NOTES TO THE 3rd INTERIM FINANCIAL REPORT – 30 SEPTEMBER 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 September 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 September 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 September 2011

	FRS as at 30.09.2011 RM'000	Note 2(a) Foreign currency translation reserve RM'000	Note 2(b) Employee benefits RM'000	MFRS as at 30.09.2011 RM'000
Non-current liabilities				
Provisions	38,520	-	10,257	48,777
Equity				
Other reserves	(11,789)	28,067	-	16,278
Retained earnings	295,079	(28,067)	(7,693)	259,319
Non-controlling interests	45,852	-	(2,564)	43,288

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. **Profit/(Loss) Before Unusual Items**

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

	3rd Qtr ended 30.09.2012 RM'000	Year to date ended 30.09.2012 RM'000
After charging and (crediting):		
Depreciation and amortization	8,200	27,244
Impairment and write off of receivables	1,571	1,585
Inventories valuation (gain)/loss	(17,757)	20,829
Property, plant and equipment written down	-	86
Impairment of investment securities	-	12
Deferred exploration and evaluation expenditure written-off	4,296	5,486
Loss arising from cessation of significant influence in a former associate	-	975
Net foreign exchange gain	(1,147)	(1,084)
Fair value gain in derivatives	(1,794)	(1,235)
Other income including investment income	(506)	(3,687)
Provision for mine rehabilitation	1,574	3,195
Gain on disposal of property, plant and equipment	(9)	(559)

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/Sept 2012 RM'000	**Net Dividend Per Share Jan/Sept 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	1,750,103	7,166	5	-	1,757,274
Inter-segment sales	-	232,935	1,349	(234,284)	-
Total revenue	**1,750,103**	**240,101**	**1,354**	**(234,284)**	**1,757,274**
Results					
Profit/(Loss) from operations	51,122	(103,950)	(498)	(234)	(53,560)
Finance costs	(8,409)	(2,128)	(2,342)	-	(12,879)
Share of profit/(loss) of associates and jointly controlled entity	(349)	-	1,501	-	1,152
Profit/(Loss) before unusual items	42,364	(106,078)	(1,339)	(234)	(65,287)
Unusual items	(2,073)	-	-	-	(2,073)
Profit/(Loss) before tax	40,291	(106,078)	(1,339)	(234)	(67,360)
Income tax expense	(11,528)	12,158	(153)	59	536
Profit/(Loss), net of tax	**28,763**	**(93,920)**	**(1,492)**	**(175)**	**(66,824)**

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations) / Adjustments RM'000	Total RM'000
Assets					
Segment assets	489,955	412,498	5,150	(1,281)	906,322
Investment in associates and jointly controlled entity	1,274	-	163,633	-	164,907
Total assets	**491,229**	**412,498**	**168,783**	**(1,281)**	**1,071,229**
Liabilities					
Segment liabilities	**468,190**	**234,887**	**914**	**(449)**	**703,542**

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 31 October 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:

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. The equity interest of the Company in AMR was subsequently diluted to 8.7%.

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 31 October 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 September 2012 was as follows:

	30.09.2012 RM'000
Approved but not contracted for	606
Contracted but not provided for	16,521
	17,127

16. **Related Party Transactions**

The following are significant related party transactions :

	9 months ended 30.09.2012 RM'000
Sales of products to an associate	34,322

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:

	9 months ended 30.09.2012 RM'000
Current taxation	
Malaysian income tax	19,724
Foreign tax	-
Over provision in prior years	(17,989)
Deferred tax	(2,271)
Total	(536)

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 31 October 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 September 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;
(d) Its deferred tax assets; and
(e) Receivables

19. Interest-Bearing Loans and Borrowings

Group borrowings as at 30 September 2012 comprise the following :

	30.09.2012 RM'000
a) Short Term Borrowings (unsecured)	
Bank overdraft	2,964
Revolving credit	52,147
Foreign currency trade finance	92,529
Bankers' acceptances	272,191
	419,831
Current portion of long term borrowings	42,945
	462,776

	30.09.2012 RM'000
b) Long Term Borrowings (unsecured)	
Revolving credit	**7,669**

Amount denominated in foreign currency	**'000**
Bank overdraft (US dollar)	966
Foreign currency trade finance (US dollar)	30,164
Revolving credits (US dollar)	24,500
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 4.11%) 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 2.60% to 2.72% (2011: 1.90% to 4.65%) per annum for the Company and 2.60% to 3.82% (2011: 1.90% to 4.65%) per annum for the Group.

20. Derivative Financial Instruments

As at 30 September 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	43,800	(370)
ii) Foreign Currency Forward Contracts - Less than 1 year	114,325	112,074	1,689
iii) Tin Forward Sale Contracts - Less than 1 year	15,752	17,005	(940)

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 gain net of tax of RM926,000 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 31 October 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 profit of RM0.99 million before unusual items in 3Q 2012 compared with a pre-tax loss of RM74.98 million before unusual items in the preceding 2Q The positive turnaround of results was mainly due to:

a. The Butterworth international smelting operations recording a pre-tax profit of RM22.09 million in 3Q 2012 including a stock valuation gain of RM5.5 million as a result of higher closing prices compared with a loss of RM9.59 million in 2Q 2012 which included a stock valuation loss of RM5.5 million.

b. PT Koba Tin recording a lower loss due to a stock valuation gain of RM12.2 million in 3Q 2012 as a result of higher closing prices compared to a stock valuation loss of RM33.0 million in 2Q 2012.

c. The associates and jointly controlled entity also recording a share of profit in 3Q 2012 as compared to a loss in 2Q 2012.

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

Current Quarter - 3Q 2012

Group revenue decreased by 51.3% to RM441.6 million in 3Q 2012 from RM907.0 million in 3Q 2011 due to lower volume and lower average tin prices. Average market tin price for 3Q 2012 fell by 22.2% to USD19,300 per tonne compared with USD24,800 per tonne in 3Q 2011.

The Group recorded a pre-tax profit of RM0.99 million before unusual items in 3Q 2012 compared with a pre-tax profit of RM51.91 million in 3Q 2011 mainly due to lower sales volume and lower average tin prices.

PT Koba Tin reported a loss of RM22.22 million after a stock valuation gain of RM12.2 million in 3Q 2012 compared with a profit of RM2.14 million in 3Q 2011. The loss was mainly due to low production, high mine maintenance and rehabilitation costs and lower average tin prices. Despite an improvement in mine production, lower tin prices also affected Rahman Hydraulic Tin, Perak which recorded a lower pre-tax profit of RM4.77 million compared with RM15.27 million in 3Q 2011.

The Butterworth international tin smelting operations' lower pre-tax profit of RM22.09 million before unusual items in 3Q 2012 was mainly due to lower volume and lower tin prices compared with a profit of RM29.80 million in 3Q 2011. The profit for 3Q 2012 includes a stock valuation gain of RM5.5 million and a net foreign exchange gain of RM2.0 million.

The associates and jointly controlled entity recorded a lower share of profit of RM2.41 million in 3Q 2012 compared with RM2.91 million in 3Q 2011.

Current Financial Year-to-date

Group revenue fell by 29.6% to RM1.76 billion in the 9 months (9M) of the current financial period from RM2.50 billion in the previous corresponding period due to lower volume and lower average tin prices. Average market tin price in the 9M was

USD20,900 per tonne or 25.1% lower compared with USD27,900 per tonne in 9M 2011.

The Group recorded a loss of RM65.29 million before unusual items in 9M 2012 compared with a pre-tax profit of RM151.08 million in 9M 2011. The loss was mainly due to a loss of RM118.76 million incurred by PT Koba compared with a profit of RM39.65 million in 9M 2011 due to very low production volume, high mine maintenance and rehabilitation costs and lower tin prices. Despite an improvement in mine production, lower tin prices also affected Rahman Hydraulic Tin, Perak which recorded a lower pre-tax profit of RM20.76 million compared with RM48.84 million in 9M 2011.

Butterworth international smelting operations recorded a lower profit of RM42.36 million before unusual items compared with profit of RM55.99 million in 9M 2011 mainly due to lower volume and lower tin prices.

The associates and jointly controlled entity also recorded a lower share of profits of RM1.15 million in 9M 2012 compared with a net profit of RM23.32 million in 9M 2011.

24. **Current Year Prospects**

Due to continuing losses at PT Koba Tin and having evaluated the available options, PT Koba Tin has decided to suspend its entire mining and smelting operations to minimize further losses pending the renewal of CoW.

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

25. Earnings/(Loss) Per Share

	9 months ended 30.09.2012	9 months ended 30.09.2011
(Loss)/Profit attributable to owners of the Company (RM'000)	(41,465)	106,389
Weighted average number of ordinary shares in issue ('000)	100,000	97,711
Basic (loss)/earnings per share (sen)	(41.5)	108.9

26. Realised and Unrealised Profits/Losses

	Current Quarter Ended 30.09.2012 RM'0000	Preceding Quarter Ended 30.06.2012 RM'0000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- Realised	137,317	146,719
- Unrealised	(6,600)	(6,778)
	130,717	139,941
Total share of accumulated losses from associated companies:		
- Realised	(6,396)	(7,408)
- Unrealised	(118)	250
Total share of retained profits/(accumulated losses) from jointly controlled entity:		
- Realised	26,788	36,568
- Unrealised	(181)	(11,728)
	150,810	157,623
Add: Consolidation adjustments	7,766	1,879
Retained profits as per financial statements	158,576	159,502

27. **Dividend Payable**

No dividend is declared for the quarter ended 30 September 2012

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
6 November 2012