

NOTES TO THE 1st INTERIM FINANCIAL REPORT – 31 MARCH 2015

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 2014. 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 2014.

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 2014 except for the adoption of the following new and amended MFRSs and Interpretations:

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

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 January 2016

Annual Improvements to MFRSs 2012-2014 Cycle
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 101: Disclosure Initiative
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants
Amendments to MFRS 127: Equity Method in Separate Financial Statements
MFRS 14: Regulatory Deferral Accounts

Effective for financial periods beginning on or after 1 January 2017

MFRS 15: Revenue from Contracts with Customers

Effective for financial periods beginning on or after 1 January 2018

MFRS 9: Financial Instruments

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 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that:

- gains and losses resulting from transactions involving the sale or contribution of assets between an investor and its associate or joint venture that do not constitute a business, are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and
- gains and losses resulting from transactions involving the sale or contribution of assets between an investor and its associate or joint venture that constitute a business, are recognised in full in the investor's financial statements.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group is currently assessing the impact of Amendments to MFRS 10 and MFRS 128.

Amendments to MFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to MFRS 11 require that a joint operator which acquires an interest in a joint operations which constitute a business to apply the relevant MFRS 3 Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to MFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Group is currently assessing the impact of Amendments to MFRS 11.

Amendments to MFRS 101: Disclosure Initiatives

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The Group is currently assessing the impact of Amendments to MFRS 101.

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

These amendments are not expected to have any impact to the Group as the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to MFRS 127: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's financial statements.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is in the process of assessing the impact of MFRS 15.

MFRS 9: Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of MFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but no impact on the classification and measurement of the Group’s financial liabilities. The Group is in the process of assessing the impact of MFRS 9.

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. The Group is currently assessing the impact of Annual Improvements to MFRSs 2012-2014 Cycle.

| Standards | Descriptions |
|---|---|
| MFRS 5 Non-current Assets Held for Sale and Discontinued Operations | The amendment to MFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5. |

| | |
|---|--|
| | <p>The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is to be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.</p> |
| MFRS 7 Financial Instruments: Disclosures | <p>The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.</p> <p>In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.</p> |
| MFRS 119 Employee Benefits | <p>The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.</p> |
| MFRS 134 Interim Financial Reporting | <p>MFRS 134 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'.</p> <p>The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.</p> |

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2014 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 Tax

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

| | 1st Quarter ended 31.03.2015 RM'000 | Year to date ended 31.03.2015 RM'000 |
|---|---|---|
| After charging and (crediting): | | |
| Depreciation and amortisation | 2,168 | 2,168 |
| Fair value loss in derivative financial instruments | 2,913 | 2,913 |
| Gain on disposal of property, plant and equipment | (12) | (12) |
| Impairment of receivables | 130 | 130 |
| Net foreign exchange loss | 10,994 | 10,994 |
| Other income including investment income | (49) | (49) |
| Unfavourable valuation adjustment on tin inventory | 12,700 | 12,700 |
| (Gain)/Loss on disposal of investment securities | - | - |
| Impairment of investment securities | - | - |
| Property, plant and equipment written off | - | - |

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 | (Eliminations)/ Adjustments RM'000 | Total RM'000 |
|--|--|------------------------------|--------------------------|---|-------------------------|
| Revenue | | | | | |
| Sales to external customers | 381,640 | - | - | - | 381,640 |
| Inter-segment sales | - | 35,275 | 449 | (35,724) | - |
| Total revenue | 381,640 | 35,275 | 449 | (35,724) | 381,640 |
| Results | | | | | |
| (Loss)/Profit from operations | (5,467) | 5,782 | 117 | 371 | 803 |
| Finance costs | (2,837) | (91) | (533) | - | (3,461) |
| Share of results of associates and joint ventures | - | - | 732 | - | 732 |
| (Loss)/Profit before tax | (8,304) | 5,691 | 316 | 371 | (1,926) |
| Income tax expense | 749 | (1,535) | (85) | (93) | (964) |
| (Loss)/Profit net of tax | (7,555) | 4,156 | 231 | 278 | (2,890) |

| | International Tin Smelting RM'000 | Tin Mining RM'000 | Others RM'000 | (Eliminations)/ Adjustments RM'000 | Total RM'000 |
|--|--|------------------------------|--------------------------|---|-------------------------|
| Assets | | | | | |
| Segment assets | 512,653 | 99,417 | 3,950 | (1,013) | 615,007 |
| Investment in associates and joint ventures | - | - | 75,021 | - | 75,021 |
| Total assets | 512,653 | 99,417 | 78,971 | (1,013) | 690,028 |
| Liabilities | | | | | |
| Segment liabilities | 434,250 | 19,842 | 552 | (449) | 454,195 |

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 2014.

12. Subsequent Events

There was no material event subsequent to end of the current quarter up to 5 May 2015, 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.

14. Changes in Contingent Liabilities and Contingent Assets

Since 31 December 2014, there were no changes in contingent liabilities or contingent assets as at 5 May 2015, 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 2015 was as follows:

| | 31.03.2015 RM'000 |
|---------------------------------|------------------------------------|
| Approved but not contracted for | 19,000 |
| Contracted but not provided for | 1,357 |
| | 20,357 |

16. Related Party Transactions

The following were significant related party transactions:

| | 3 months ended 31.03.2015 |
|-----------------------------------|--------------------------------------|
| | RM'000 |
| Sales of products to an associate | 11,055 |

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:

| | 3 months ended 31.03.2015 |
|----------------------|--------------------------------------|
| | RM'000 |
| Current taxation | |
| Malaysian income tax | 1,689 |
| Deferred tax | (725) |
| Total | 964 |

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 5 May 2015, 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 31 March 2015 comprise the following:

| | 31.03.2015 |
|--|-------------------|
| | RM'000 |
| Short Term Borrowings (unsecured) | |
| Foreign currency trade finance | 42,844 |
| Bankers' acceptances | 271,972 |
| | 314,816 |
| Term loan | 22,252 |
| | 337,068 |

| Amount denominated in foreign currency | '000 |
|---|-------------|
| Foreign currency trade finance (US dollar) | 11,528 |
| Term loan (US dollar) | 5,987 |

Foreign currency trade finance is utilised 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 1.00% to 4.50% per annum (2014: 1.05% to 4.43% per annum) for the Group.

Term loan which is repayable by quarterly instalments bear interest at rate of 3.30% per annum (2014: 3.30% per annum) for the Group.

20. Derivative Financial Instruments

As at 31 March 2015, 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 - Less than 1 year | 17,910 | 17,865 | (34) |
| ii. Forward Currency Contracts - Less than 1 year - 1 to 3 years | 259,460 2,229 | 265,605 2,280 | (4,670) (39) |
| iii. Forward Commodity Contracts - Less than 1 year - 1 to 3 years | 5,584 2,116 | 5,388 2,221 | (150) 80 |

The interest rate swap contract, forward currency contracts and forward commodity 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 RM2,214,000 in its income statement.

The risks and policies relating to the management of derivative financial instruments are similar to those disclosed in the annual financial statements for the year ended 31 December 2014.

21. Changes in Material Litigation

Since 31 December 2014, there was no material litigation against the Group as at 5 May 2015, 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 loss before tax of RM1.93 million in 1Q 2015 compared with a profit of RM9.84 million before exceptional items in 4Q 2014 mainly due to lower average tin price and an unfavourable valuation adjustment on tin inventory by RM12.70 million arising from lower closing tin price at end of 1Q 2015.

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

Group revenue decreased to RM381.64 million in 1Q 2015 compared with RM429.10 million in 1Q 2014 from continuing operations mainly due to lower average tin price in 1Q 2015. Average tin price for 1Q 2015 decreased by 18.6% to USD18,400 per tonne compared with USD22,600 per tonne in 1Q 2014, or by 10.5% in our reporting currency to RM66,600 per tonne for 1Q 2015 compared with RM74,400 per tonne for 1Q 2014.

The Group recorded a loss before tax of RM1.93 million in 1Q 2015 compared with a profit before tax of RM24.04 million in 1Q 2014 from continuing operations mainly due to lower average tin price, an unfavourable valuation adjustment on tin inventory arising from lower closing tin price at end of 1Q 2015, fair value loss in derivative financial instruments and a negative impact of foreign currency translation.

The Butterworth international smelting business recorded a loss before tax of RM8.30 million in 1Q 2015 (1Q 2014: a profit before tax of RM16.11 million) mainly due to lower average tin price, an unfavourable valuation adjustment on tin inventory arising from lower closing tin price at end of 1Q 2015, fair value loss in derivative financial instruments and a negative impact of foreign currency translation.

Rahman Hydraulic Tin mining operations recorded a lower profit before tax of RM5.70 million in 1Q 2015 (1Q 2014: RM8.51 million) mainly due to lower average tin price in 1Q 2015.

The associates and joint ventures recorded a net share of profit of RM0.73 million in 1Q 2015 (1Q 2014: a net share of losses of RM0.03 million).

24. Current Year Prospects

Market conditions remain challenging as the global commodity and resource sectors continued to be depressed resulting in lower commodity and metal prices including tin.

Barring unforeseen circumstances and subject to tin price and foreign exchange fluctuations, the operations of the Butterworth International Smelter and the Rahman Hydraulic Tin mine are expected to perform satisfactorily for the current financial year.

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

| | 3 months ended 31.03.2015 | 3 months ended 31.03.2014 |
|---|--|--|
| (Loss)/Profit net of tax attributable to owners of the Company: | | |
| - (Loss)/Profit from continuing operations (RM'000) | (2,888) | 18,138 |
| - Loss from discontinued operations (RM'000) | - | (3,422) |
| Total (RM'000) | <u>(2,888)</u> | <u>14,716</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) | (2.9) | 18.1 |
| - from discontinued operations (sen) | - | (3.4) |
| (Loss)/Earnings per share (sen) | <u>(2.9)</u> | <u>14.7</u> |

26. Breakdown of Retained Earnings into Realised and Unrealised

| | Current Quarter Ended 31.03.2015 RM'0000 | Preceding Quarter Ended 31.12.2014 RM'0000 |
|--|---|---|
| Total retained earnings of the Company and its subsidiaries: | | |
| - Realised | 21,669 | 25,071 |
| - Unrealised | 1,837 | 2,265 |
| | 23,506 | 27,336 |
| Total share of (accumulated losses)/retained earnings from associated companies: | | |
| - Realised | (6,098) | (6,675) |
| - Unrealised | 298 | 298 |
| Total share of retained earnings/(accumulated losses) from joint ventures: | | |
| - Realised | 20,193 | 20,016 |
| - Unrealised | (11,567) | (11,545) |
| | 26,332 | 29,430 |
| Add: Consolidation adjustments | 6,726 | 6,516 |
| Retained earnings as per financial statements | 33,058 | 35,946 |

27. Dividend Payable

No dividend is declared for the quarter ended 31 March 2015.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
11 May 2015