

## **NOTES TO THE 1<sup>st</sup> INTERIM FINANCIAL REPORT – 31 MARCH 2013**

### **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).

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2012. 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 2012.

### **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 2012 except for the adoption of the following new MFRSs and Interpretations, and amendments to certain MFRSs and Interpretations :

#### **Effective for financial periods beginning on or after 1 July 2012**

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

#### **Effective for financial periods beginning on or after 1 January 2013**

Amendments to MFRS 101: Presentation of Financial Statements  
(Annual Improvements 2009-2011 Cycle)

MFRS 3 Business Combinations (IFRS 3 *Business Combinations*  
issued by IASB in March 2004)

MFRS 10 Consolidated Financial Statements

MFRS 11 Joint Arrangements

MFRS 12 Disclosure of interests in Other Entities

MFRS 13 Fair Value Measurement

MFRS 119 Employee Benefits

MFRS 127 Separate Financial Statements

MFRS 127 Consolidated and Separate Financial Statements (IAS 27  
as revised by IASB in December 2003)

MFRS 128 Investments in Associates and Joint Ventures

IC Interpretation 20 Stripping Costs in the Production Phase of a  
Surface Mine

Amendment to IC Interpretation 2: Members' Shares in Co-operative  
Entities and Similar Instruments (Annual Improvements 2009-2011  
Cycle)

Amendments to MFRS 1: First-time Adoption of Malaysian Financial  
Reporting Standards – Government Loans

Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities

Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance

Amendments to MFRS 11: Joint Arrangements: Transition Guidance

Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance

Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)

Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)

#### **Effective for financial periods beginning on or after 1 January 2014**

Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities

#### **Effective for financial periods beginning on or after 1 January 2015**

MFRS 9 Financial Instruments

The directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application, except as disclosed below:

#### Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group’s financial position or performance.

#### MFRS 10 Consolidated Financial Statements

MFRS 10 replaces the portion of MFRS 127 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. MFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by MFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in MFRS 127. This standard has no material impact on the Group’s financial position or performance.

#### MFRS 11 Joint Arrangements

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131, Interest in Joint Ventures. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. Interest in joint venture will be accounted for using equity method whilst interest in joint operation will be accounted for using the applicable MFRSs relating to the underlying assets, liabilities, income and expense items arising from the joint operations. This standard has no material impact on the Group's financial position or performance.

#### MFRS 12 Disclosure of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

#### MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted. This standard has no material impact on the Group's financial position or performance.

#### MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements of the Company.

#### MFRS 128 Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

#### IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to the waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The Interpretation states that an entity must recognise production stripping costs as part of an asset when all the following criteria are met:-

1. It is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will flow to the entity

2. The entity can identify the component of an ore body for which access has been improved, and
3. The costs relating to the improved access to that component can be measured reliably.

Accordingly, at the earliest comparative period presented – 1 January 2012, the carrying amount of stripping costs net of tax included in other non-current assets under non-current assets of RM1,467,000 were adjusted to retained earnings.

#### Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments require additional information to be disclosed to enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

#### MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. In subsequent phases, it will address hedge accounting and impairment of financial assets. The adoption of this first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Group is in the process of making an assessment of the impact of adoption of MFRS 9.

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

The auditors' report on the financial statements for the year ended 31 December 2012 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 Before Tax**

The following items have been included in arriving at the profit before tax:

	<b>1<sup>st</sup> Qtr ended 31.03.2013 RM'000</b>	<b>Year to date ended 31.03.2013 RM'000</b>
After charging and (crediting):		
Depreciation and amortization	1,903	1,903
Net foreign exchange gain	(150)	(150)
Fair value loss in derivatives	243	243
Other income including investment income	(192)	(192)
Gain on disposal of property, plant and equipment	(10)	(10)

6. **Exceptional items**

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

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**

There was no dividend paid during the current quarter.

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:

	<b>International Tin Smelting RM'000</b>	<b>Tin Mining RM'000</b>	<b>Others RM'000</b>	<b>(Eliminations) / Adjustments RM'000</b>	<b>Total RM'000</b>
<b>Revenue</b>					
Sales to external customers	420,975	26,552	5	-	447,532
Inter-segment sales	-	38,051	449	(38,500)	-
<b>Total revenue</b>	<b>420,975</b>	<b>64,603</b>	<b>454</b>	<b>(38,500)</b>	<b>447,532</b>
<b>Results</b>					
Profit/(Loss) from operations	17,497	16,330	46	(416)	33,457
Finance costs	(2,568)	(811)	(566)	-	(3,945)
Share of loss of associates and jointly controlled entities	(907)	-	(2,559)	-	(3,466)
Profit/(Loss) before exceptional items	14,022	15,519	(3,079)	(416)	26,046
Exceptional items	-	-	-	-	-
Profit/(Loss) before tax	14,022	15,519	(3,079)	(416)	26,046
Income tax expense	(4,816)	(2,454)	(118)	104	(7,284)
<b>Profit/(Loss), net of tax</b>	<b>9,206</b>	<b>13,065</b>	<b>(3,197)</b>	<b>(312)</b>	<b>18,762</b>
<b>Assets</b>					
Segment assets	517,933	281,359	3,729	(3,185)	799,836
Investment in associates and jointly controlled entities	367	-	158,270	-	158,637
<b>Total assets</b>	<b>518,300</b>	<b>281,359</b>	<b>161,999</b>	<b>(3,185)</b>	<b>958,473</b>
<b>Liabilities</b>					
Segment liabilities	561,018	182,212	995	(449)	743,776

11. **Property, Plant and Equipment**

The same valuation of land and buildings has been brought forward from the previous audited financial statements for the year ended 31 December 2012.

12. **Subsequent Events**

There was no material event subsequent to end of the current quarter up to 4 May 2013, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report except as disclosed in Note 18 (c).

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.

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

Since 31 December 2012, there was no new development on the outstanding contingent liabilities or contingent assets as at 4 May 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 March 2013 was as follows:

	<b>31.03.2013</b>
	<b>RM'000</b>
Approved but not contracted for	452
Contracted but not provided for	13,962
	14,414

16. **Related Party Transactions**

The following are significant related party transactions :

	<b>3 months ended 31.03.2013 RM'000</b>
Sales of products to an associate	12,098

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:

	<b>3 months ended 31.03.2013 RM'000</b>
Current taxation	
Malaysian income tax	6,978
Foreign tax	-
Deferred tax	306
<b>Total</b>	<b>7,284</b>

The overall effective tax rate for the current period was higher than the statutory tax rate in Malaysia mainly due to certain non-tax deductible expenses and net share of losses recorded from associates and jointly controlled entities.



18. **Status of Corporate Proposal**

There was no corporate proposal announced but not completed as at 4 May 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 March 2013 was:

<b>Purpose</b>	<b>Proposed utilisation RM mil</b>	<b>Actual utilisation RM mil</b>	<b>Expected Timeframe for utilisation</b>
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
<b>Total</b>	<b>104.19</b>	<b>42.99</b>	

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.

On 2 April 2013, the Company announced that PT Koba has received notification from the Government of Republic of Indonesia (“GOI”) that it is still continuing with its evaluation for the extension of PT Koba CoW which expired after 31 March 2013. In the meantime, the GOI has given permission to PT Koba to continue undertaking production operations until the completion of its evaluation up to a maximum period of three months with effect from 1 April 2013.

#### 19. Interest-Bearing Loans and Borrowings

Group borrowings as at 31 March 2013 comprise the following :

	<b>31.03.2013</b>
	<b>RM'000</b>
<b>a) Short Term Borrowings (unsecured)</b>	
Foreign currency trade finance	108,683
Bankers' acceptances	293,356
	<b>402,039</b>
Current portion of long term borrowings	40,943
	<b>442,982</b>

	<b>31.03.2013</b>
	<b>RM'000</b>
<b>b) Long Term Borrowings (unsecured)</b>	
Term loan	<b>37,041</b>

<b>Amount denominated in foreign currency</b>	<b>'000</b>
Foreign currency trade finance (US dollar)	35,173
Term loan ( US dollar )	20,237
Revolving credits (US dollar)	5,000

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 0.76% to 5.20% ( 2012 : 0.73% to 5.20% ) per annum for the Group and 0.76% to 3.97% ( 2012: 0.73% to 3.97%) per annum for the Company.

The long term borrowings which are repayable by quarterly and semi-annual installments bear interest at rates of between 2.56% to 3.82% (2012: 2.56% to 3.82%) per annum for the Group and 2.56% to 3.29% (2012: 2.56%) per annum for the Company.

**20. Derivative Financial Instruments**

As at 31 March 2013, 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	44,040	(190)
ii) Foreign Currency Forward Contracts - Less than 1 year	114,426	114,659	(175)
iii) Tin Forward Sale Contracts - Less than 1 year	13,211	12,898	235

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 RM182,000 in its income statement.

**21. Changes in Material Litigation**

Since 31 December 2012, there was no new development on the outstanding material litigations as at 4 May 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 achieved a pre-tax profit of RM26.05 million before exceptional items in 1Q 2013 compared with a pre-tax profit of RM2.59 million before exceptional items for 4Q 2012. The exceptional items in 4Q 2012 include impairment and provisions related to expiry of PT Koba Tin's CoW totalling RM128.42 million.

PT Koba Tin recorded a small profit in 1Q 2013 compared with a loss in 4Q 2012, due to lower cost of production arising from rationalisation and cost reduction efforts.

Both the international tin smelting business and Rahman Hydraulic Tin mining operations maintained about the same level of profits compared with that of 4Q 2012.

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

Group revenue decreased by 42.0% to RM447.53 million in 1Q 2013 from RM771.90 million in 1Q 2012 due to lower intake of feed materials for production of refined tin. Average tin price for 1Q 2013 increased by 5.2% to USD24,100 per tonne compared with USD22,900 per tonne in 1Q 2012.

The Group recorded a pre-tax profit of RM26.05 million in 1Q 2013 compared with a profit of RM8.70 million in 1Q 2012.

The international tin smelting business recorded a lower profit of RM14.02 million in 1Q 2013 compared with RM29.84 million in 1Q 2012 mainly due to lower production.

Rahman Hydraulic Tin mining operations recorded a pre-tax profit of RM9.49 million in 1Q 2013 compared with RM10.05 million in 1Q 2012.

PT Koba Tin recorded a small profit in 1Q 2013 compared with a loss in 1Q 2012. This was mainly due to the reasons stated in Note 22.

The associates and jointly controlled entities recorded a net share of losses of RM3.47 million in 1Q 2013 compared with a net profit of RM0.27 in 1Q 2012.

24. **Current Year Prospects**

Although the operating environment is expected to continue to be difficult and challenging amid the prevailing global economic uncertainties and volatility in commodity prices, regardless of the outcome of Koba Tin's CoW situation, the Board expects the Group to be profitable in financial year 2013.

25. **Earnings Per Share**

	<b>3 months ended 31.03.2013</b>	<b>3 months ended 31.03.2012</b>
Profit attributable to owners of the Company (RM'000)	15,050	5,673
Weighted average number of ordinary shares in issue ('000)	100,000	100,000
Basic earnings per share (sen)	15.1	5.7

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

	<b>Current Quarter Ended 31.03.2013</b>	<b>Preceding Quarter Ended 31.12.2012 Restated</b>
	<b>RM'0000</b>	<b>RM'0000</b>
Total accumulated losses of the Company and its subsidiaries:		
- Realised	(20,357)	(25,515)
- Unrealised	(10,249)	(11,734)
	<u>(30,606)</u>	<u>(37,249)</u>
Total share of (accumulated losses)/retained profits from associated companies:		
- Realised	(6,838)	(6,696)
- Unrealised	250	250
Total share of retained profits/(accumulated losses) from jointly controlled entities:		
- Realised	38,516	42,467
- Unrealised	(11,099)	(11,725)
	<u>(9,777)</u>	<u>(12,953)</u>
Add: Consolidation adjustments	54,146	42,272
Retained profits as per financial statements	<u>44,369</u>	<u>29,319</u>

27. **Dividend Payable**

No dividend is declared for the quarter ended 31 March 2013.

By Order of the Board  
Sharifah Faridah Abd Rasheed  
Secretary

Kuala Lumpur  
10 May 2013