

NOTES TO THE 2nd INTERIM FINANCIAL REPORT – 30 JUNE 2012

1. Basis of Preparation

This condensed consolidated interim financial statements (Condensed Report) has been prepared in accordance with *MFRS 134: Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This Condensed Report also complies with *IAS 34: Interim Financial Reporting* issued by the International Accounting Standards Board (IASB). For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (FRSs).

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 31 December 2012. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. The impact of the transition from FRS to MFRS is described in Note 2 below.

2. Significant Accounting Policies

Application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing this Condensed Report are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

(a) Foreign currency translation reserve

Under FRS, the Group recognised translation differences on foreign operations as a separate component of equity. MFRS 1 provides the optional exemption that cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS.

Accordingly, at the date of transition to MFRS, the cumulative foreign currency translation differences of RM28,067,000 (30 June 2011: RM28,067,000) were adjusted to retained earnings.

(b) Employee benefits

Under FRS, actuarial gains and losses outside a pre-determined range

(referred to as the corridor) are recognised in profit or loss in future periods over the expected average remaining working lives of the employees participating in the plan. Actuarial gains and losses within the corridor need not be recognized although the entity may choose to recognise it.

MFRS 1 provides the optional exemption to recognise all cumulative actuarial gains and losses at the date of transition.

Accordingly, at the date of transition to MFRS, the cumulative actuarial losses of RM10,257,000 (30 June 2011: RM10,257,000) were adjusted to retained earnings and non-controlling interests.

The reconciliation of equity for comparative period is provided below:

Reconciliation of equity as at 30 June 2011

	FRS as at 30.06.2011 RM'000	Note 2(a) Foreign currency translation reserve RM'000	Note 2(b) Employee benefits RM'000	MFRS as at 30.06.2011 RM'000
Non-current liabilities				
Provisions	31,251	-	10,257	41,508
Equity				
Other reserves	(9,302)	28,067	-	18,765
Retained earnings	262,267	(28,067)	(7,693)	226,507
Non-controlling interests	43,149	-	(2,564)	40,585

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

The auditors' report on the financial statements for the year ended 31 December 2011 was not qualified.

4. **Seasonal or Cyclical Factors**

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

5. **Loss Before Unusual Items**

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

	2nd Qtr ended 30.06.2012 RM'000	Year to date ended 30.06.2012 RM'000
After charging and (crediting):		
Depreciation and amortization	12,601	19,044
Impairment and write off of receivables	-	14
Inventories write down	38,531	38,586
Property, plant and equipment written down	86	86
Impairment of investment securities	6	12
Deferred exploration and evaluation expenditure written-off	-	1,190
Loss arising from cessation of significant influence in a former associate	-	975
Net foreign exchange loss	4,004	63
Fair value loss in derivatives	520	559
Other income including investment income	(1,384)	(3,181)
Provision for mine rehabilitation	1,621	1,621
Gain on disposal of property, plant and equipment	-	(550)

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 other than impairment provision for investment in Guilin Hinwei Tin Co Ltd. amounting to RM2.073 million.

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.

9. Dividend Paid

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

	Net Amount Jan/ June 2012 RM'000	Net Dividend Per Share Jan/June 2012 Sen
2011 Final		
18 sen less 25% tax per share paid on 8 June 2012	13,500	13.5

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:

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations) / Adjustments RM'000	Total RM'000
Revenue					
Sales to external customers	1,260,891	54,795	1	-	1,315,687
Inter-segment sales	-	134,544	900	(135,444)	-
Total revenue	1,260,891	189,339	901	(135,444)	1,315,687
Results					
Profit/(Loss) from operations	26,534	(82,135)	(566)	204	(55,963)
Finance costs	(5,914)	(1,401)	(1,744)	-	(9,059)
Share of profit/(loss) of associates and jointly controlled entity	(348)	-	(910)	-	(1,258)
Profit/(Loss) before unusual items	20,272	(83,536)	(3,220)	204	(66,280)
Unusual items	(2,073)	-	-	-	(2,073)
Profit/(Loss) before tax	18,199	(83,536)	(3,220)	204	(68,353)
Income tax expense	(5,464)	13,678	(101)	(51)	8,062
Profit/(Loss), net of tax	12,735	(69,858)	(3,321)	153	(60,291)
Assets					
Segment assets	519,172	455,482	9,377	(951)	983,080
Investment in associates and jointly controlled entity	1,273	-	167,068	-	168,341
Total assets	520,445	455,482	176,445	(951)	1,151,421
Liabilities					
Segment liabilities	522,478	245,735	918	(449)	768,682

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 2011.

12. **Subsequent Events**

There was no material event subsequent to end of the current quarter up to 2 August 2012, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report except as stated in Note 18c.

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:

- a. Asian Mineral Resources Limited (“AMR”) which the Company currently holds 15.4% equity interest, ceased to be an associated company and becomes a simple investment, following the cessation of significant influence after the resignation of the Company’s representatives from the Board of AMR in March 2012.
- b. On 5 June 2012, the Company announced that it has entered into a Sales and Purchase Agreement (“SPA”) for a 40% stake in Africa Smelting Corporation Sprl (ASC) for USD400,000. ASC is a private limited company incorporated in Democratic Republic of Congo (DRC) to own and operate a tin smelting facility in Lubumbashi, Katanga, DRC with an issued capital of 1,000 shares of USD1,000 each. ASC became a 40% owned associated company in 2nd quarter 2012.

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 2 August 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 30 June 2012 was as follows:

	30.06.2012 RM'000
Approved but not contracted for	1,118
Contracted but not provided for	15,326
	16,444

16. **Related Party Transactions**

The following are significant related party transactions :

	6 months ended 30.06.2012 RM'000
Sales of products to an associate	22,731

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. **Income Tax Expense**

Income tax expense comprises the following:

	6 months ended 30.06.2012 RM'000
Current taxation	
Malaysian income tax	11,090
Foreign tax	-
Over provision in prior years	(17,937)
Deferred tax	(1,215)
Total	(8,062)

The overall effective tax rate for the current period was lower than the statutory tax rate in Malaysia mainly due to an overprovision of taxation in prior years of a foreign subsidiary.

18. Status of Corporate Proposal

There was no corporate proposal announced but not completed as at 2 August 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 a full impairment provision totalling RM12.9 million reducing the book carrying amount of the investment to nil as at 30 June 2012.
- 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 30 June 2012 was:

Purpose	Proposed utilisation RM mil	Actual utilisation RM mil	Expected Timeframe for utilisation
Expansion of mining and smelting operations	19.69	19.69	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	62.30	-	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	8.69	One (1) year (by Feb 2012)
Total	104.19	41.72	

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.

- c. On 9 March 2012, the Company announced that it has entered into a strategic alliance agreement (“SAA”) with Optima Synergy Resources Limited (“OSRL”) that would allow the latter to immediately subscribe up to 479,833,766 shares of USD0.01 each equivalent to 23% equity interest in Bemban Corporation Limited (“BCL”), the penultimate holding company of PT Koba Tin (“PT Koba”).

Among others, the objectives and purposes of the SAA are as follows:

- (i) Facilitating greater local Indonesian participation in PT Koba by way of increased equity ownership and management through an Indonesian affiliate company of OSRL;
- (ii) Securing the PT Koba Contract of Work (“CoW”) extension or new mining permits over the existing CoW area for 10 years up to 31 March 2023 through joint effort of OSRL and MSC;
- (iii) Enabling BCL and operating companies to expand their businesses through performance improvement and value enhancement as well as through acquisition of additional mining permits for long term sustainable operations in Indonesia.

Upon renewal of PT Koba CoW, OSRL will be able to increase up to 50% equity interest in BCL through subscription of additional 1,126,566,234 shares of USD0.01 each subject to fulfillment of certain conditions precedent stipulated in the SAA.

On 4 July 2012, the Company further announced that an addendum agreement to the SAA was made in view of the latest developments at PT Koba in Indonesia.

It was proposed that OSRL shareholding in BCL be increased from 50% to 60% by way of a single subscription of shares. The OSRL subscription for the 60% shareholding in BCL will only become effective upon PT Koba obtaining the approval for the CoW extension.

In the event the CoW is not renewed, the Group would review the following Group assets in Indonesia and, to the extent required, make such provisions and adjustments as are appropriate:

- (a) The plant and equipment used in its mine;
- (b) Its deferred mine exploration and evaluation expenditure;
- (c) Its deferred mine development expenditure; and
- (d) Its deferred tax assets

19. Interest-Bearing Loans and Borrowings

Group borrowings as at 30 June 2012 comprise the following :

	30.06.2012
	RM'000
a) Short Term Borrowings (unsecured)	
Bank overdraft	3,093
Revolving credit	54,340
Foreign currency trade finance	98,923
Bankers' acceptances	297,888
	454,244
Current portion of long term borrowings	44,751
	498,995

	30.06.2012
	RM'000
b) Long Term Borrowings (unsecured)	
Term loans	-
Revolving credit	15,983
	15,983

Amount denominated in foreign currency	'000
Bank overdraft (US dollar)	968
Foreign currency trade finance (US dollar)	30,947
Revolving credits (US dollar)	27,000
Term loans (US dollar)	9,000

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 1.05% to 4.05% (2011: 0.95% to 4.08%) per annum for the Group and the Company.

The long term borrowings which are repayable by quarterly and semi-annual installments bear interest at rates of between 2.65% to 2.72% (2011: 1.90% to 4.65%) per annum for the Company and 2.65% to 3.82% (2011: 1.90% to 4.65%) per annum for the Group.

20. Derivative Financial Instruments

As at 30 June 2012, 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	43,660	(476)
ii) Foreign Currency Forward Contracts - Less than 1 year	133,237	134,413	(881)
iii) Tin Forward Sale Contracts - Less than 1 year	2,647	2,691	(34)

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

During the current financial year-to-date, the Group has recognised a fair value loss net of tax of RM419,000 in its income statement.

21. Changes in Material Litigation

Since 31 December 2011, there was no new development on the outstanding material litigations as at 2 August 2012, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

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

The Group recorded a pre-tax loss of RM74.98 million before unusual items in 2Q 2012 compared with a profit of RM8.70 million in the preceding quarter.

Tin prices continued to fall in 2Q with average price registering about 10% lower from 1Q level resulting in higher operating losses to tin mining operations at PT Koba. Units with higher operating costs have ceased operations with consequent 50% fall in PT Koba's production in 2Q.

The Butterworth international tin smelting operations also had a difficult 2Q and incurred a marginal loss due to lower volume and processing of some slow-moving lower grade tin slags. Although tin mining operations at Rahman Hydraulic continued to be profitable lower tin prices also affected its results in 2Q.

The short term outlook for tin and other commodities is not encouraging due to slower demand in China and other industrial economies compounded by the economic recession in Europe. The current prevailing prices have fallen by 30% to below RM18,000 per tonne compared with an average price of RM26,100 in 2011. Consequently the Group made an impairment charge totalling RM38.5 million against the carrying value of the Group's tin inventory during the 2Q.

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

Current Quarter 2Q 2012

Group revenue decreased by 36.2% to RM543.8 million in 2Q 2012 from RM852.6 million in the corresponding quarter of 2011 on the back of lower tin prices and lower volume. Average market tin price for 2Q 2012 fell by 28.7% to USD20,600 per tonne compared with USD28,900 per tonne in 2Q 2011.

The Group recorded a pre-tax loss of RM74.98 million before unusual items in 2Q 2012 compared with a pre-tax profit of RM53.35 million for the previous corresponding quarter mainly due to reasons stated in the preceding Note 22.

PT Koba reported a loss of RM68.85 million in 2Q 2012 compared with a profit of RM11.59 million in the previous corresponding quarter. The loss included a write down of RM33.0 million on the carrying value of tin inventory. Additional provision was also made on depreciation and amortisation of deferred expenditures.

Despite an improvement in mine production, lower prices also affected Rahman Hydraulic Tin, Perak which recorded a lower pre-tax profit of RM 5.94 million compared with RM17.16 in 2Q 2011.

The Butterworth international tin smelting operations incurred a loss of RM9.57 million before unusual items in 2Q 2012 compared with a profit of RM12.58 million in 2Q 2011. The loss included a write down of RM5.5 million on tin stocks

and a net foreign exchange loss of 4.0 million due to the weakness of Ringgit Malaysia.

The associates and jointly controlled entity reported a net loss on RM1.53 million in 2Q 2012 compared with net profits of RM17.86 in 2Q 2011, also due to lower prices and production

Current Financial Year-to-date

Group revenue fell by 17.3% to RM1.32 billion in the 6 months (1H) of the current financial period from RM1.59 billion in the previous corresponding period. Average market tin price in the 1H was USD 21,700 per tonne or 26.2% lower compared with USD 29,400 per tonne in 1H 2011.

The Group recorded a loss of RM66.28 million before unusual items in 1H 2012 compared with a pre-tax profit of RM99.17 million in 1H 2011. The loss was mainly due to a loss of RM97.01 million incurred by PT Koba compared with a profit of RM36.91 million in 1H 2011 due to reasons stated above.

Both the Butterworth international smelting operations and Rahman Hydraulic Tin reported a lower profit of RM20.27 million and RM15.99 million before unusual items compared with profit of RM26.19 million and RM33.52 million respectively in 1H 2011 due to reasons stated above.

The associates and jointly controlled entity also reported a net loss of RM1.26 million in 1H 2012 compared with a net profit of RM20.41 million in 1 H 2011.

24. Current Year Prospects

PT Koba is evaluating various options to minimize its losses and will implement appropriate remedial measures in the current third quarter. However, return to profitability will very much depend on tin prices and subject to the renewal of CoW.

For the Group as a whole, the operating environment continues to be difficult and challenging due to weaker demand and lower prices for commodities arising from the prevailing global economic uncertainties including sovereign debt concerns and economic recession in Europe.

25. **Earnings/(Loss) Per Share**

	6 months ended 30.06.2012	6 months ended 30.06.2011
(Loss)/Profit attributable to equity holders of the Company (RM'000)	(40,539)	64,577
Weighted average number of ordinary shares in issue ('000)	100,000	96,547
Basic (loss)/earnings per share (sen)	(40.5)	66.9

26. **Realised and Unrealised Profits/Losses**

	Current Quarter Ended 30.06.2012 RM'0000	Preceding Quarter Ended 31.03.2012 RM'0000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- Realised	146,719	219,209
- Unrealised	(6,778)	(9,529)
	139,941	209,680
Total share of accumulated losses from associated companies:		
- Realised	(7,408)	(7,591)
- Unrealised	250	122
Total share of retained profits/(accumulated losses) from jointly controlled entity:		
- Realised	36,568	38,402
- Unrealised	(11,728)	(11,718)
	157,623	228,895
Add: Consolidation adjustments	1,879	(9,681)
Retained profits as per financial statements	159,502	219,214

By Order of the Board
Sharifah Faridah Abdul Rasheed
Secretary

Kuala Lumpur
8 August 2012