NOTES TO THE 4th INTERIM FINANCIAL REPORT – 31 DECEMBER 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).

This condensed consolidated interim financial statements is 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 (31 December 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 (31 December 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 31 December 2011

	FRS as at 31.12.2011 RM'000	Note 2(a) Foreign currency translation reserve RM'000	Note 2(b) Employee benefits RM'000	MFRS as at 31.12.2011 RM'000
Non-current liabilities				
Provisions	29,485	-	10,257	39,742
Equity				
Other reserves	1,073	28,067	-	29,140
Retained earnings	249,301	(28,067)	(7,693)	213,541
Non-controlling interests	35,551	-	(2,564)	32,987

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:

	4th Qtr ended 31.12.2012 RM'000	Year to date ended 31.12.2012 RM'000
After charging and (crediting):		
Depreciation and amortization	7,441	34,685
Impairment and write off of receivables	8,662	10,247
Inventories valuation (gain)/loss	(6,359)	14,470
Property, plant and equipment written down	5	91
Impairment of investment securities	-	12
Deferred exploration and evaluation expenditure written-off	1,551	7,037
Loss arising from cessation of significant influence in a former associate	-	975
Net foreign exchange gain	(1,737)	(2,821)
Fair value loss/(gain) in derivatives	192	(1,043)
Other income including investment income	(283)	(3,970)
Provision for mine rehabilitation	-	3,195
Gain on disposal of property, plant and equipment	(1)	(560)

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 31.12.2012 RM'000	Year to date ended 31.12.2012 RM'000
a.	Impairment provision for investment in Guilin Hinwei Tin Co. Ltd	-	2,073
b.	Impairment provision for investment in TMR Ltd	8,585	8,585
c.	Impairment provision for investment in KM Resources, Inc.	6,600	6,600
	Net	15,185	17,258

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/Dec 2012 RM'000	**Net Dividend Per Share Jan/Dec 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	2,315,096	13,585	7	-	2,328,688
Inter-segment sales	8	269,360	1,798	(271,166)	-
Total revenue	**2,315,104**	**282,945**	**1,805**	**(271,166)**	**2,328,688**
Results					
Profit/(Loss) from operations	67,944	(118,295)	(491)	(212)	(51,054)
Finance costs	(10,982)	(3,242)	(2,776)	-	(17,000)
Share of profit/(loss) of associates and jointly controlled entity	(349)	-	5,704	-	5,355
Profit/(Loss) before unusual items	56,613	(121,537)	2,437	(212)	(62,699)
Unusual items	(2,073)	(8,585)	(6,600)	-	(17,258)
Profit/(Loss) before tax	54,540	(130,122)	(4,163)	(212)	(79,957)
Income tax expense	(15,840)	2,805	(222)	53	(13,204)
Profit/(Loss), net of tax	**38,700**	**(127,317)**	**(4,385)**	**(159)**	**(93,161)**

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations) / Adjustments RM'000	Total RM'000
Assets					
Segment assets	499,760	356,404	4,538	(1,266)	859,436
Investment in associates and jointly controlled entity	1,274	-	160,829	-	162,103
Total assets	**501,034**	**356,404**	**165,367**	**(1,266)**	**1,021,539**
Liabilities					
Segment liabilities	**474,108**	**202,674**	**1,005**	**(449)**	**677,338**

11. Property, Plant and Equipment

The land and buildings have been revalued in December 2012, giving net revaluation surplus of RM4.15 million.

12. Subsequent Events

There was no material event subsequent to end of the current quarter up to 20 February 2013, 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 6.0%.

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 20 February 2013, 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 2012 was as follows:

	31.12.2012 RM'000
Approved but not contracted for	483
Contracted but not provided for	14,579
	15,062

16. Related Party Transactions

The following are significant related party transactions :

	12 months ended 31.12.2012 RM'000
Sales of products to an associate	48,369

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:

	12 months ended 31.12.2012 RM'000
Current taxation	
Malaysian income tax	25,654
Foreign tax	-
Over provision in prior years	(8,401)
Deferred tax	(4,058)
Foreign withholding tax	9
Total	13,204

The overall effective tax rate for the current year was higher than the statutory tax rate in Malaysia mainly due to 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.

18. **Status of Corporate Proposal**

There was no corporate proposal announced but not completed as at 20 February 2013, 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 31 December 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	Fully utilised
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	1.27	Three (3) years (by Feb 2014)
General working capital	13.34	13.34	Fully utilised
Estimated expenses in relation to the public issue and secondary listing	8.86	8.69	Fully utilised
Total	104.19	42.99	

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.

The Company reclassified its 100% interest in BCL Group (including 75% effective interest in PT Koba) as disposal group held for sale, as the Board expects the above proposal to be completed within twelve months from 31 December 2012.

In the event the CoW is not renewed by 31 March 2013, it will have an adverse impact on the Company's investment and contingent liabilities totalling approximately RM150 million in PT Koba Tin.

19. Interest-Bearing Loans and Borrowings

Group borrowings as at 31 December 2012 comprise the following :

	31.12.2012 RM'000
a) Short Term Borrowings (unsecured)	
Foreign currency trade finance	88,603
Bankers' acceptances	256,764
	345,367
Current portion of long term borrowings	15,313
	360,680

	31.12.2012 RM'000
b) Long Term Borrowings (unsecured)	
Revolving credit	**7,656**

Amount denominated in foreign currency	**'000**
Foreign currency trade finance (US dollar)	28,932
Revolving credits (US dollar)	7,500

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 0.73% 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 2.56% to 2.72% (2011: 1.90% to 5.10%) per annum for the Group and the Company.

20. **Derivative Financial Instruments**

As at 31 December 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	43,925	(277)
ii) Foreign Currency Forward Contracts - Less than 1 year	123,924	123,615	232
iii) Tin Forward Sale Contracts - Less than 1 year	7,413	7,526	(85)

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 RM782,000 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 20 February 2013, 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 RM2.59 million before unusual items in 4Q 2012 compared with a pre-tax profit of RM0.99 million before unusual items in the preceding 3Q.

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

Current Quarter - 4Q 2012

Group revenue decreased slightly by 4.93% to RM571.4 million in 4Q 2012 from RM601.0 million in 4Q 2011 due to lower volume of sales. Average tin price for 4Q 2012 increased by 3.8% to USD21,600 per tonne compared with USD20,800 per tonne in 4Q 2011.

The Group achieved a progressive turnaround in results with a pre- tax profit of RM2.59 million before unusual items in 4Q 2012 compared with a loss of RM35.12 million before unusual items in 4Q 2011.

The Butterworth international tin smelting business and Rahman Hydraulic Tin mining operations in Perak achieved satisfactory results in 4Q 2012 with pre-tax profit of RM14.25 million (RM14.31 million in 4Q 2011) and RM8.67 million (RM10.18 million in 4Q 2011) respectively. The Group's associates and jointly controlled entity, mainly involved in solder products manufacturing and poly-metallic mining, recorded a higher share of profit of RM4.2 million in 4Q 2012 compared with RM1.37 million in 4Q 2011.

However, the overall earnings of the Group continued to be dragged down by losses incurred by the Indonesian operations although PT Koba Tin managed to lower its loss to RM 18.75 million in the 4Q 2012 compared with a loss of RM56.36 million in 4Q 2011. Pending the outcome of the renewal of the CoW, PT Koba Tin has undertaken the necessary downsizing of its operations and cost reduction efforts. In December it suspended its entire mining and smelting operations pending the extension of its Contract of Work which expires on 31 March 2013. Further, Koba Tin has made additional provisions for mine rehabilitation, employees' termination benefits, assets impairments and other rationalisation expenses in 4Q 2012.

Current Financial Year-to-date

Group revenue decreased by 24.8% to RM2.33 billion for the year ended 31 December 2012 from RM3.10 billion in the previous year due to lower volume of sales and lower average tin prices. Average tin price for the year 2012 was USD21,100 per tonne, 19.2 % lower compared with USD26,100 per tonne in 2011.

The Group recorded a loss of RM62.70 million before unusual items for the year 2012 compared with a pre- tax profit of RM116.43 million before unusual items achieved in 2011. The loss in 2012 was mainly due to a higher loss incurred by PT Koba Tin despite positive profit contributions from all the Group's other core operating units.

The results of Butterworth international smelting operations achieved a pre-tax profit of RM56.61 million before unusual items in 2012 amid very challenging market environment and lower tin prices.

Despite a satisfactory improvement in production, lower tin prices also affected Rahman Hydraulic Tin mine in Perak which recorded a pre-tax profit RM29.43 million in 2012.

The associates and jointly controlled entity also recorded a lower share of profits of RM5.36 million in 2012 due to lower metal prices and adverse weather conditions which affected the first half year production at the poly-metallic mine.

PT Koba Tin incurred a loss of RM137.50 million due to the adverse impact of lower tin prices and production, mine rehabilitation costs, additional provision for termination benefits, high rationalisation costs and impairment of mining assets.

24. Current Year Prospects

Although the operating environment is expected to continue to be difficult and challenging amid the prevailing global economic uncertainties and regardless of the outcome of Koba Tin's CoW situation, the Board expects the Group's operating performance for 2013 to be satisfactory.

25. Earnings/(Loss) Per Share

	12 months ended 31.12.2012	**12 months ended 31.12.2011**
(Loss)/Profit attributable to owners of the Company (RM'000)	(61,114)	60,523
Weighted average number of ordinary shares in issue ('000)	100,000	98,288
Basic (loss)/earnings per share (sen)	(61.1)	61.6

26. Realised and Unrealised Profits/Losses

	Current Quarter Ended 31.12.2012 RM'0000	Preceding Quarter Ended 30.09.2012 RM'0000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- Realised	115,348	137,317
- Unrealised	(6,825)	(6,600)
	108,523	130,717
Total share of accumulated losses from associated companies:		
- Realised	(6,328)	(6,396)
- Unrealised	(118)	(118)
Total share of retained profits/(accumulated losses) from jointly controlled entity:		
- Realised	30,926	26,788
- Unrealised	(184)	(181)
	132,819	150,810
Add: Consolidation adjustments	6,108	7,766
Retained profits as per financial statements	138,927	158,576

27. Dividend Payable

No dividend is declared for the quarter ended 31 December 2012.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
26 February 2013