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

The Company has a secondary listing on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST"). Under the listing rules of the SGX-ST, the Company is required to provide a reconciliation of its periodic financial statements from Malaysian Financial Reporting Standards ("MFRS") to Singapore Financial Reporting Standards ("Singapore FRSs").

For the period under review, there are no material differences in the Group's profit for the period, and the Group's equity attributable to owners of the Company under MFRSs and Singapore FRSs except as disclosed in Appendix A.

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.

Description	*Effective for annual periods beginning on or after*
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. <u>Changes in Accounting Policies (cont'd)</u>

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:

<u>Amendments to MFRS 101: Disclosure Initiative</u>

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

<u>MFRS 9: Financial Instruments</u>

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 MFRS 139 as permitted by MASB.

2. Changes in Accounting Policies (cont'd)

2.3 Standards issued but not yet effective

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

Description	*Effective for annual periods beginning on or after*
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 16: Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Group is in the process of assessing the impact of the above pronouncements.

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:

	2nd Quarter ended 30.06.2016 RM'000	Year to date ended 30.06.2016 RM'000
After charging/(crediting):		
Depreciation and amortisation	2,726	5,472
Fair value loss/(gain) in derivative financial instruments	469	(206)
Favourable valuation adjustment on tin inventory	(6,600)	(16,700)
Gain on disposal of property, plant and equipment	-	(58)
Net foreign exchange gain	(6,910)	(15,645)
Other income including investment income	(53)	(1,971)
Property, plant and equipment written off	1	1
(Gain)/Loss on disposal of investment securities	-	-
Impairment of investment in associates and joint ventures	-	-
Impairment of receivables	-	-

Restatement of revenue for the period ended 30 June 2015:

	1st Quarter ended 31.03.2015 RM'000	2nd Quarter ended 30.06.2015 RM'000	Year to date ended 30.06.2015 RM'000
Revenue	381,640	452,975	834,615
Less: Adjustments	-	(108,504)	(108,504)
Restated revenue	381,640	344,471	726,111

The adjustments involved revenue and cost of sales and had no financial impact to the profit or loss for the affected quarters in 2015.

6. Share of results of associates and joint ventures

The Group's share of results of associates and joint ventures recorded a net share of losses of RM30.53 million in 1H 2016 compared with a net share of profit of RM0.35 million in 1H 2015. This was mainly due to higher share of losses from KM Resources, Inc. arising from the provision of additional prior years tax liabilities.

7. 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 except as disclosed.

8. Changes in Estimates

There were no changes in estimates that have had a material effect for the current financial year-to-date.

9. 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.

10. Dividend Paid

There was no dividend paid during the current quarter.

11. 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 and the comparative period were as follows:

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations)/ Adjustments RM'000	Total RM'000
6 months ended 30 June 2016					
Revenue					
Sales to external customers	804,680	-	-	-	804,680
Inter-segment sales	-	77,057	898	(77,955)	-
Total revenue	804,680	77,057	898	(77,955)	804,680
Results					
Profit from operations	55,835	11,323	304	209	67,671
Finance costs	(6,131)	(360)	(835)	-	(7,326)
Share of results of associates and joint ventures	-	-	(30,527)	-	(30,527)
Profit/(Loss) before tax	49,704	10,963	(31,058)	209	29,818
Income tax expense	(12,105)	(2,905)	(104)	(52)	(15,166)
Profit/(Loss) net of tax	**37,599**	**8,058**	**(31,162)**	**157**	**14,652**
6 months ended 30 June 2015					
Revenue					
Sales to external customers	726,111	-	-	-	726,111
Inter-segment sales	-	49,134	898	(50,032)	-
Total revenue	726,111	49,134	898	(50,032)	726,111
Results					
(Loss)/Profit from operations	(21,710)	5,857	237	1,123	(14,493)
Finance costs	(5,771)	(181)	(1,064)	-	(7,016)
Share of results of associates and joint ventures	-	-	352	-	352
(Loss)/Profit before tax	(27,481)	5,676	(475)	1,123	(21,157)
Income tax expense	5,321	(1,541)	(141)	(281)	3,358
(Loss)/Profit net of tax	**(22,160)**	**4,135**	**(616)**	**842**	**(17,799)**

11. Segmental Reporting (cont'd)

	International Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	(Eliminations)/ Adjustments RM'000	Total RM'000
At 30 June 2016					
Assets					
Segment assets	491,639	61,394	18,769	(449)	571,353
Investment in associates and joint ventures	-	-	49,780	-	49,780
Total assets	**491,639**	**61,394**	**68,549**	**(449)**	**621,133**
Liabilities					
Segment liabilities	**338,586**	**28,952**	**450**	**(449)**	**367,539**
At 31 December 2015					
Assets					
Segment assets	608,464	111,985	2,690	(606)	722,533
Investment in associates and joint ventures	-	-	84,469	-	84,469
Total assets	**608,464**	**111,985**	**87,159**	**(606)**	**807,002**
Liabilities					
Segment liabilities	**534,178**	**31,410**	**609**	**(449)**	**565,748**

12. 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.

13. Subsequent Events

There was no material event subsequent to end of the current quarter.

14. 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 that on 14 June 2016, the Company acquired 100% equity interest in M Smelt (C) Sdn. Bhd. by way of an acquisition of two ordinary shares of RM1.00 each for a total consideration of RM2.00.

15. Changes in Contingent Liabilities and Contingent Assets

Since 31 December 2015, there were no changes in contingent liabilities or contingent assets as at 4 August 2016, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

16. Capital Commitments

The amount of capital commitments at 30 June 2016 was as follows:

	30.06.2016 RM'000
Approved and contracted for	883
Approved but not contracted for	20,326
	21,209

17. Related Party Transactions

The following were significant related party transactions:

	6 months ended 30.06.2016
	RM'000
Sales of products to an associate	26,279

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.

18. Income Tax Expense

Income tax expense comprises the following:

	6 months ended 30.06.2016 RM'000
Current taxation	
Malaysian income tax	15,459
Deferred tax	(293)
Total	15,166

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.

19. Status of Corporate Proposal

There was no corporate proposal announced but not completed as at 4 August 2016, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report except that on 15 June 2016, M Smelt (C) Sdn. Bhd., a wholly-owned subsidiary of the Company, entered into the following agreements with Metal Reclamation (Industries) Sdn. Bhd. (Receiver and Manager Appointed):

a) the conditional sale and purchase agreement for three (3) plots of leasehold industrial land with the buildings built thereon, measuring approximately 48,753.57 square meters in Lot 6, 8 & 9 Jalan Perigi Nanas 6/1 Pulau Indah Industrial Park, West Port 42920 Port Klang, Selangor ("Properties") for a purchase consideration of RM32.5 million; and

b) the conditional asset sale agreement for the plant and machinery on the Properties for a purchase consideration of RM17.5 million.

Barring any unforeseen circumstances, the above proposed acquisitions are expected to be completed by the fourth quarter of 2016.

20. Interest-Bearing Loans and Borrowings

Group borrowings as at 30 June 2016 comprise the following:

	30.06.2016 RM'000
Short Term Borrowings (unsecured)	
Foreign currency trade finance	1,632
Bankers' acceptances	228,324
	229,956

Amount denominated in foreign currency	**'000**
Foreign currency trade finance (US dollar)	406

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 1.25% to 4.33% per annum (2015: 0.93% to 4.50% per annum) for the Group.

21. Derivative Financial Instruments

As at 30 June 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	121,594	120,083	1,066
ii. Forward Commodity Contracts - Less than 1 year	4,557	3,141	(1,076)

The 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 gain net of tax of RM157,000 relating to the ineffective portion of the hedges in its income statement.

21. Derivative Financial Instruments (cont'd)

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.

22. Fair value of assets and liabilities

As at 30 June 2016, the Group's quoted equity instruments fair value of RM18,527,000 (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 RM14,000 (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 may subsequently resulted in a different classification of that assets/liabilities during the quarter.

The Group held freehold land and buildings amounting to RM48,576,000 (31 December 2015: RM48,967,000) carried at Level 3: significant unobservable inputs.

23. Changes in Material Litigation

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

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

The Group recorded a loss before tax of RM3.01 million in 2Q 2016 compared with a profit before tax of RM32.83 million in 1Q 2016. This was mainly due to lower revenue, lower favourable valuation adjustment on tin inventory and higher share of losses of associates and joint ventures compared with 1Q 2016.

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

Current Quarter 2Q 2016

The Group recorded a revenue of RM396.28 million in 2Q 2016, 15.0% higher compared with RM344.47 million in 2Q 2015. This was mainly due to higher sales quantity of refined tin and higher tin prices in 2Q 2016.

Group loss before tax was RM3.01 million in 2Q 2016 compared with a loss before tax of RM19.23 million in 2Q 2015. This was mainly due to higher revenue, a favourable valuation adjustment on tin inventory arising from higher closing tin price at the reporting date and a positive impact from foreign currency translations but partially off-set by higher share of losses of associates and joint ventures.

The Butterworth international smelting business recorded a profit before tax of RM23.32 million in 2Q 2016 compared with a loss before tax of RM19.18 million in 2Q 2015. This was mainly due to higher revenue, a favourable valuation adjustment on tin inventory and a positive impact from foreign currency translations.

Rahman Hydraulic Tin mining operations recorded a profit before tax of RM4.74 million in 2Q 2016 compared with a break- even position in 2Q 2015. This was mainly due to higher tin prices and higher sales quantity in 2Q 2016.

Current Financial Year-to-date

The Group recorded a revenue of RM804.68 million in the first 6 months (1H) of the current financial year, 10.8% higher compared with RM726.11 million in 1H 2015. This was mainly due to higher sales quantity of refined tin and higher tin prices in 1H 2016.

Group profit before tax was RM29.82 million in 1H 2016 compared with a loss before tax of RM21.16 million in 1H 2015. This was mainly due to higher revenue, a favourable valuation adjustment on tin inventory arising from higher closing tin price at the reporting date and a positive impact from foreign currency translations but partially off-set by higher share of losses of associates and joint ventures.

The Butterworth international smelting business recorded a profit before tax of RM49.70 million in 1H 2016 compared with a loss before tax of RM27.48 million in 1H 2015. This was mainly due to higher revenue, a favourable valuation adjustment on tin inventory and a positive impact from foreign currency translations.

Rahman Hydraulic Tin mining operations recorded a profit before tax of RM10.96 million in 1H 2016, 92.3% higher compared with RM5.70 million in 1H 2015. This was mainly due to higher sales quantity and higher tin prices in 1H 2016.

26. 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.

The Board remains cautious that the Group's financial results will continue to be impacted by tin price and foreign exchange fluctuations.

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

	6 months ended 30.06.2016	**6 months ended 30.06.2015**
Profit/(Loss) net of tax attributable to owners of the Company:	14,652	(17,795)
Weighted average number of ordinary shares in issue ('000)	100,000	100,000
Basic/Diluted earnings/(loss) per share (sen)	14.7	(17.8)

28. Breakdown of Retained Earnings into Realised and Unrealised

	As at end of current quarter RM'000	As at preceding financial year end RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised	54,956	25,029
- Unrealised	4,167	(4,243)
	59,123	20,786
Total share of (accumulated losses)/retained earnings from associated companies:		
- Realised	(4,498)	(4,719)
- Unrealised	283	283
Total share of retained earnings/(accumulated losses) from joint ventures:		
- Realised	(10,964)	19,784
- Unrealised	(11,571)	(11,571)
	32,373	24,563
Add: Consolidation adjustments	6,735	6,588
Retained earnings as per financial statements	39,108	31,151

29. Dividend Payable

No dividend is declared for the quarter ended 30 June 2016.

By Order of the Board
Sharifah Faridah Abd Rasheed
Secretary

Kuala Lumpur
10 August 2016

Appendix A – Reconciliations of MFRSs with Singapore FRSs

Foreign currency translation reserves

Under Singapore FRS, the translation differences on foreign operations are recognised as a separate component of equity. MFRS 1 provides the optional exemption that cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS.

Accordingly, at the date of transition to MFRS - 1 January 2011, the cumulative foreign currency translation differences of RM28,067,000 (30 June 2016: RM11,133,000; 31 December 2015: RM11,133,000) were adjusted to retained earnings.

Singapore FRSs do not provide for this MFRS 1 optional exemption. The reconciliations of equity at the reporting date and for comparative period from MFRSs to Singapore FRSs are provided below:

<u>Reconciliation of equity as at 30 June 2016</u>

	MFRS as at 30.06.2016 RM'000	Foreign currency translation reserves RM'000	Singapore FRS as at 30.06.2016 RM'000
Equity			
Other reserves	37,818	(11,133)	26,685
Retained earnings	39,108	11,133	50,241

<u>Reconciliation of equity as at 31 December 2015</u>

	MFRS as at 31.12.2015 RM'000	Foreign currency translation reserves RM'000	Singapore FRS as at 31.12.2015 RM'000
Equity			
Other reserves	33,435	(11,133)	22,302
Retained earnings	31,151	11,133	42,284