

DIVESTMENT OF MINING SUBSIDIARIES IN INDONESIA:

(a) DISPOSAL OF 100% EQUITY INTEREST IN BEMBAN CORPORATION LIMITED (“BCL”), THE PENULTIMATE HOLDING COMPANY OF PT KOBATIN; AND

(b) DISPOSAL OF 100% EQUITY INTEREST IN PT MSC INDONEISA (“PT MSCI”)

(a) and (b) collectively referred to as “PROPOSED DISPOSALS”

1. INTRODUCTION

Malaysia Smelting Corporation Berhad (“MSC” or the “Company”) wishes to advise that pursuant to the decision of its Board of Directors (“Board”) to divest all mining subsidiaries in Indonesia as stated in the Company’s Annual Report for 2013, the Company has entered into two (2) separate sale and purchase agreements for the disposal of BCL and PT MSCI, respectively.

The rationale for the Proposed Disposals is to cease all mining operations in Indonesia and reposition MSC and its subsidiaries (“MSC Group”) to be more geographically focused in its tin mining and smelting business activities.

2. DISPOSAL OF BCL

2.1 The Transaction

On 1 June 2014, the Company has entered into a Sale and Purchase Agreement (“SPA”) with Berkeley Kensington Group Limited (“BKG” or “Purchaser”) that upon completion, the latter would secure 100% equity interest in BCL. BKG, which is incorporated in the British Virgin Islands, may utilise an Indonesian-incorporated affiliate company to hold the BCL shares.

2.2 Salient Terms of the SPA

a. Consideration for 100% BCL Shares

BKG shall purchase the entire equity interest in BCL, with cash payment of USD400,000 to MSC. The settlement of the USD400,000 which had been made by the Purchaser, constitutes the completion of the SPA.

The SPA provides a further payment of USD600,000 by the Purchaser payable by 30 June 2014 or such later date as the parties may agree in writing. However, the completion of the SPA is not conditional upon this payment.

The Consideration was arrived at on a “willing-buyer-willing-seller” basis and was determined after taking into consideration that the Contract of Work (“CoW”) between the Government of Indonesia and PT Koba Tin dated 16 October 1971 as amended by the Agreement on Modification and Extension of the CoW 1971 dated 6 September 2000 for extension to 31 March 2013 has now expired.

b. As-is Basis

The sale is on an as-is basis with the Company not making any warranty or representation as to the assets, liabilities, obligations and on current or future business of PT Koba Tin.

c. Mechanisms for Settlement of Outstanding Sum Owing from PT Koba Tin to the Company

- i) Upon expiry of the CoW on 31 March 2013, PT Koba Tin still owns some significant assets comprising mainly stocks of tin containing in intermediates and slag, a large capacity bucket-line dredge and a smelting plant.
- ii) The Purchaser agrees that the proceeds from the sale of the dredge and tin stocks less mandatory payments, and other obligations under the CoW and any tax payable by PT Koba Tin in respect of those proceeds shall be used on *pari passu* basis, towards settlement of the outstanding sum to the Company. The Company will have a representative director and a commissioner in PT Koba Tin who will remain in PT Koba Tin until such time the outstanding sum owing to the Company is settled.
- iii) The Purchaser also commits a certain percentage of PT Koba Tin's annual free cash flow from any future smelting operations towards settlement of outstanding sum to the Company.

Note: As the Company had made full provision for the outstanding sum due from PT Koba Tin, any recovery of the outstanding sum would result in future credit to the Company's income statement.

2.3 **Governing Law and Dispute Resolution**

The SPA is in accordance with and governed by the laws of Republic of Singapore. Dispute resolutions are under the Singapore International Arbitration Centre Rules.

2.4 **Proposed utilisation of proceeds**

The proceeds are expected to be utilised by MSC Group in the following manner:

<u>Details of utilisation of proceeds from the Proposed Disposal</u>	<u>Expected timeframe for utilisation</u>	<u>Amount</u> RM'000
Working capital of MSC Group	Within one month from completion	3,262*

* based on USD1.0 million at RM/USD exchange rate of 3.2615

2.5 **Original Cost of Investment**

The original cost of investment in BCL was approximately RM61.1 million which was incurred pursuant to the acquisition of the entire equity interest in Kajuar Mining Corporation Pty Ltd ("KMC") completed on 9 April 2002.

For information purposes, as at 31 December 2012, the Company carried out a review of the recoverable amount of its investment in BCL as the CoW of PT Koba Tin had

expired after 31 March 2013. A full impairment loss was recognised in profit or loss by MSC, reducing the net carrying amount of the investment at the Company level to nil at 31 December 2012.

2.6 Background Information on the Companies

Background information on BCL

BCL was incorporated on 12 March 2002 under the laws of British Virgin Islands as a private limited liability company. As at 31 December 2013, the authorised share capital of BCL is USD16,100,000 of which 1,606,400,000 shares of USD0.01 each have been issued and credited as fully paid up. BCL is principally involved in investment holding. Its wholly-owned subsidiary, KMC, is also an investment holding company with its sole investment being 75% equity interest in PT Koba Tin.

Background information of PT Koba Tin

PT Koba Tin was established by deed of notary public Tan Thong Kie dated 12 October 1971 No. 7. It is 75% owned by KMC while the remaining 25% equity interest is held by PT Timah Tbk, a Government-controlled company listed on the Indonesian Stock Exchange. As at 31 December 2013, PT Koba Tin has 1,000,000 shares of USD1.00 each, issued and credited as fully paid up. PT Koba Tin is principally involved in tin mining and smelting and it is a party to the CoW that expired after 31 March 2013.

Background information on BKG

BKG is a holding company which is 100% owned by Mr. Rudy Taslim, an Indonesian national who is an active investor in the mineral resources sector. Its investment interests include the mining business licenses for production of tin and various other minerals in Indonesia. BKG intends to utilise PT Koba Tin's processing and smelting facilities to complement its tin mining operations in order to convert the tin concentrate into export quality tin metal.

3. DISPOSAL OF PT MSC I

3.1 The Transaction

On 1 June 2014, the Company had also entered into a Sale and Purchase Agreement with PT Bangka Timah Utama and Mr Eddy Dayanto ("PT MSC I Purchasers") for the disposal of 5,000,000 ordinary shares of USD1.00 each representing 100% of the total issued and paid up capital in PT MSC I. PT MSC I, incorporated in Indonesia, is a wholly-owned subsidiary of the Company. For information purposes, the carrying amount of the Company's investment in PT MSC I was fully impaired as at 31 December 2012.

3.2 Disposal consideration

The purchase price for the shares is USD1.00 and the same had been settled in full at the time of this announcement.

3.3 Background information on the PT MSC I Purchasers

PT Bangka Timah Utama is a limited liability company duly organized and established under the laws of the Republic of Indonesia, having its principal office at Jl. A. Yani Komplek DPRD No.33 Sungailiat, Province of Bangka Belitung Islands, Indonesia.

Mr. Edy Dayanto is an Indonesian citizen, residing at Cikoko Timur III/60, Pancoran Jakarta Selatan.

4. EFFECTS OF PROPOSED DISPOSALS

4.1 Share Capital

The Proposed Disposals will not have any effect on the issued and paid-up share capital of MSC.

4.2 Substantial Shareholders' Shareholdings

The Proposed Disposals will not have any effect on the shareholdings of the substantial shareholders of MSC.

4.3 Net Asset ("NA") and gearing

The proforma effects of the Proposed Disposals on the NA and gearing of MSC based on the audited consolidated financial statements of MSC Group for the financial year ended 31 December 2013 and on the assumption that the Proposed Disposals had been effected on that date, are as follows:

	<u>Audited as at 31 December 2013</u>	<u>After the Proposed Disposals ⁽⁴⁾</u>
	(RM'000)	(RM'000)
Share capital	100,000	100,000
Share premium	76,372	76,372
Other reserves	7,263	11,770
Retained earnings	46,102	14,060
Reserve of disposal group classified as held for sale	(6,969)	-
Shareholders' funds / Equity attributable to shareholders of the Company	222,768	202,202
Non-controlling interests (NCI) ⁽³⁾	(42,112)	-
Total equity/ NA	<u>180,656</u>	<u>202,202</u>
Number of ordinary shares of RM1.00 each in MSC ("MSC Shares")	100,000,000	100,000,000
Net asset per MSC Share (RM) ⁽¹⁾	2.23	2.02
Total borrowings (RM'000)	368,676	368,676
Gearing (times) ⁽²⁾	2.04	1.82

As illustrated above and for information purposes, the Proposed Disposals are expected to improve the Group's gearing from 2.04 to 1.82 times due to the increase in total equity/NA from RM180.65 million to RM202.20 million.

Notes:

(1) Computed based on shareholders' funds divided by the number of MSC Shares

(2) Computed based on total borrowings divided by Total equity/ NA

(3) This relates to NCI attributable to PT Koba Tin

(4) The proforma effects of the Proposed Disposals on the NA and gearing of the MSC Group are based on the unaudited consolidated financial statements of BCL Group, and unaudited financial statements of PT MSC I for 3 months ended 31 March 2014 using disposal proceeds of USD1.0 million.

4.4 Earnings and Earnings per Share (“EPS”)

Following the Proposed Disposals, all the assets and liabilities of the BCL Group (comprises BCL, KMC and PT Koba Tin) and PT MSCI will be de-consolidated from the Consolidated Financial Statements of the MSC Group. The de-consolidation will result in de-recognition of non-controlling interests of the BCL Group and reclassification of foreign currency translation reserves to profit or loss. These non-cash adjustments will reduce the earnings and EPS of the MSC Group for the financial year ending 31 December 2014.

For illustrative purposes only, based on the unaudited consolidated financial statements of the BCL Group and the unaudited financial statements of PT MSCI for 3 months ended 31 March 2014, the Proposed Disposals would result in a proforma loss on disposal (non-cash) of approximately RM32 million and a decrease in EPS of 32 sen to the MSC Group for the financial year ending 31 December 2014.

For information purposes, analysis of the proforma loss from the Proposed Disposals is illustrated below :

	RM'000
Carrying amount of net liabilities:	
- BCL Group	17,007
- PT MSCI	-
De-recognition of non-controlling interests	(41,850)
Foreign currency translation reserves reclassified to profit or loss	(10,654)
Revaluation reserves transferred to retained earnings	193
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	(35,304)
Total disposal proceeds based on USD1.0 million	3,262
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Proforma loss from the Proposed Disposals	<u>(32,042)</u>

As illustrated above, the proforma loss of RM32,042,000 from the Proposed Disposals is mainly due to de-recognition of negative non-controlling interests of RM41,850,000 and negative foreign currency translation reserves of RM10,654,000 reclassified to profit or loss.

5. PERCENTAGE RATIOS

Based on the audited consolidated financial statements of MSC for the financial year ended 31 December 2013, the highest percentage ratio applicable for the Proposed Disposals amounts to approximately 16.7%.

6. APPROVALS REQUIRED

The Proposed Disposals are not subject to shareholders' approval or relevant government authorities' approval being obtained. The Proposed Disposals are not conditional upon any other proposals undertaken by the Company.

7. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the directors and major shareholders of the Company as well as persons connected with them have any interest, direct and/or indirect, in the Proposed Disposals.

8. **DIRECTORS' STATEMENT**

Having considered the rationale and effects of the Proposed Disposals, the Board is of the opinion that the Proposed Disposals are in the best interest of the MSC Group and its shareholders.

9. **ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances, the Proposed Disposals are expected to be completed by the second quarter of 2014.

10. **DOCUMENTS AVAILABLE FOR INSPECTION**

The SPAs will be available for inspection at the registered office of MSC at B-15-11, Block B, 15th Floor, Unit 11, Megan Avenue II, No.12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for three (3) months from the date of this Announcement.

This announcement is dated 2 June, 2014.

By order of the Board,

Sharifah Faridah Abd. Rasheed
Company Secretary