NOTES TO THE 4th INTERIM FINANCIAL REPORT – 31 DECEMBER 2011

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standard (FRS) 134 'Interim Financial Reporting' issued by the Malaysian Accounting Standards Board (MASB) 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 2010. 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 2010.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010 except for the adoption of the following new FRSs and Interpretations, and amendments to certain FRSs and Interpretations:

Effective for financial periods beginning on or after 1 March 2010
Amendments to FRS 132: Classification of Right Issues

Effective for financial periods beginning on or after 1 July 2010
FRS 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
Amendments to FRS 2 Share-based Payment
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 127 Consolidated and Separate Financial Statements
Amendments to FRS 138 Intangible Assets
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
IC Interpretation 12 Service Concession Arrangements
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non-cash Assets to Owners

Effective for financial periods beginning on or after 31 December 2010
Technical Release 3 Guidance on Disclosures of Transition to IFRSs

Effective for financial periods beginning on or after 1 January 2011
Additional Exemption for First-time Adopters (Amendments to FRS 1)
Amendments to FRS 1 [Improvements to FRSs (2010)]
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)
Amendments to FRS 3 [Improvements to FRSs (2010)]
Amendments to FRS 7: Improving Disclosures about Financial Instruments
Amendments to FRS 7 [Improvements to FRSs (2010)]

Amendments to FRS 101 [Improvements to FRSs (2010)]
Amendments to FRS 121 [Improvements to FRSs (2010)]
Amendments to FRS 128 [Improvements to FRSs (2010)]
Amendments to FRS 131 [Improvements to FRSs (2010)]
Amendments to FRS 132 [Improvements to FRSs (2010)]
Amendments to FRS 134 [Improvements to FRSs (2010)]
Amendments to FRS 139 [Improvements to FRSs (2010)]
Amendments to IC Interpretation 13 [Improvements to FRSs (2010)]
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
IC Interpretation 4 Determining whether an Arrangement contains a Lease
IC Interpretation 18 Transfers of Assets from Customers

Adoption of the above standards and interpretations did not have material impact on the financial statements, except for the changes in accounting policies arising from the adoption of the revised FRS 3, the amendments to FRS 127, as well as the new disclosures required under the Amendments to FRS 7, as described below.

Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in the accounting for business combinations occurring after 1 July 2010. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The Amendments to FRS 127 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments have been made to FRS 107 Statement of Cash Flows, FRS 112 Income Taxes, FRS 121 The Effects of Changes in Foreign Exchange Rates, FRS 128 Investments in Associates and FRS 131 Interests in Joint Ventures. The changes from revised FRS 3 and Amendments to FRS 127 will affect future acquisitions or loss of control and transactions with minority interests.

Malaysian Financial Reporting Standards (MFRS)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the financial position as at 1 January 2012 to amounts reflecting the application of MFRS Framework.

The Group has assessed the differences between FRS and accounting standards under the MFRS Framework and has assessed the financial effects of the differences. The Group expects that the adoption of MFRS will have no material impact on the financial statements in the period of initial application, except as discussed below.

MFRS 1 First-Time Adoption of Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain MFRS.

The Group has elected to deem cumulative foreign currency translation differences in respect of all foreign operations to be zero at the date of transition to MFRS. Estimated impact as follow:

Statement of financial position

Reconciliation of equity as at 1 January 2011 (date of transition to MFRS)

	Note	**FRS as at 1 Jan 2011**	**Remeasurements**	**MFRS as at 1 Jan 2011**
		RM'000	**RM'000**	**RM'000**
Other reserves	a	(6,883)	28,067	21,184
Retained earnings	a	199,940	(28,067)	171,873

Reconciliation of equity as at 31 December 2011

	Note	**FRS as at 31 Dec 2011**	**Remeasurements**	**MFRS as at 31 Dec 2011**
		RM'000	**RM'000**	**RM'000**
Other reserves	a	77,445	28,067	105,512
Retained earnings	a	249,301	(28,067)	221,234

Note a – Foreign currency translation reserve
Under FRS, the Group recognised translation differences on foreign operations in a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be zero as the date of transition to MFRS. The resulting adjustment was recognised against retained earnings.

3. **Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the financial statements for the year ended 31 December 2010 was not qualified.

4. **Seasonal or Cyclical Factors**

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

5. **Profit/(Loss) before unusual items**

The following items have been included in arriving at the profit/(loss) before unusual items:

	4th Qtr ended 31.12.2011 RM'000	Year to date ended 31.12.2011 RM'000
After charging and (crediting):		
Depreciation and amortization	14,649	43,566
Provision for and write off of receivables	9,790	22,279
Provision for mine rehabilitation	773	18,247
Impairment of investment securities	5	29
Net foreign exchange loss	8,889	5,669
(Gain) on disposal of property	(2)	(2)
Fair value loss/(gain) in derivatives	(744)	(1)
Other income including investment income	(1,518)	(8,037)

6. **Unusual Items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flow because of their nature, size or incidence for the current financial year-to-date except for following:

		4th Qtr ended 31.12.2011 RM'000	Year to date ended 31.12.2011 RM'000	4th Qtr ended 31.12.2010 RM'000	Year to date ended 31.12.2010 RM'000
a.	Loss on disposal and impairment for investment in BCD Resources NL	-	-	17,351	47,062
b.	Impairment provision for investment in Guilin Hinwei Tin Co. Ltd	2,000	2,000	1,800	8,800
c.	Impairment provision for investment in Asian Mineral Resources Limited	6,442	6,442	13,023	58,127
d.	Impairment provision for mining asset	-	-	21,726	56,357
e.	Impairment provision for goodwill arising from acquisition of subsidiaries	-	-	-	5,188
f.	Gain on disposal of investment in PT Tenaga Anugerah	-	-	(21,056)	(21,056)
g.	(Gain)/Loss on disposal of disposal group classified as held for sale	(222)	254	-	-
h.	Impairment provision for investment in TMR Ltd	16,602	16,602	-	-
	Net	24,822	25,298	32,844	154,478

The unusual items included in the 4th quarter 2011 were mainly impairment provisions for investments in nickel development and tin mining assets as a result of depressed metal prices and less encouraging market outlook.

7. Changes in Estimates

There were no changes in estimates that have had a material effect for the current financial year-to-date.

8. 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 financial year-to-date other than issuance of 25 million new ordinary shares of the Company (MSC) as described below:

- On 26 January 2011, a total of 25,000,000 new ordinary shares of MSC were allotted and issued. This resulted in the increase of the enlarged issued and paid-up share capital of MSC to RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each in conjunction with the secondary listing of the Company's shares in Singapore Exchange Securities Trading Limited (SGX-ST). On 27 January 2011, the secondary listing was completed following the listing of and quotation for the entire enlarged issued and paid-up share capital of MSC of RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each on the Main Board of SGX-ST.

9. Dividend Paid

The amount of dividend paid or declared during the current financial year-to-date were as follows:

	Net Amount Jan/ Dec 2011 RM'000	Net Dividend Per Share Jan/Dec 2011 Sen
2010 Final		
3 sen less 25% tax per share paid on 12.05.2011	2,250	2.25
2011 Interim		
12 sen less 25% tax per share paid on 28.09.2011	9,000	9.00
Total	11,250	11.25

10. Segmental Reporting

The Company and its principal subsidiaries operate principally within the tin industry in two business segments, namely tin smelting and tin mining.

The segmental reporting for the current financial year-to-date was as follows:

	Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations) / Adjustments RM'000	Total RM'000
Revenue					
Sales to external customers	3,091,298	7,251	2	-	3,098,551
Inter-segment sales	-	652,676	1,796	(654,472)	-
Total revenue	**3,091,298**	**659,927**	**1,798**	**(654,472)**	**3,098,551**
Results					
Profit/(Loss) from operations	83,976	30,269	(1,483)	3,026	115,788
Finance costs	(12,974)	(6,321)	(4,755)	-	(24,050)
Share of profit/(loss) of associates and jointly controlled entity	(817)	-	25,509	-	24,692
Profit before unusual items	70,185	23,948	19,271	3,026	116,430
Unusual items	(2,000)	-	(23,298)	-	(25,298)
Profit before tax	68,185	23,948	(4,027)	3,026	91,132
Income tax expense	(13,884)	(19,557)	(279)	(756)	(34,476)
Profit, net of tax	**54,301**	**4,391**	**(4,306)**	**2,270**	**56,656**

	Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations) / Adjustments RM'000	Total RM'000
Assets					
Segment assets	638,731	458,884	895	(1,107)	1,097,403
Investment in associates and jointly controlled entity	2,475	-	171,706	-	174,181
Total assets	**641,206**	**458,884**	**172,601**	**(1,107)**	**1,271,584**
Liabilities					
Segment liabilities	**574,505**	**234,212**	**1,019**	**(449)**	**809,287**

11. **Property, Plant and Equipment**

The same valuation of land and buildings has been brought forward from the previous audited annual financial statements for the year ended 31 December 2010.

12. **Subsequent Events**

There was no material event subsequent to end of the current quarter up to 17 February 2012, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report.

13. **Changes in the Composition of the Group**

There was no change in the composition of the Group during the current financial year-to-date including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations, except for the following:

- On 7 January 2011, the Company did not exercise its warrants in Asian Mineral Resources Limited ("AMR") resulting in its shareholding in AMR being diluted from 18.22% to 15.42%.
- On 22 June 2011, the Company disposed of its entire 76.91% interest in Australia Oriental Minerals NL (AOM), a company listed on Australian Securities Exchange, comprising a total of 1,677,545,461 ordinary shares at A$0.0016 per share. With this disposal, AOM ceased to be a subsidiary of the Company and Asiatic Coal Pte Ltd, an indirect subsidiary, also ceased to be a subsidiary following the dilution of its effective interest from 53.07% to 30.0%.
- On 2 November 2011, the Company disposed of its entire 30.0% interest in Asiatic Coal Pte. Ltd, which was previously classified as a disposal group held for sale earlier.

14. **Changes in Contingent Liabilities and Contingent Assets**

Since the last annual reporting date, there was no new development on the outstanding contingent liabilities or contingent assets as at 17 February 2012, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

15. **Capital Commitments**

The amount of capital commitments at 31 December 2011 was as follows:

	31.12.2011 RM'000
Approved but not contracted for	632
Contracted but not provided for	16,697
	17,329

16. **Related Party Transactions**

The following are significant related party transactions :

	12 months ended 31.12.2011 RM'000
Sales of products to an associate	52,705

The above transactions were entered in the normal course of business and were established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

17. **Taxation**

Taxation comprises the following:

	12 months ended 31.12.2011 RM'000
Current taxation	
Malaysian income tax	31,671
Foreign tax	3,222
Deferred tax	(5,845)
Under provision in prior years	5,428
Total	34,476

The overall effective tax rate for the current period was higher than the statutory tax rate in Malaysia mainly due to higher tax rate in an overseas subsidiary and certain non-tax deductible expenses as well as losses incurred by certain subsidiaries which cannot be set off against taxable profits made by other companies within the Group.

Certain companies in the Group are subjected to ongoing income tax audits by the income tax authorities. The income tax expense for the current period does not include any potential tax adjustments which may arise upon the outcome of such tax audits.

18. **Sale of Unquoted Investment and/or Property**

There was no sale of unquoted investment and/or property for the 4th quarter 2011, except as disclosed in Note 13.

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

There was no purchase or sale of quoted securities in the 4th quarter 2011.

20. **Status of Corporate Proposal**

There was no corporate proposal announced but not completed as at 17 February 2012, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report, except for the following:-

a. On 29 October 2007, the Company announced that it had entered into a Joint Venture Contract with Guangxi Guilin Jinwei Realty Co Ltd (GGJR) and Vertex Metals Incorporation to establish a joint venture company named Guilin Hinwei Tin Co. Ltd, for smelting and refining of tin, and the production and sale of tin and tin-based products in the People's Republic of China. GGJR has difficulties in fulfilling certain obligations within the specific time frame and the Group had made an impairment provision totalling RM10.8 million as at 31 December 2011.

b. On 27 January 2011, the secondary listing of the Company was completed following the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company of RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each on the Main Board of Singapore Exchange Securities Trading Limited (SGX-ST).

The status of utilisation of proceeds from the public issue of 25,000,000 new ordinary shares of the Company as at 31 December 2011 was:

Purpose	Proposed utilisation RM mil	Actual utilisation RM mil	Expected Timeframe for utilisation
Expansion of mining and smelting operations	19.69	13.45	One (1) year (by Feb 2012)
Development of new mines through selective acquisitions of suitable mining concessions or leases, mining projects and assets in Malaysia, Indonesia and other countries	62.3	-	Three (3) years (by Feb 2014)
General working capital	13.34	13.34	One (1) year (by Feb 2012)
Estimated expenses in relation to the public issue and secondary listing	8.86	8.68	One (1) year (by Feb 2012)
Total	104.19	35.47	

In the prospectus dated 21 January 2011 issued in conjunction with the secondary listing of the Company on the Singapore Exchange Securities Trading Limited, it was stated that the MSC Group intends to pursue its growth strategy in its tin business through the selective acquisition of suitable mining concessions or leases, as well as mining projects in Malaysia, Indonesia and other countries. The Group will continue to monitor investment opportunities in other countries and it may in future decide to invest in selective projects in such countries that meet its investment criteria.

Development activities in this direction are currently on-going.

Investments in mining projects require long term commitments due to high capital outlay, and long lead time before earnings and positive cash flows could be generated. Equity funding is normally the preferred avenue for raising long term funds for such capital investments in such volatile market conditions. From time to time, the Group will consider various funding options to further strengthen its capital base to fund any significant cash requirements for the Group's long term growth and expansion in its tin business.

21. Group Borrowings and Debts Securities

Group borrowings as at 31 December 2011 comprise the following :

	31.12.2011 RM'000
a) Short Term Borrowings (unsecured)	
Revolving credit	28,553
Foreign currency trade finance	73,919
Bankers' acceptances	376,403
	478,875
Current portion of long term borrowings	46,508
	525,383

	31.12.2011 RM'000
b) Long Term Borrowings (unsecured)	
Term loans	14,276
Revolving credit	23,794
	38,070

Amount denominated in foreign currency	**'000**
Foreign currency trade finance (US dollar)	23,300
Revolving credits (US dollar)	21,500
Term loans (US dollar)	14,160

Foreign currency trade finance is utilized for working capital requirements involving purchases and sales of tin concentrates and tin metal denominated in US dollar.

Short term borrowings bear interest at rates ranging from 0.95% to 4.11% (2010: 1.06% to 4.15%) per annum for the Company and 0.95% to 4.11% (2010: 1.06% to 4.15%) per annum for the Group.

The long term borrowings bear interest at rates of between 0.85% to 1.00% above banks' cost of funds and are repayable by quarterly and semi-annual installments.

22. **Derivative Financial Instruments**

As at 31 December 2011, the Group had the following outstanding derivative financial instruments:-

Derivatives	Contract/ Notional Value RM'000	Fair Value RM'000	Fair Value Gain/(Loss) - Net of Tax RM'000
i) Interest Rate Swap contract - 1 to 3 years	44,294	43,429	(649)
ii) Foreign Currency Forward Contracts - Less than 1 year	149,326	149,744	(314)

The interest rate swap contract and foreign currency forward contracts are all entered for hedging purposes.

During the current financial year-to-date, the Group has recognised a fair value gain net of tax of RM1,000 in its income statement.

23. **Material Litigation**

Since 31 December 2010, there was no new development on the outstanding material litigations as at 17 February 2012, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

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

The Group recorded a pre-tax loss of RM35.12 million before unusual items in 4th quarter 2011 compared with a profit of RM51.9 million achieved in the preceding quarter.

Both the smelting business and the tin mining operations in Malaysia earned satisfactory profits in the 4th quarter of 2011. However these profits were more than off-set by the losses incurred by Koba Tin's operations in Indonesia. Koba Tin's results were adversely affected by lower sales and production as a result of unexpected development over the shipment of tin metals during the 4th quarter period when the Indonesian Tin Association imposed a tin export moratorium on shipment of tin metal from Bangka Island effective from 1st October 2011. Further, lower tin prices and higher unit cost of sales/production compounded by the low volume of production resulted in significant operating losses. Average tin market price in the 4^{th} quarter 2011 was USD20,800 per tonne as compared to USD24,700 per tonne in 3rd quarter 2011.

Although an application for a further extension of 10 years to 2023 has been submitted by Koba Tin to renew its COW which is due to expire on 31 March 2013, on the ground of prudence, Koba Tin decided to make an additional provision for mine closure and reclamation/ rehabilitation costs and other impairments. These increased further Koba Tin's losses.

25. Review of Performance of the Company and its Principal Subsidiaries

Group revenue decreased by 19.3% to RM601.0 million in 4^{th} quarter 2011 from RM744.6 million for the previous corresponding quarter. This was mainly due to lower tin prices and lower sales volume in 4^{th} quarter 2011. Average market tin price for 4^{th} quarter 2011 was USD20,800 per tonne compared with USD25,900 per tonne in 4^{th} quarter 2010.

The Group recorded a pre-tax loss of RM35.12 million before unusual items in 4th quarter 2011, compared with pre-tax profit of RM8.46 million before unusual items for the previous year corresponding quarter, mainly due to reasons stated in Note 24.

Group revenue increased by 13.1% to RM3.10 billion for the year ended 31 December 2011 from RM2.74 billion for the previous corresponding year. This was mainly contributed by higher tin prices. Average market tin price for year 2011 was USD26,100 per tonne compared with USD20,400 per tonne in year 2010.

Despite the losses incurred in the 4^{th} quarter 2011, the Group recorded a 53.2% higher pre-tax profit of RM116.43 million before unusual items for the year ended 31 December 2011, compared with RM76.02 million recorded in the previous corresponding year. This was mainly contributed by higher profits from both its mining and smelting operations in Malaysia due to improved operating performance as well as higher tin prices. Higher share of profit from a jointly controlled entity, KM Resources Inc. also contributed to the higher group profit.

26. Current Year Prospects

The operating environment is expected to continue to be difficult and challenging due to weaker demand for commodities arising from the prevailing global economic uncertainties including sovereign debt concerns in Europe. Nonetheless, subject to the renewal of Koba Tin's COW in Indonesia the Board expects the Group's operating performance for the current year to be profitable.

27. Basic Earnings/ (Loss) Per Share

	12 months ended 31.12.2011
Profit attributable to equity holders of the Company (RM'000)	60,523
Weighted average number of ordinary shares in issue ('000)	98,288
Basic earnings per share (sen)	61.6

28. Realised and Unrealised Profits/Losses

	Current Quarter Ended 31.12.2011 RM'0000	Preceding Quarter Ended 30.09.2011 RM'0000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- Realised	219,839	278,381
- Unrealised	19,661	21,969
	239,500	300,350
Total share of retained profits/(accumulated losses) from associated companies:		
- Realised	(7,842)	(7,451)
- Unrealised	(246)	(246)
Total share of retained profits/(accumulated losses) from jointly controlled entity:		
- Realised	38,452	36,568
- Unrealised	(249)	(128)
	269,615	329,093
Add: Consolidation adjustments	(20,314)	(34,014)
Retained profits as per financial statements	249,301	295,079

29. **Dividend Payable**

The Directors recommend the payment of a final dividend of 18 sen per ordinary share less 25% tax (2010: 3 sen) amounting to RM 13.5 million (2010: RM2.25 million) subject to the approval of the members at the forthcoming Annual General Meeting of the Company.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
23 February 2012