

NOTES TO THE 1st INTERIM FINANCIAL REPORT – 31 MARCH 2016

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 2015. 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 2015.

2. Changes in Accounting Policies

2.1 New Standards, Annual Improvements and Amendments adopted by the Group

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2015 except for the adoption of the pronouncements that became effective from 1 January 2016.

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 101: Disclosure Initiative	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
MFRS 14: Regulatory Deferral Accounts	1 January 2016

2. Changes in Accounting Policies (cont'd)

2.1 New Standards, Annual Improvements and Amendments adopted by the Group (cont'd)

The adoption of the above pronouncements did not have material impact on the financial statements of the Group, except as disclosed below:

Amendments to MFRS 101: Disclosure Initiative

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 amendments affect presentation and disclosure in financial statements only and have no impact on the Group's financial position or performance.

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018

MFRS 9: Financial Instruments

The Group has elected to early adopt MFRS 9 *Financial Instruments* which is applied retrospectively from 1 January 2016, but comparative information is not compulsory. The adoption of MFRS 9 *Financial Instruments* resulted in changes in accounting policies and adjustments to the financial statements. The accounting policies that relate to the recognition, classification, measurement and de-recognition of financial instruments and impairment of financial assets were amended to comply with MFRS 9 *Financial Instruments*. The Group has chosen to apply the hedge accounting requirements of IAS 39 as permitted by IASB.

2. Changes in Accounting Policies (cont'd)

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018 (cont'd)

MFRS 9: Financial Instruments (cont'd)

i. Changes in accounting policies

Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income or through profit or loss; and
- those to be measured at amortised cost.

The classification above depends on the Group's business model for managing the financial assets and the contractual terms of cash flows. The following summarises the key changes:

- The Available-for-Sale ("AFS") and loans and receivables financial assets categories were removed.
- A new asset category measured at Fair Value through Other Comprehensive Income ("FVOCI") was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interests and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The new asset category for non-traded equity investments measured at FVOCI with no recycling of gains or losses on de-recognition was introduced.
- A new asset category measured at amortised cost was introduced. This applies to financial assets with contractual cash flow characteristics that are solely payments of principal and interests and held in a business model whose objective is achieved by collecting contractual cash flow only.

Financial liabilities

There is no impact on the classification and measurement of the Group's financial liabilities.

2. Changes in Accounting Policies (cont'd)

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018 (cont'd)

MFRS 9: Financial Instruments (cont'd)

i. Changes in accounting policies (cont'd)

Changes to impairment of financial assets

The MFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under MFRS 139. Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies a three-stage approach to measuring expected credit losses ("ECL") on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

(a) Stage 1: 12-months ECL

For exposure where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised;

(b) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised;

(c) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under MFRS 139, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of impairment allowance) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

2. Changes in Accounting Policies (cont'd)

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018 (cont'd)

MFRS 9: Financial Instruments (cont'd)

i. Changes in accounting policies (cont'd)

Changes to impairment of financial assets (cont'd)

In determining whether credit risk has increased significantly since initial recognition, the Group uses external risk ratings, probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payment, and forecast information to assess deterioration in credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of share credit risk characteristics, taking into account instrument type, credit risk rating, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using an impairment allowance account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increase the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

2. Changes in Accounting Policies (cont'd)

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018 (cont'd)

MFRS 9: Financial Instruments (cont'd)

i. Changes in accounting policies (cont'd)

Changes to impairment of financial assets (cont'd)

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment for doubtful receivable reverts from lifetime to 12-months ECL.

Overall, impairment under MFRS 9 might results in earlier recognition of credit losses than under MFRS 139.

ii. Classification and measurement of financial instruments

The following table summarises the reclassification and measurement of the Group's financial assets on 1 January 2016:

	Note	Measurement category		Carrying amount as at 1 January 2016		
		Original	New	Original	New	
		(MFRS 139)	(MFRS 9)	(MFRS 139)	(MFRS 9)	
Financial assets:					RM'000	RM'000
Investment securities						
- Quoted shares	(a)	AFS	FVOCI	12,930	12,930	
- Unquoted shares	(a)	AFS	FVOCI	-	-	
Other receivables (non-current)	(b)	Loans and receivables	Amortised cost	5,637	-	
Trade and other receivables	(b)	Loans and receivables	Amortised cost	162,520	157,259	
Cash, bank balances and deposits	(b)	Loans and receivables	Amortised cost	133,874	133,874	

- a) The Group elected to present in other comprehensive income changes in the fair value of its quoted/unquoted shares previously classified as AFS, as these investments are not held for trading.
- b) Other receivables (non-current), trade and other receivables and cash, bank balances and deposits that have previously been classified as loan and receivables are now classified as amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Financial liabilities at amortised cost consist of trade and other payables and borrowings which are financial liabilities. There is no impact on the classification and measurement of the Group's financial liabilities.

2. Changes in Accounting Policies (cont'd)

2.2 Early adoption of Standard effective for the financial periods beginning on or after 1 January 2018 (cont'd)

MFRS 9: Financial Instruments (cont'd)

ii. Classification and measurement of financial instruments (cont'd)

The following table is a reconciliation of the carrying amount of the Group's statement of financial position from MFRS 139 *Financial Instruments* to MFRS 9 *Financial Instruments* as at 1 January 2016:

	Original (MFRS 139)			New (MFRS 9)
	Carrying amount as at 31.12.2015	Reclassification	Remeasurement	Carrying amount as at 01.01.2016
	RM'000	RM'000	RM'000	RM'000
Other receivables (non-current)	5,637	-	(5,637)	-
Trade and other receivables	162,520	-	(5,261)	157,259
Deferred tax liabilities	1,394	(1,009)	-	385
Retained earnings	31,151	4,203	(10,898)	24,456
AFS reserves	391	(391)	-	-
FVOCI reserves	-	(2,803)	-	(2,803)

The adoption of MFRS 9 has resulted in a decrease in equity as at 1 January 2016 of RM10.90 million at Group level.

2.3 Standards issued but not yet effective

The Group has not adopted the following pronouncements that have been issued but not yet effective:

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
MFRS 15: Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

2. Changes in Accounting Policies (cont'd)

2.3 Standards issued but not yet effective (cont'd)

MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model 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 2018 with early adoption permitted.

The Group is in the process of assessing the impact of MFRS 15.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 31 December 2015 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 profit/(loss) before tax:

	1st Quarter ended 31.03.2016 RM'000	Year to date ended 31.03.2016 RM'000
After charging/(crediting):		
Depreciation and amortisation	2,746	2,746
Fair value gain in derivative financial instruments	(675)	(675)
Favourable valuation adjustment on tin inventory	(10,100)	(10,100)
Gain on disposal of property, plant and equipment	(58)	(58)
Net foreign exchange gain	(8,735)	(8,735)
Other income including investment income	(1,918)	(1,918)
(Gain)/Loss on disposal of investment securities	-	-
Impairment of investment in associates and joint ventures	-	-
Impairment of receivables	-	-
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	408,401	-	-	-	408,401
Inter-segment sales	-	42,194	449	(42,643)	-
Total revenue	408,401	42,194	449	(42,643)	408,401
Results					
Profit/(Loss) from operations	30,174	6,403	77	209	36,863
Finance costs	(3,791)	(180)	(409)	-	(4,380)
Share of results of associates and joint ventures	-	-	349	-	349
Profit/(Loss) before tax	26,383	6,223	17	209	32,832
Income tax expense	(6,119)	(1,690)	(35)	(52)	(7,896)
Profit/(Loss) net of tax	20,264	4,533	(18)	157	24,936
Assets					
Segment assets	589,693	98,791	1,934	(449)	689,969
Investment in associates and joint ventures	-	-	79,977	-	79,977
Total assets	589,693	98,791	81,911	(449)	769,946
Liabilities					
Segment liabilities	481,078	29,214	529	(449)	510,372

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 2015.

12. Subsequent Events

There was no material event subsequent to end of the current quarter up to 4 May 2016, 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 2015, there were no changes in contingent liabilities or contingent assets as at 4 May 2016, 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 2016 was as follows:

	31.03.2016 RM'000
Approved and contracted for	1,069
Approved but not contracted for	20,500
	21,569

16. Related Party Transactions

The following were significant related party transactions:

	3 months ended 31.03.2016 RM'000
Sales of products to an associate	11,660

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 31.03.2016 RM'000
Current taxation	
Malaysian income tax	7,893
Deferred tax	3
Total	7,896

For the current financial year-to-date, the effective tax rate for the Group 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 4 May 2016, 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 2016 comprise the following:

	31.03.2016 RM'000
Short Term Borrowings (unsecured)	
Foreign currency trade finance	10,112
Bankers' acceptances	357,996
	368,108

Amount denominated in foreign currency	'000
Foreign currency trade finance (US dollar)	2,571

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 1.42% to 4.33% per annum (2015: 0.93% to 4.50% per annum) for the Group.

20. Derivative Financial Instruments

As at 31 March 2016, 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. Forward Currency Contracts - Less than 1 year	152,927	146,268	3,867
ii. Forward Commodity Contracts - Less than 1 year	6,392	3,341	(2,319)

The forward currency contracts and forward commodity contracts are all entered for hedging purposes.

20. Derivative Financial Instruments (cont'd)

During the current financial year-to-date, the Group has recognised a fair value gain net of tax of RM513,000 relating to the ineffective portion of the hedges 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 2015.

21. Fair value of assets and liabilities

As at 31 March 2016, the Group's quoted equity instruments fair value of RM12,177,000 (31 December 2015: RM12,930,000) is at Level 1 which is determined directly by reference to the published market closing price at the reporting date. The Group also held forward currency contracts and forward commodity contracts carried at fair value of approximately RM2,037,000 (31 December 2015: RM10,064,000) based on Level 2: significant observable inputs for identical assets or liabilities. There was no transfer between any levels of the fair value hierarchy and there was no change in the purpose of any financial assets/liabilities that subsequently resulted in a different classification of that assets/liabilities during the quarter.

The Group held freehold land and buildings amounting to RM48,771,000 (31 December 2015: RM48,967,000) carried at Level 3: significant unobservable inputs.

22. Changes in Material Litigation

Since 31 December 2015, there was no material litigation against the Group as at 4 May 2016, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

23. Material Change in the Quarterly Results as Compared with the Preceding Quarter

The Group recorded a profit before tax of RM32.83 million in 1Q 2016 compared with a loss before tax of RM4.38 million in 4Q 2015. This was mainly due to a favourable valuation adjustment on tin inventory arising from higher closing tin price at end of 1Q 2016 and a positive impact from foreign currency translations.

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

The Group recorded a higher revenue in 1Q 2016 of RM408.40 million compared with RM381.64 million in 1Q 2015. This was mainly due to higher sales quantity of refined tin.

Group profit before tax was RM32.83 million in 1Q 2016 compared with a loss before tax of RM1.93 million in 1Q 2015. This was mainly due to higher sales quantity of refined tin, a favourable valuation adjustment on tin inventory arising from higher closing tin price at end of 1Q 2016 and a positive impact from foreign currency translations.

The Butterworth international smelting business recorded a profit before tax of RM26.38 million in 1Q 2016 (1Q 2015: a loss before tax of RM8.30 million). Whilst the smelting operation remains profitable, the higher profit was mainly due to a favourable valuation adjustment on tin inventory arising from higher closing tin price and a positive impact from foreign currency translations.

Rahman Hydraulic Tin mining operations recorded a higher profit before tax of RM6.22 million in 1Q 2016 (1Q 2015: RM5.70 million) mainly due to higher sales quantity in 1Q 2016.

The associates and joint ventures recorded a net share of profit of RM0.35 million in 1Q 2016 (1Q 2015: RM0.73 million).

25. Current Year Prospects

Although tin prices have somewhat improved, market conditions remain challenging as the global commodity and resource sectors are still unstable amid volatility in commodity and metal prices including tin.

Despite these challenges, the underlying operations of the Group comprising Butterworth International Smelter and the Rahman Hydraulic Tin mine are expected to perform satisfactorily for the current financial year but the Board remains cautious that the Group's financial results will continue to be impacted by tin price and foreign exchange fluctuations.

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

	3 months ended 31.03.2016	3 months ended 31.03.2015
Profit/(Loss) net of tax attributable to owners of the Company:	24,936	(2,888)
Weighted average number of ordinary shares in issue ('000)	100,000	100,000
Basic/Diluted earnings/(loss) per share (sen)	<u>24.9</u>	<u>(2.9)</u>

27. Breakdown of Retained Earnings into Realised and Unrealised

	Current Quarter Ended 31.03.2016 RM'000	Preceding Quarter Ended 31.12.2015 RM'000
Total retained earnings/(accumulated losses) of the Company and its subsidiaries:		
- Realised	32,865	25,029
- Unrealised	5,661	(4,243)
	<u>38,526</u>	<u>20,786</u>
Total share of (accumulated losses)/retained earnings from associated companies:		
- Realised	(4,595)	(4,719)
- Unrealised	283	283
Total share of retained earnings/(accumulated losses) from joint ventures:		
- Realised	20,009	19,784
- Unrealised	(11,571)	(11,571)
	<u>42,652</u>	<u>24,563</u>
Add: Consolidation adjustments	<u>6,740</u>	<u>6,588</u>

Retained earnings as per financial statements	<u>49,392</u>	<u>31,151</u>
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28. Dividend Payable

No dividend is declared for the quarter ended 31 March 2016.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
10 May 2016