ZR that it willfully interfered and prevented the issuance of renewal of mining lease to ZR and considers the suit brought against it by ZR as frivolous and vexatious on a number of grounds :

- The Company's agreement with ZR was contingent on a number of condition precedents that, inter alia, required the successful completion of the agreement between ZR and RHT (Special Administrators Appointed). The Special Administrators of RHT terminated their agreement with ZR on 2 June 2004. The Company terminated its Agreement with ZR on 4 August 2004.
- The subsequent acquisition of the RHT by the Company was by way of participation in a sale by open tender, advertised by the Special Administrator and only after the first successful bidder in the tender exercise defaulted.
- Although the acquisition of RHT was completed on 22 November 2004, the mining lease of RHT is not yet renewed.

The Company, after due consultation with its solicitors, is preparing to defend the said action and to possibly counter-claiming against ZR for this litigation which is considered frivolous and vexacious and meant to disparage the good name of the Company.

22. **Material Change in the Quarterly Results as Compared with the Preceding Quarter**

Group pre-tax profit for the third quarter 2005 was RM15.16 million compared with RM25.89 million recorded in the second quarter 2005. The lower pre-tax profit was mainly due to lower profit contribution from Indonesian operations as a result of higher fuel costs and lower tin prices.

23. **Review of Performance of the Company and its Principal Subsidiaries**

Group pre-tax profit for the 9 months period decreased by 20.9% to RM74.16 million compared with RM93.83 million for the corresponding period of the previous year. The Malaysian operations achieved a better performance during the period. However a significantly lower contribution from the Indonesian operations compared with that of the previous corresponding period resulted in an overall reduction in the Group's performance.

No item, transaction or event of a material and unusual nature has arisen which would affect substantially the results of the operations of the Group from the end of the current financial period to the date of this announcement except as noted under Note 21.

24. **Current Year Prospects**

As anticipated in our previous quarter announcement and with the prevailing low tin prices and high fuel costs, the Group's performance for the whole year is expected to be lower than that of the previous year.

25. **Variance of Actual Profit from Forecast Profit (Final Quarter Only)**

Not applicable.

26. **Basic Earnings Per Share**

	9 months ended 30.09.2005
Net profit for the period (RM)	44,488,000
Number of ordinary shares in issue	75,000,000
Basic earnings per share (sen)	59.3

27. **Dividend**

An interim dividend of 15 sen (2004 : 15 sen) per share less 28% tax for the financial year ending 31 December 2005, amounting to RM8.1 million was paid on 28 September 2005,

By Order of the Board
Abdul Rahim Hussain
Secretary

Butterworth
9 November 2005