

NOTES TO THE 2nd INTERIM FINANCIAL REPORT – 30 JUNE 2014

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 2013. 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 2013.

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 2013 except for the adoption of the following new and amended MFRSs and Interpretations:

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
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21: Levies

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Effective for financial periods beginning on or after 1 July 2014

Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions
Annual Improvements to MFRSs 2010–2012 Cycle
Annual Improvements to MFRSs 2011–2013 Cycle

Effective date to be announced

MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139

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

Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novation.

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. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2013 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 Exceptional Items

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

	2nd Quarter ended 30.06.2014 RM'000	Year to date ended 30.06.2014 RM'000
After charging and (crediting):		
Depreciation and amortisation		
- Continuing	1,968	3,872
- Discontinued	33	84
Impairment of receivables	5,318	5,318
Loss on disposal of disposal group classified as held for sale		
- Discontinued	25,343	25,343
Loss on disposal of a subsidiary		
- Discontinued	3,504	3,504
Net foreign exchange loss		
- Continuing	2,092	4,888
- Discontinued	97	825
Fair value gain in derivatives	(99)	(1,699)
Other income including investment income	(1,908)	(2,200)
Provision for financial guarantee	9,635	9,635

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:

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	Tin Mining (Discontinued operations) RM'000	(Eliminations)/ Adjustments RM'000	Total RM'000
Revenue						
Sales to external customers	860,806	-	-	-	-	860,806
Inter-segment sales	-	79,101	898	-	(79,999)	-
Total revenue	860,806	79,101	898	-	(79,999)	860,806
Results						
Profit/(Loss) from operations	31,471	17,440	(14,623)*	(32,630)	33,123	34,781
Finance costs	(5,043)	(175)	(1,289)	-	-	(6,507)
Share of results of associates and joint ventures	-	-	1,818	-	-	1,818
Profit/(Loss) before tax from continuing operations	26,428	17,265	(14,094)	(32,630)	33,123	30,092
Income tax expense	(6,766)	(4,635)	(124)	-	(135)	(11,660)
Profit/(Loss) from continuing operations	19,662	12,630	(14,218)	(32,630)	32,988	18,432
Loss from discontinued operations	-	-	-	-	-	(32,630)
Loss net of tax	-	-	-	-	-	(14,198)

*Includes the full provision for financial guarantee of USD3.0 million (RM9.64 million) and impairment of receivables of RM5.28 million.

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	Tin Mining (Discontinued operations) RM'000	(Eliminations)/ Adjustments RM'000	Total RM'000
Assets						
Segment assets	618,760	96,430	4,619	-	(1,366)	718,443
Investment in associates and joint ventures	-	-	79,446	-	-	79,446
Total assets	618,760	96,430	84,065	-	(1,366)	797,889
Liabilities						
Segment liabilities	550,329	21,856	1,291	-	(449)	573,027

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 2013.

12. Subsequent Events

There was no material event subsequent to end of the current quarter up to 6 August 2014, 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. Disposal of disposal group classified as held for sale and discontinued operation

On 1 June 2014, the Company entered into a sale and purchase agreement with Berkeley Kensington Group Limited to dispose of its entire interest in Bemban Corporation Ltd. ("BCL") Group (comprising BCL, Kajuara Mining Corporation Pty. Ltd. ("KMC"), PT Koba Tin ("Koba Tin") and PT Bangka Resources ("PT Bangka")) for a total consideration of USD1.00 million (RM3.24 million based on RM/USD exchange rate of RM3.236).

The results of BCL Group were as follows:

	6 months ended 30.06.2014 RM'000	6 months ended 30.06.2013 RM'000
Revenue	-	26,552
Loss from operations	(445)	(6,070)
Gross interest income	-	23
Gross interest expense	-	(814)
Loss on disposal of BCL Group	(25,343)	-
Loss before tax	(25,788)	(6,861)
Income tax expense	-	-
Loss for the period from discontinued operation	(25,788)	(6,861)

The disposal had the following effects on the financial position of the Group:

	RM'000
Carrying amount of net liabilities	16,865
De-recognition of non-controlling interests	(41,286)
Foreign currency translation reserves reclassified to profit or loss	(4,158)
	<u>(28,579)</u>
Total disposal proceeds	<u>3,236</u>
Loss on disposal of BCL Group	<u>(25,343)</u>
Sale consideration:	RM'000
Consideration settled in cash	1,309
Receivable	1,927
Total consideration	<u>3,236</u>
Cash inflow on sale:	RM'000
Consideration settled in cash	1,309
Less: Cash and cash equivalents of BCL Group disposed	(751)
Net cash inflow on disposal	<u>558</u>

b. Disposal of a subsidiary classified as discontinued operation

On 1 June 2014, the Company also entered into a sale and purchase agreement with PT Bangka Timah Utama and Mr Eddy Dayanto to dispose of its entire interest in PT MSC Indonesia ("PT MSCI") for a consideration of USD1.00.

The results of PT MSCI were as follows:

	6 months ended 30.06.2014 RM'000	6 months ended 30.06.2013 RM'000
Revenue	<u>-</u>	<u>-</u>
Loss from operations	(3,338)	(696)
Loss on disposal of PT MSCI	<u>(3,504)</u>	<u>-</u>
Loss before tax	(6,842)	(696)
Income tax expense	-	-
Loss for the period from discontinued operation	<u>(6,842)</u>	<u>(696)</u>

The disposal had the following effects on the financial position of the Group:

	RM'000
Carrying amount of net liabilities	201
Foreign currency translation reserves reclassified to profit or loss	(3,705)
Revaluation reserves transferred to retained earnings	193
	<u>(3,311)</u>
Total disposal proceeds (USD1.00)	-
Loss on disposal of PT MSCI	<u>(3,311)</u>
Recognised in profit or loss	(3,504)
Revaluation reserves transferred to retained earnings	193
	<u>(3,311)</u>
 Cash outflow on sale:	
	RM'000
Consideration settled in cash	-
Less: Cash and cash equivalents of PT MSCI disposed	<u>(22)</u>
Net cash outflow on disposal	<u>(22)</u>

The presentation of the consolidated income statement and explanatory information for the 2013 comparative numbers have been changed to present the performance of continuing operations and discontinued operations separately.

Loss from discontinued operations comprises the following:

	6 months ended 30.06.2014 RM'000	6 months ended 30.06.2013 RM'000
Results of BCL Group	25,788	6,861
Results of PT MSCI	<u>6,842</u>	<u>696</u>
	<u>32,630</u>	<u>7,557</u>

Following the above disposals, BCL, KMC, Koba Tin, PT Bangka and PT MSCI ceased to be subsidiaries of the Group. All the assets and liabilities of the BCL Group and PT MSCI were de-consolidated from the Consolidated Financial Statements of the Group from the date of disposal.

c. Acquisition of a subsidiary

On 11 March 2014, the Company's wholly owned subsidiary, Rahman Hydraulic Tin Sdn. Bhd. ("RHT") entered into a Share Sale Agreement and Shareholders' Agreement for the acquisition of an 80% equity interest in SL Tin Sdn. Bhd. ("SL Tin") for a purchase consideration of RM500,000.

After the acquisition, SL Tin became an 80% owned subsidiary of RHT.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of SL Tin as at the date of acquisition were:

	RM'000
Assets	
Property, plant and equipment	37
Intangible assets – mining rights	1,436
Other receivables	75
Cash and cash equivalents	22
	<u>1,570</u>
Liabilities	
Other payables	<u>(76)</u>
Net assets acquired	1,494
Less: Non-controlling interests	<u>(299)</u>
Total cost of acquisition	1,195
Less: Portion discharged by advances to SL Tin prior to acquisition	<u>(695)</u>
Purchase consideration	<u>500</u>
 Purchase consideration:	
	RM'000
Cash paid	250
Payable	250
	<u>500</u>
 Cash outflow on acquisition:	
	RM'000
Net cash acquired	22
Cash paid	<u>(250)</u>
Net cash outflow	<u>(228)</u>

14. Changes in Contingent Liabilities and Contingent Assets

Since 31 December 2013, there was no new development on the outstanding contingent liabilities or contingent assets as at 6 August 2014, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report, other than the provision for financial guarantee during current quarter as disclosed in Note 5.

15. Capital Commitments

The amount of capital commitments at 30 June 2014 was as follows:

	30.06.2014 RM'000
Approved but not contracted for	216
Contracted but not provided for	17,070
	17,286

16. Related Party Transactions

The following were significant related party transactions:

	6 months ended 30.06.2014 RM'000
Sales of products to an associate	27,918

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 30.06.2014 RM'000
Current taxation	
Malaysian income tax	12,562
Deferred tax	(902)
Total	11,660

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.

18. Status of Corporate Proposal

There was no corporate proposal announced but not completed as at 6 August 2014, the latest practical date which is not earlier than 7 days from the date of issue of this quarterly report.

19. Interest-Bearing Loans and Borrowings

Group borrowings as at 30 June 2014 comprise the following:

	30.06.2014 RM'000
a) Short Term Borrowings (unsecured)	
Foreign currency trade finance	53,020
Bankers' acceptances	354,967
	407,987
Current portion of long term borrowings	19,269
	427,256

	30.06.2014 RM'000
b) Long Term Borrowings (unsecured)	
Term loan	14,411

Amount denominated in foreign currency	'000
Foreign currency trade finance (US dollar)	16,509
Long term borrowings (US dollar)	10,487

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 0.93% to 4.20% per annum for the Group (2013: 0.96% to 3.74% per annum).

The long term borrowings which are repayable by quarterly and semi-annual instalments bear interest at rates of between 2.56% and 3.30% per annum for the Group (2013: 2.56% and 3.30% per annum).

20. Derivative Financial Instruments

As at 30 June 2014, 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 2 years	31,343	31,226	(89)
ii. Foreign Currency Forward Contracts - Less than 1 year	143,737	141,577	1,567
iii. Forward Tin Sales Contracts - Less than 1 year	17,931	16,880	799

The interest rate swap contract, foreign currency forward contracts and forward tin 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 RM1,284,000 in its income statement.

The risks and policies relating to the management of derivatives financial instruments are similar to those disclosed in the annual financial statements for the year ended 31 December 2013.

21. Changes in Material Litigation

Since 31 December 2013, there was no material litigation against the Group as at 6 August 2014, 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 profit before tax of RM6.05 million from continuing operations in 2Q 2014 compared with a profit before tax of RM24.04 million from continuing operations in 1Q 2014 mainly due to the full provision for financial guarantee of USD3.0 million (RM9.64 million) and impairment of receivables of RM5.28 million made by the Group consequent to the disposals of the Group's interests in its Indonesian subsidiaries as explained in Note 13.

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

Current Quarter 2Q 2014

Group revenue increased to RM431.71 million in 2Q 2014 from RM404.50 million in 2Q 2013 from continuing operations mainly due to higher average tin prices in 2Q 2014.

The Group recorded a lower profit of RM6.05 million before exceptional items in 2Q 2014 compared with a profit of RM13.56 million before exceptional items in 2Q 2013 from continuing operations mainly due to the provision and impairment stated in Note 22.

The Butterworth international smelting business recorded a profit before tax of RM10.31 million in 2Q 2014 (2Q 2013: profit before tax RM8.84 million).

Rahman Hydraulic Tin mining operations recorded a profit before tax of RM8.79 million in 2Q 2014 (2Q 2013: profit before tax of RM5.50 million) mainly due to higher average tin prices in 2Q 2014.

The associates and joint ventures recorded a net share of profit of RM1.84 million in 2Q 2014 (2Q 2013: RM0.13 million).

Current Financial Year-to-date

Group revenue increased to RM860.8 million in the 6 months (1H) of the current financial period from RM825.5 million in the previous corresponding period from continuing operations mainly due to higher average tin prices.

The Group recorded a profit before tax of RM30.09 million from continuing operations in 1H 2014 compared with a profit before tax of RM30.17 million in 1H 2013.

The Butterworth international smelting business recorded a profit before tax of RM26.43 million in 1H 2014 (1H 2013: profit before tax RM22.86 million).

Rahman Hydraulic Tin mining operations recorded a profit before tax of RM17.30 million in 1H 2014 (1H 2013: profit before tax of RM14.99 million) mainly due to higher average tin prices.

The associates and joint ventures recorded a net share of profit of RM1.82 million in 1H 2014 (1H 2013: a net share of losses of RM3.34 million).

The loss from discontinued operations, net of tax of RM32.63 million mainly comprised non-cash adjustments due to the de-consolidation of the assets and liabilities of the Group's Indonesian subsidiaries following the disposals of the Group's interests in these subsidiaries as explained in Note 13. These non-cash adjustments included a de-recognition of non-controlling interests totalling RM41.28 million and reclassification of foreign currency translation reserves amounting to RM7.86 million. In addition to the net profit arising from continuing operations, the elimination of these non-controlling interests, however, contributed to the rise in the Group's Net Assets (Total Equity) to RM224.86 million as at 30 June 2014 from RM180.66 as at 31 December 2013.

24. Current Year Prospects

The global economy will remain challenging.

Barring unforeseen circumstances, the Butterworth international smelting business and Rahman Hydraulic tin mine are expected to continue to perform satisfactorily.

25. Earnings/(Loss) Per Share Attributable to Owners of the Company

	6 months ended 30.06.2014	6 months ended 30.06.2013
Profit/(Loss) attributable to owners of the Company:		
- Profit from continuing operations (RM'000)	18,448	18,211
- Loss from discontinued operations (RM'000)	(32,523)	(8,040)
Net (loss)/profit attributable to owners of the Company (RM'000)	<u>(14,075)</u>	<u>10,171</u>
Weighted average number of ordinary shares in issue ('000)	<u>100,000</u>	<u>100,000</u>
<u>Basic/Diluted:</u>		
- from continuing operations (sen)	18.4	18.2
- from discontinued operations (sen)	(32.5)	(8.0)
(Loss)/Earnings per share (sen)	<u>(14.1)</u>	<u>10.2</u>

26. Breakdown of Retained Earnings into Realised and Unrealised

	Current Quarter Ended 30.06.2014 RM'0000	Preceding Quarter Ended 31.03.2014 RM'0000
Total retained earnings of the Company and its subsidiaries:		
- Realised	5,584	7,543
- Unrealised	9,576	3,268
	15,160	10,811
Total share of (accumulated losses)/retained earnings from associated companies:		
- Realised	(6,457)	(6,663)
- Unrealised	298	298
Total share of retained earnings/(accumulated losses) from joint ventures:		
- Realised	23,610	22,457
- Unrealised	(11,544)	(11,544)
	21,067	15,359
Add: Consolidation adjustments	10,669	45,459
Retained earnings as per financial statements	31,736	60,818

27. Dividend Payable

No dividend is declared for the quarter ended 30 June 2014.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
12 August 2014