Annual Report 2002

earth's green metal:

for a greener & cleaner world

MSC Malaysia Smelting Corporation Berhad

(Incorporated in Malaysia)

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MSC Malaysia Smelting Corporation Berhad

VISION

- To be a successful world-class organization in its integrated core businesses of mining, smelting, manufacturing and global marketing for tin and tin-based products delivering sustainable shareholder value through quality operations.

MISSION

- Whether in the upstream or downstream sectors of the world tin industry, the name MSC will be synonymous with creativity, value, service and quality.
- MSC Group will be a creative organization, caring about its employees and its customers.
  - We will provide the highest levels of service to all the Group's suppliers and customers by participating and contributing solutions and values in all stages of the world tin supply chains - mining, smelting, refining, recycling, products transformation, engineering and marketing;
  - We will respond quickly and sensitively to the changing needs of the Group's suppliers and customers;
  - We aim to nurture an atmosphere of continuous self-development by emphasizing on training and development while adhering to the highest standard of integrity.
- MSC Group's growth strategy is to leverage on its core competencies to focus on organic growth as well as on strategic acquisitions that will broaden the Group's core businesses and strengthen its global leadership position in both upstream and downstream sectors of the world tin industry.

CORE VALUES

- Intellectual honesty and integrity.
- Adding value through innovation and continuous improvement.
- Global perspective and competitiveness spirit.
- Respect for the environment and the health and safety of its employees.
- Creating sustainable shareholder value through quality operations.

DATO' MOHD AJIB ANUAR
GCEO/Executive Director

MALAYSIA SMELTING CORPORATION BERHAD(43072-A)
27, Jalan Pantai, 12000 Butterworth, Malaysia. Tel: 604-333 3500 Fax: 604-332 6499 E-mail: msc@msmelt.po.my
B-15-18, Block B, 15th Floor, Unit 11, Megan Avenue II, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia
Tel: (+60-3) 2166 9258-61 Fax: (+60-3) 2166 6599 E-mail: msckl@po.jaring.my

NOTICE IS HEREBY GIVEN that the Twenty-Fourth Annual General Meeting of members of Malaysia Smelting Corporation Berhad will be held at Pangkor Room, Shangri-La Hotel, Magazine Road, 10300 Penang, Malaysia on Monday 26th May 2003 at 11.30 am for the purpose of considering and, if thought fit, passing the following as ordinary resolutions:-

1. "THAT the audited Financial Statements for the year ended 31st December 2002 and the Report of the Directors and Auditors thereon be and are hereby received and adopted."

2. "THAT the following Directors, who retire in accordance with Articles 101 and 106 of the Company's Articles of Association, be and are hereby re-elected Directors of the Company :-

   a) Mr Norman Ip Ka Cheung (Article 101)
   b) YBhg. Dato' Ismail bin Shahudin (Article 106)
   c) Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii (Article 106)"

3. "THAT the following Directors, who retire pursuant to Section 129(6) of the Companies Act, 1965, be and are hereby reappointed Directors of the Company to hold office until the conclusion of the next Annual General Meeting.

   a) YBhg. Jeneral (B) Tun Ibrahim bin Datuk Ismail
   b) Mr Choi Siew Hong
   c) YBhg. Dato' Siew Nim Chee"

4. "THAT the Directors' fees of RM400,000 in respect of the year ended 31st December 2002 be and is hereby approved payable to Directors in such proportion and manner as the Directors may determine."

5. "THAT Messrs Ernst & Young, who are eligible and have given their consent for reappointment, be and are hereby reappointed the Company's Auditors for the period until the conclusion of the next Annual General Meeting and that the remuneration to be paid to them be fixed by the Board."

6. To transact any other business of an Annual General Meeting.

BY ORDER OF THE BOARD
Abdul Rahim Hussain
Secretary
Butterworth
2nd May 2003

Notes :

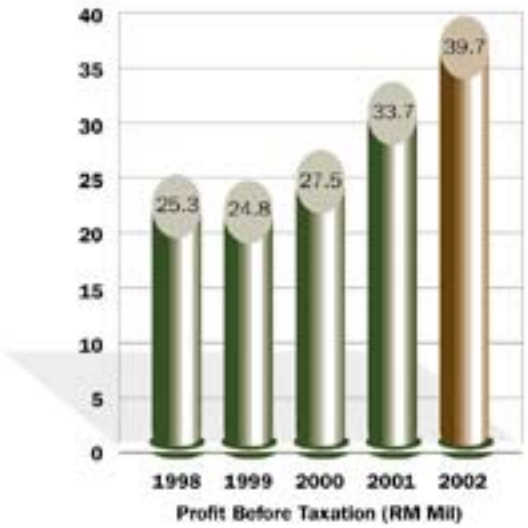
1. *A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*

2. *A proxy form is enclosed and to be valid must reach the Registered Office of the Company at 27 Jalan Pantai, 12000 Butterworth, Penang not less than forty-eight (48) hours before the meeting.*

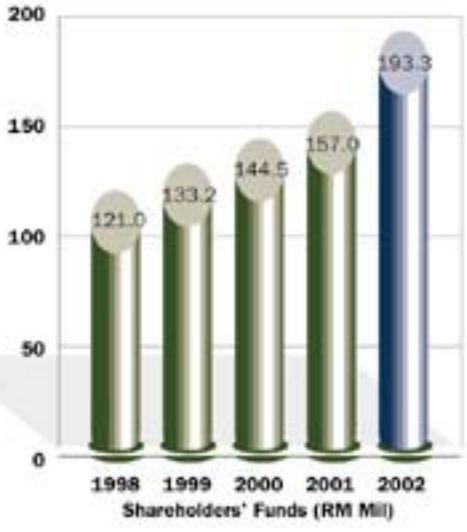
3. *If the appointor is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.*

GROUP FINANCIAL HIGHLIGHTS

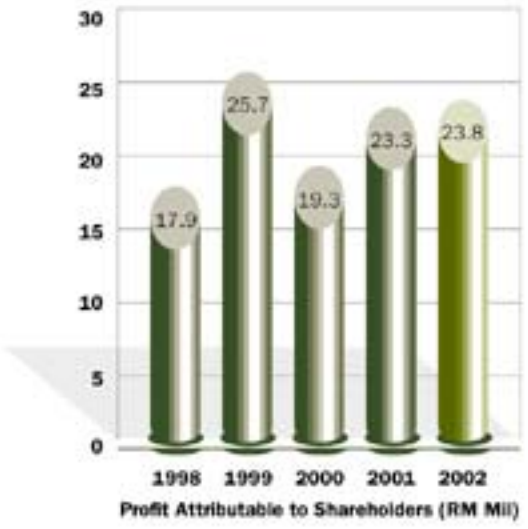
		Year Ended 31st December				
		1998	1999	2000	2001	2002
Revenue	(RM Mil)	701.1	742.1	575.0	582.6	719.5
Profit before taxation	(RM Mil)	25.3	24.8	27.5	33.7	39.7
Taxation	(RM Mil)	(7.4)	0.9	(8.2)	(10.4)	(13.3)
Profit attributable to shareholders	(RM Mil)	17.9	25.7	19.3	23.3	23.8
Total assets	(RM Mil)	175.0	195.5	192.2	229.2	365.0
Net current assets	(RM Mil)	80.1	94.7	94.6	80.0	143.9
Shareholders' funds	(RM Mil)	121.0	133.2	144.5	157.0	193.3
Earnings per share	(sen)	24	34	26	31	32
Gross dividend per share declared	(sen)	15	17	18	18	20
Net tangible assets per share	(sen)	161	178	189	206	254
Pre-tax return on average shareholders' funds	(%)	23	20	20	22	22



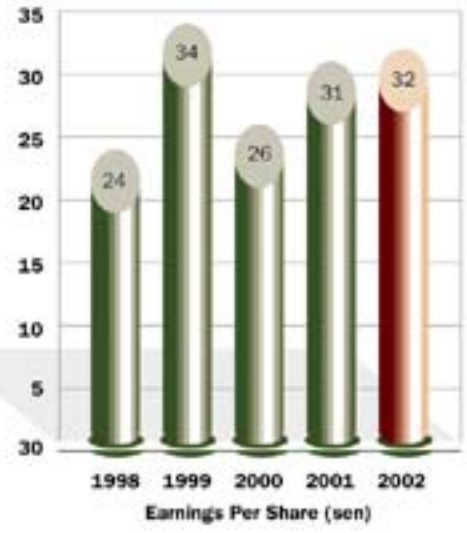
Profit Before Taxation (RM Mil)



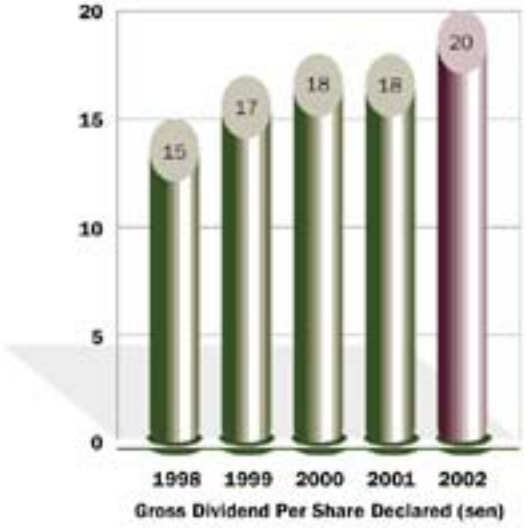
Shareholders' Funds (RM Mil)



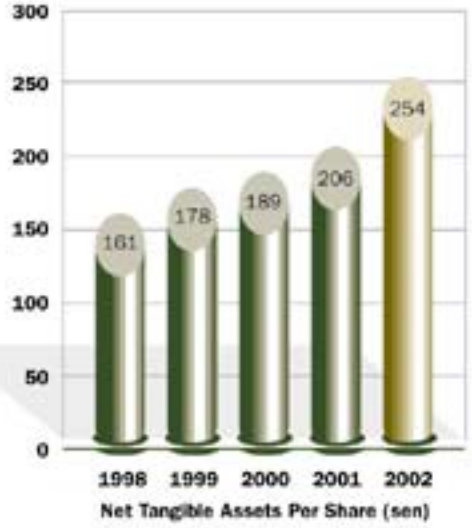
Profit Attributable to Shareholders (RM Mil)



Earnings Per Share (sen)



Gross Dividend Per Share Declared (sen)



Net Tangible Assets Per Share (sen)

Corporate Information

BOARD OF DIRECTORS

Non-Independent Non-Executive Directors

Jeneral (B) Tun Ibrahim bin Datuk Ismail *(Chairman)*
Norman Ip Ka Cheung
Dato' Syed Abdul Jabbar bin Syed Hassan
Dato' Ismail bin Shahudin

Executive Director

Dato' Mohd Ajib Anuar

Senior Independent Non-Executive Director

Choi Siew Hong

Independent Non-Executive Directors

Dato' Siew Nim Chee
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii

COMPANY SECRETARY

Abdul Rahim Hussain (LS007064)

MANAGEMENT

Dato' Mohd Ajib Anuar
(Group CEO/Executive Director)

Lai Fook Hoy
(Group Chief Operating Officer, Smelting)

Yap Fook Ping
(Group Chief Financial Officer)

Abdul Rahim Hussain
(Company Secretary)

Chua Cheong Yong
(Group General Manager, Commercial)

Mohd Anuar Sidek
(President Director, PT Koba Tin)

REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS

27 Jalan Pantai
12000 Butterworth, Penang, Malaysia
Tel: (604) 333 3500
Fax: (604)331 7405 / 332 6499
E-mail: msc@msmelt.po.my
Website: www.msmelt.com

KUALA LUMPUR CORPORATE AND MARKETING OFFICE

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Tel: (603) 2166 9258-61
Fax: (603) 2166 6599
E-mail: msckl@po.jaring.my

PT KOBA TIN OFFICE

Arthaloka Bld. 12th Floor
Jl. Jend. Sudirman No.2
Jakarta 10220, Indonesia
Tel: (62) (21) 251 1566
Fax: (62) (21) 251 1532
E-mail: anuarsidek@ptkoba.co.id
Website: www.ptkoba.co.id

SHARE REGISTRARS

Pernas Charter Management Sdn Bhd
Level 10 Block B
Wisma Semantan
No. 12 Jalan Gelenggang
Bukit Damansara
50490 Kuala Lumpur
Tel: (603) 2092 5588
Fax: (603) 2094 0441

AUDITORS

Ernst & Young

BANKERS

Bumiputra-Commerce Bank Berhad
Citibank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
Southern Bank Berhad
Standard Chartered Bank Malaysia Bhd

STOCK EXCHANGE LISTING

The Kuala Lumpur Stock Exchange

Seated (L–R): *Choi Siew Hong, Jeneral (B) Tun Ibrahim bin Datuk Ismail, Dato' Siew Nim Chee, Dato' Ismail bin Shahudin*
Standing (L–R): *Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii, Dato' Mohd Ajib Anuar, Norman Ip Ka Cheung, Dato' Syed Abdul Jabbar bin Syed Hassan*

Board of Directors

BOARD OF DIRECTORS

Non-Independent Non-Executive Directors

Jeneral (B) Tun Ibrahim bin Datuk Ismail *(Chairman)*
Norman Ip Ka Cheung
Dato' Syed Abdul Jabbar bin Syed Hassan
Dato' Ismail bin Shahudin

Executive Director

Dato' Mohd Ajib Anuar

Senior Independent Non-Executive Director

Choi Siew Hong

Independent Non-Executive Directors

Dato' Siew Nim Chee
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii

AUDIT COMMITTEE

Choi Siew Hong *(Chairman)*
Norman Ip Ka Cheung
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii

NOMINATING COMMITTEE

Choi Siew Hong *(Chairman)*
Dato' Syed Abdul Jabbar bin Syed Hassan
Dato' Siew Nim Chee

REMUNERATION COMMITTEE

Norman Ip Ka Cheung *(Chairman)*
Choi Siew Hong
Dato' Siew Nim Chee
Dato' Mohd Ajib Anuar

YBhg. Jen (B) Tun Ibrahim bin Datuk Ismail

YBhg. Jen (B) Tun Ibrahim bin Datuk Ismail, a Malaysian, aged 80, has been a Non-Executive Director of the Company since April 1982 and was appointed Chairman of the Company in November 2001.

YBhg. Tun Ibrahim retired as a Chief of the Malaysian Armed Forces and since his retirement in 1977 has held a number of corporate and public appointments. Tun was awarded the Honorary Degree of Doctor of Science (Management) from the Universiti Utara Malaysia in 2000. Currently he is on the Board of Permodalan Nasional Berhad and also a director of WBL Corporation Limited and The Straits Trading Company Ltd (since 22 April 1978) both listed on the stock exchange of Singapore. He also sits on the boards of several private limited companies.

YBhg. Tun Ibrahim does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

YBhg. Dato' Mohd Ajib Anuar

YBhg. Dato' Mohd Ajib Anuar, a Malaysian, aged 53, has been the Chief Executive Officer and Executive Director of the Company since June 1994. He joined the Board as a Non-Executive Director in July 1986. He obtained the professional qualification of the Association of Chartered Certified Accountants, United Kingdom in 1974.

He is currently the Chairman of The Kuala Lumpur Tin Market, the President of ITRI Limited, United Kingdom, the tin industry's international research and development body, the Vice President of the Malaysian Chamber of Mines and the Chairman of the Malaysian Tin Industry (Research and Development) Board.

Prior to his appointment as the CEO of the Company, he had spent more than 23 years within the Malaysia Mining Corporation Berhad Group of Companies (MMC), serving in various senior positions including the General Manager of the Finance Division, Director of Business Development and Managing Director of MMC's International Marketing Division. He had also served as Deputy Chairman of The Kuala Lumpur Commodity Exchange from 1988 to 1993 and as Chairman of the Malaysian Futures Clearing Corporation from 1990 to 1993.

YBhg. Dato' Mohd Ajib does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

Mr Choi Siew Hong

Mr Choi Siew Hong, a Malaysian, joined the Board of the Company in April 1989 and was appointed Chairman of the Audit Committee in August 1994, Chairman of the Nominating Committee in February 2002 and a Senior Independent Non-Executive Director in January 2003.

Aged 81, he holds a First Class Honours Degree in Economics from the University of Malaya. He is currently the Chairman of Pacificmas Berhad (formerly known as The Pacific Bank Berhad) and Chairman and Executive Director of United Malacca Berhad. He is also the Chairman of The Pacific Insurance Berhad and Pacific Mutual Fund Berhad besides sitting on the boards of several private companies.

He has had a distinguished career in banking, having served Bank Negara Malaysia from December 1958 to October 1972 in various positions including that of Deputy Governor for more than six years. He was an Executive Director of the World Bank representing Malaysia and other countries in the South East Asia Voting Group from November 1972 to October 1975. He served as a senior executive and later as General Manager in the Malaysia Division of Overseas Chinese Banking Corporation Limited from 1976 to July 1986. Appointed as a Director of The Pacific Bank Berhad in 1976, he became its Chairman for six years from March 1988 to September 1994. He was Chairman of OCBC Bank (Malaysia) Berhad from September 1974 to September 1997 before resuming his previous position in The Pacific Bank Berhad (now known as Pacificmas Berhad).

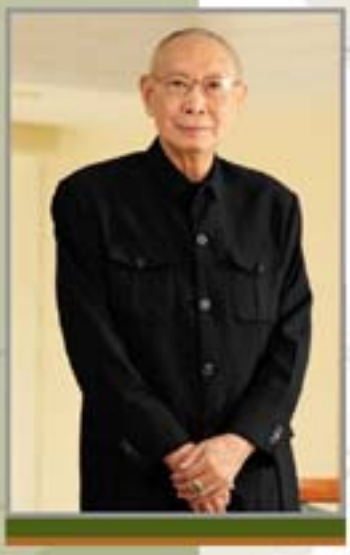
Mr Choi Siew Hong does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

Mr Norman Ip Ka Cheung

Mr Norman Ip Ka Cheung, a British subject, aged 51, a Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales, was first appointed to the Board as a Non-Executive Director in 1993. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee.

Presently, Mr Norman Ip is the President and Chief Executive Officer of The Straits Trading Group, Singapore. Prior to joining Straits Trading in 1983, he was a Supervisor with Ernst & Whinney (now known as Ernst & Young), specialising in audits of conglomerates. He also sits on the boards of Tronoh Mines Malaysia Berhad and Killinghall Malaysia Berhad besides sitting on the boards of several private limited companies.

Mr Norman Ip does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.



YBhg. Dato' Siew Nim Chee

YBhg. Dato' Siew Nim Chee, a Malaysian, aged 78, joined the Board in 1995 and is an Independent Non-Executive Director. He graduated from the University of Malaya in 1951 with a Bachelor Degree (Hons) in Economics. In 1953, he graduated from Cornell University, New York, USA with a M.Sc. in Industrial and Labour Relations. He started his working career in 1953 as an Assistant Lecturer in the University of Malaya and was a Lecturer from 1955 to 1958 in the same university. He was a Chief Economist of Bank Negara Malaysia from 1959 to 1964. He worked as an Advisor with Exxon (M) Berhad from 1965 to 1969. From 1970 to 1977, he served as Managing Director of Magnum Corporation Berhad. He was a Group Consultant to Genting Berhad and Kien Huat Realty Sdn Bhd in 1978. He is currently a Director/Advisor of Ancom Berhad.

His other directorships in public-listed companies are Ancom Berhad, Asiatic Development Berhad, Johan Holdings Berhad, Malaysian Oxygen Berhad, Resorts World Berhad and UAC Berhad. He also sits on the boards of several other private limited companies.

YBhg. Dato' Siew does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

YBhg. Dato' Syed Abdul Jabbar bin Syed Hassan

YBhg. Dato' Syed Abdul Jabbar bin Syed Hassan, a Malaysian, aged 63, was appointed as a Non-Independent Non-Executive Director of the Company in February 2002. In March 2002 he was appointed President Commissioner of the Board of Commissioners of PT Koba Tin, Indonesia, which is a subsidiary of the Company.

YBhg. Dato' Syed Abdul Jabbar holds a Bachelor of Economics degree from the University of Western Australia and Masters of Science degree in Marketing from the University of Newcastle-Upon-Tyne, United Kingdom. He is currently the Non-Independent Non-Executive Chairman of Malaysia Mining Corporation Berhad and an Independent Non-Executive Director of Star Publications Berhad. Previously, he was the Chief Executive Officer of the Kuala Lumpur Commodity Exchange from 1980 to 1996, Executive Chairman of Malaysia Monetary Exchange from 1996 to 1998 and Commodity and Monetary Exchange of Malaysia from 1998 to 2000.

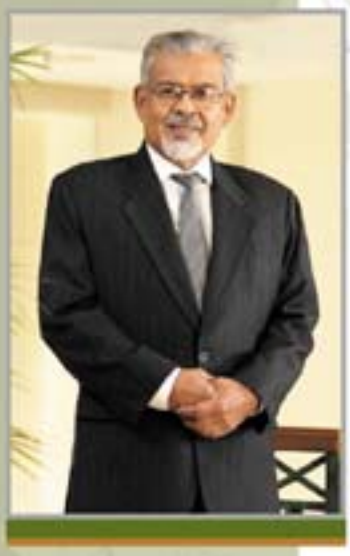
YBhg. Dato' Syed Abdul Jabbar does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

YBhg. Dato' Ismail bin Shahudin

YBhg. Dato' Ismail bin Shahudin, 52, a Malaysian, was appointed a Non-Independent Non-Executive Director of the Company on 27 September 2002. He holds a Bachelor of Economics (Hons) degree from the University of Malaya, majoring in Business Administration. Being an ESSO Malaysia scholar, he started his career with ESSO Malaysia Berhad upon graduation in 1974 and served for five (5) years within its Finance Division. Thereafter, he joined Citibank New York in 1984 as part of the team in the Asia Pacific Division, and upon return to Malaysia he was promoted to the position of Vice President & Group Head of Public Sector and Financial Institutions Group in Citibank Malaysia. In 1988 he served United Asian Bank Berhad ("UAB") as its Deputy General manager until 1992 when UAB was taken over by Bank of Commerce. Subsequently he joined Maybank as its General Manager, Corporate Banking Division and was appointed as the Executive Director of Maybank in September 1997. He left Maybank in August 2002 to assume his current post as the Group Chief Executive Officer of Malaysia Mining Corporation Berhad.

YBhg. Dato' Ismail also sits on the boards of Malakoff Berhad, Berjuntai Tin Dredging Berhad, Kramat Tin Dredging Berhad and MMC Engineering Group Berhad.

YBhg. Dato' Ismail does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.



Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii

Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii, a Malaysian, aged 65 was appointed an Independent Non-Executive Director on 27 November 2002 and is a member of the Audit Committee.

Tuan Hj Ahmad Kamal is a Fellow of the Institute of Chartered Accountants in England and Wales and member of the Malaysian Institute of Accountants. He started his working career in 1957 with Rubber Estates Agencies & Cumberbatch. Between 1966 to 1967 he was Chief Accountant of Federal Agricultural Marketing Authority. He then served as Financial Controller of Malayawata Steel Berhad in 1968 to 1970 before becoming a partner at Hanafiah Raslan & Mohamad where he served at various branches of the firm and the Head Office in Kuala Lumpur until his retirement in 1999. (The firm merged with Arthur Andersen in 1990). While pursuing his profession Tuan Hj Ahmad Kamal also contributed his experience to many organisations, among others, for many years he was Malaysia's representative on Asean Federation of Accountants and from 1970 to 2002 was a council member of the Malaysian Institute of Certified Public Accountants. He is also an adjunct Professor at Universiti Utara Malaysia.

Tuan Hj Ahmad Kamal also sits on the boards of Chase Perdana Berhad, Amanah Raya Berhad and Bank Simpanan Nasional Berhad besides being on the boards of several other private limited companies.

Tuan Hj Ahmad Kamal does not have any family relationship with any other directors and/or major shareholders of the Company or any conflict of interest with the Company. He has never been convicted of any offences.

Jeneral (B) Tun Ibrahim bin Datuk Ismail
(Chairman)

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of Malaysia Smelting Corporation Berhad, its subsidiaries and associated company (the Group) for the year ended 31 December, 2002.

2002 marked another significant and challenging year for the Group. Despite the continued downturn in the global tin industry and the world economy, the Group managed to achieve an impressive overall improvement in its operating and financial results and recorded another year of growth in earnings and shareholders' funds.

Group profit before taxation surpassed last year's record level by 17.7% at a new high of RM39.66 million, recording a pre-tax return of 22.2% on its average shareholders' funds. Group profit after taxation and minority interest was RM23.8 million compared with RM23.3 million last year. The earnings per share was 31.7 sen (2001: 31.1 sen). The Group's shareholders' funds improved by 18.2% to RM193.3 million at the end of 2002. Despite 7.8% lower average tin price in 2002, the Group's revenue increased by RM136.8 million or 23.5% to RM719.5 million.

Tin prices remained at uneconomic levels for the majority of tin producers resulting in more production cuts. This coupled with a ban on the export of tin concentrates in June 2002 by a major tin producing country resulted in shortage of supply of feed materials to the Group's smelting plant at Butterworth. In order to ensure that the Group's smelting business

the acquisition of PT Koba Tin,

Indonesia was **successfully completed** which followed by a smooth transition to a new management under **MSC Group's direction and leadership**.

remained profitable, the Group had to undertake a major downsizing of its smelting operations at the Butterworth Plant at the end of October 2002 and the necessary cost rationalization. The reduction in capacity utilization regrettably resulted in the inevitable termination of surplus manpower and the payment of appropriate compensation benefits. Despite the downsizing of operations, the Group's smelting plant at Butterworth managed to record a total production of 30,841 tonnes of tin metal for 2002 compared with 30,418 tonnes in the previous year.

The acquisition of a 75% interest in PT Koba Tin, Indonesia was successfully completed on 9 April, 2002 followed by a smooth transition to a new management under MSC Group's direction and leadership. The immediate priority and focus was to improve the production and operating efficiencies of all operating units of PT Koba Tin and to reduce the overall overhead costs. The size of the mine was appropriately shaped to achieve optimum efficiency levels. The results have been extremely successful with the company recording a positive turnaround in results from the first month after acquisition onwards. The total production of tin metal from the Group's smelting plant at PT Koba Tin for the nine months from April to December, 2002 was 11,112 tonnes. In reshaping the mine's size, PT Koba Tin has always been mindful of its corporate social responsibility toward the community, the provincial government and the central authorities.

Ore stockpile built-up in a gravel pump mine

Gravel pump mine at PT Koba Tin

Bemban dredge at PT Koba Tin

Chairman's Statement

The performance of the Company's 40% associated Company, Redring Solder (Malaysia) Sdn. Bhd. (Redring) was affected by the continuing downturn in the global electronic industries which caused weaker demand for tin-based solder products. However, Redring's operations still remained profitable during the year under review.

In line with the overall improved results, the Board has decided to pay a higher amount of total tax exempt dividend for the year 2002. On 25 February, the Board declared a second interim dividend of 10 sen per share, tax exempt totaling RM7,500,000 payable on 28 April, 2003. Together with the first interim dividend of 8 sen tax exempt paid on 11 October 2002, the total dividend paid and declared for the year is 18 sen per share tax exempt, totaling RM13,500,000. (2001: 20 sen per share less 20% tax totaling RM10,800,000). The Board does not intend to recommend a final dividend for the year 2002.

Following the successful acquisition of PT Koba Tin, the Group will continue to search for suitable acquisition targets aimed at broadening the activities of the Group's core business and further strengthening its global leadership position in the tin industry. On 28 February, 2003, the Board of Directors was pleased to announce the proposed acquisition of a 30% equity interest in Marlborough Resources NL, Australia (MBG) by placements of new shares in MBG for a total consideration of Australian Dollar 5.32 million. MBG, which is a listed public company in Australia, operates a low cost alluvial tin mine at Ardlethan, New South Wales, Australia. On completion of the current expansion programme by the end of the second quarter of 2003, this mine will be one of the world's lowest cost producers of tin concentrates. MBG's tin concentrates are currently being smelted and refined at MSC's smelting plant in Butterworth. The proposed share placements will provide MBG with additional financial resources to fund the growth and development of its Ardlethan tin operations and to provide funding to explore new tin projects within and outside Australia. MSC Group views MBG as an excellent partner to work with on the expansion of the tin business. The proposed acquisition is expected to be completed in the second quarter of 2003.

"KOBA" tin ingot

Rehabilitation of ex-mining land at PT Koba Tin

Aquaculture project on ex-mining land under community development programme at PT Koba Tin

the group's growth strategy

is to leverage on its core competencies to focus on organic growth as well as on **strategic acquisitions**...

The Board is committed to the Group's vision to be a successful world-class organization in its integrated core business of mining, smelting, manufacturing and global marketing for tin and tin based products delivering sustainable results through quality operations. The Group's growth strategy is to leverage on its core competencies to focus on organic growth as well as on strategic acquisitions. The Board remains optimistic on the long term earning prospects of the Group. With the on-going cost rationalization and efficiency improvement programmes at both the Butterworth Smelting Plant and PT Koba Tin's operations, the Group expects to maintain a reasonable level of profitability for the year 2003.

Corporate Governance

The Board is committed to high standards of corporate governance and supports the need for clear standards to be laid down to safeguard the interests of shareholders and stakeholders. The statement on corporate governance included in this Annual Report describes how the Company applies the principles of corporate governance and how it complies with the Principles and Best Practices set out in the Malaysian Code on Corporate Governance.

Internal Control

The Board has overall responsibility for the Group's systems of internal control and risk management and for reviewing their effectiveness. The systems' aim is to safeguard assets, and ensure proper accounting records are maintained so that the financial information, used within the business and for publication, are reliable. The systems are designed to manage key risks rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

I am pleased to report that the Group operates an on-going process for identifying, evaluating and managing the significant risks faced by the Group. As mentioned in the Statement on Internal Control of this Annual Report, the process is in place and is regularly reviewed by the Board and Board Committees.

Chairman's Statement

Acknowledgement

On behalf of the Board, I would like to record my sincere appreciation to Encik Mohamed Jamal Dato' Mohd Ramli and Encik Ayyaril Karikulath Feizal Ali who resigned as Directors of MSC on 29 August and 27 September 2002 respectively for their invaluable contributions to the Company.

I would also like to welcome Dato' Ismail bin Shahudin and Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii who joined the Board on 27 September and 27 November 2002 respectively.

On behalf of the members of the Board, I would like to take this opportunity to thank the shareholders for their continued support, and the management and employees for their contributions, commitment, dedication and perseverance towards the success of the Group. My heartfelt gratitude also goes to our customers, suppliers, bankers, business associates and the various relevant authorities for their cooperation and continued support. Finally, I would also like to record my appreciation to my colleagues on the Board for their invaluable contributions and support throughout the year.

Jeneral (B) Tun Ibrahim bin Datuk Ismail
Chairman
31st March, 2003

Alluvial tin mine at Ardlethan, NSW Australia.

Jig and Spiral tin ore processing plant at Ardlethan tin mine

The Board of Directors fully appreciates the importance of adopting high standards of corporate governance within the Group. The Board views corporate governance as synonymous with three key concepts, namely transparency, accountability as well as corporate performance.

As such, the Board strives to adopt the substance and spirit behind corporate governance prescriptions and not merely the form. The Board is thus fully committed to the maintenance of high standards of corporate governance by supporting and implementing the prescriptions of the Principles and Best Practices set out in Parts 1 and 2 of the Malaysian Code on Corporate Governance (the "Code") respectively.

The Board is pleased to provide the following statements, which outline the main corporate governance practices that were in place throughout the financial year, unless otherwise stated.

STATEMENT OF PRINCIPLES

The following statement sets out how the Company has applied the Principles in Part 1 of the Code. The Principles are dealt with under the headings of Board of Directors, Directors' Remuneration, Shareholders and Accountability and Audit.

A. BOARD OF DIRECTORS

Board Responsibilities

The Group acknowledges the pivotal role played by the Board of Directors in the stewardship of its direction and operations, and ultimately the enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the Group, including the strategic direction, establishing goals for the management and monitoring the achievement of these goals. Directors, from time to time, are brought to the location of the smelting plants, both in Malaysia and overseas, to have a thorough understanding of their operations.

Meetings

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the financial year under review, the Board met on six (6) occasions, where it deliberated upon and considered a variety of matters including the Group's financial results, major investments, strategic decisions and the direction of the Group.

The Board receives documents on matters requiring its consideration prior to and in advance of each meeting. All proceedings from the Board meetings are recorded and the minutes thereof signed by the Chairman of the meeting.

Details of the Director's attendances at the meetings of the Board, Board Executive Committee ("EXCO") and Audit Committee during the financial year under review are as follows:

Director	Board	EXCO	Audit Committee
Jeneral (B) Tun Ibrahim bin Datuk Ismail	6/6	4/4	Not applicable
Mr Choi Siew Hong	6/6	4/4	5/5
Mr Norman Ip Ka Cheung	6/6	4/4	5/5
Dato' Siew Nim Chee	5/6	Not applicable	Not applicable
Dato' Mohd Ajib Anuar	6/6	4/4	5/5
Dato' Syed Abdul Jabbar bin Syed Hassan *(Appointed on 28.2.02)*	5/5	Not applicable	Not applicable
Dato' Ismail bin Shahudin *(Appointed on 27.9.02)*	1/1	1/2	Not applicable
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii *(Appointed on 27.11.02)*	1/1	Not applicable	1/1
En. Ayyaril Karikulath Feizal Ali *(Appointed on 28.2.02; Resigned on 27.9.02)*	2/4	2/2	Not applicable
En. Mohamed Jamal Dato' Mohd Ramli *(Appointed on 26.3.02; Resigned on 29.8.02)*	2/3	Not applicable	1/3

Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, namely the Board Executive Committee, Audit Committee, Nominating Committee and Remuneration Committee, in order to enhance business and operational efficiency as well as efficacy.

All committees have written terms of reference and operating procedures and the Board receives reports of their proceedings and deliberations, where relevant. The Chairman of the various Committees will report to the Board the outcome of the Committee meetings and such reports are normally incorporated in the minutes of the full Board meeting.

Board Balance

As at the date of this statement, the Board consists of eight (8) members, comprising 3 Independent Non-Executive Directors, one (1) Executive Director and four (4) Non-Executive Directors. The Directors, with their different backgrounds and specialization, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The brief profile of each Director is presented on pages 8 to 11 of this Annual Report.

There is a clear division of responsibilities at the head of the Company to ensure a balance of authority and power. The Board of Directors and the Board Executive Committee are led by Jeneral (B) Tun Ibrahim bin Datuk Ismail, a non-executive Chairman while the executive management of the Company is led by Dato' Mohd Ajib Anuar, the Group Chief Executive Officer.

With the adoption of the Board Charter by the Directors on 29 January 2003, the roles of Chairman and the Group Chief Executive Officer are formalized and clearly defined with their individual position descriptions. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient and relevant information on financial and non-financial matters to enable them to participate actively in Board decisions. The Group Chief Executive Officer is responsible for the day-to-day management of the business as well as the implementation of Board's policies and decisions.

Board Balance (cont'd)

Pursuant to Best Practice of the Code, the Board appointed Mr Choi Siew Hong on 29 January 2003 as the Senior Independent Non-Executive Director to whom concerns of Directors may be conveyed.

The current Board composition fairly reflects the investment of all shareholders in the Company.

Supply of Information

The Chairman ensures that all Directors have full and timely access to information with Board papers distributed in advance of meetings. Every Director has unhindered access to the advice and services of the Company Secretary. The Board believes that the current Company Secretary is capable of carrying out his duties to ensure the effective functioning of the Board. The Articles of Association specify that the removal of the Company Secretary is a matter for the Board as a whole.

Before the meetings of the Board and the Board Committees, appropriate documents which include the agenda and reports relevant to the issues of the meetings covering, where appropriate, the areas of strategic, financial, operational and regulatory compliance matters, are circulated to all the members to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

The Directors meet, review and approve all corporate announcements, including the announcement of the quarterly financial reports, prior to releasing them to the Kuala Lumpur Stock Exchange.

The Board as a whole will determine, whether as a full board or in their individual capacity, to take independent professional advice, where necessary and under appropriate circumstances, in furtherance of their duties, at the Group's expense. However, where necessary and under appropriate circumstances in furtherance of their duties, any Director may do so with the prior consent and approval of the Chairman.

Appointments to the Board

Nominating Committee
The Nominating Committee was established by the Board on 28 February 2002 and its members are:

Mr Choi Siew Hong	–	Chairman, Independent Non-Executive Director
Dato' Syed Abdul Jabbar bin Syed Hassan	–	Non-Independent Non-Executive Director
Dato' Siew Nim Chee	–	Independent Non-Executive Director

The Nominating Committee is empowered by the Board and its terms of reference are to bring to the Board recommendations as to the appointment of new Directors. The Committee also keeps under review the Board structure, size and composition as well as considering the Board succession planning. The Nominating Committee systematically assesses the effectiveness of the Board, its Committees and the contribution of each individual Director on an annual basis

Appointment Process

The Board, through the Nominating Committee's annual appraisal, believes that the current composition of the Board brings the required mix of skills and core competencies required for the Board to discharge its duties effectively. Furthermore, the Board regularly reviews its size and composition with particular consideration on its impact on the effective functioning of the Board.

The Board appoints its members through a formal and transparent selection process. New appointees will be considered and evaluated by the Nominating Committee. The Committee will then recommend the candidates to be approved and appointed by the Board. The Company Secretary will ensure that all the necessary information is obtained and that all legal and regulatory obligations are met before the appointments are made.

Directors' Training

The Board, through the Nominating Committee, ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfill the duties of a Director appropriately. There is no formal training programme for Directors. However, at the date of this Statement, all Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) conducted by the Research Institute of Investment Analysts Malaysia (RIIAM). The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge where relevant.

Re-election

The Articles of Association provide that all the Directors of the Company are subject to retirement and at least one-third of the Board shall retire by rotation at each Annual General Meeting of the Company. This provides an opportunity for the shareholders to renew their mandates. The Directors to retire in each year are the Directors who have been longest in office since their appointment or reappointment.

Directors over seventy (70) years of age are required to submit themselves for reappointment annually in accordance with Section 129 (6) of the Companies Act 1965.

Board Executive Committee

The Board established a Board Executive Committee to focus on corporate governance, risk management and the operational performance of the Group. At the date of this statement, the Committee comprises the following:

Jeneral (B) Tun Ibrahim bin Datuk Ismail	–	Chairman, Non- Executive Director
Choi Siew Hong	–	Independent Non-Executive Director
Norman Ip Ka Cheung	–	Non-Executive Director
Dato' Ismail bin Shahudin *(appointed on 27.9.02)*	–	Non-Executive Director
Dato' Mohd Ajib Anuar	–	Executive Director

During the financial year, En. Ayyaril Karikulath Feizal Ali resigned as a member of the Committee.

The Board Executive Committee met four (4) times during the financial year under review, examined in depth the Group's business performance and agreed on recommendations to enhance and improve on operational matters affecting the Group. In addition, the Committee has been entrusted to explore and recommend to the Board of Directors new business ventures, expansion and diversification opportunities with the aim of increasing the Group's profit and growth.

B. DIRECTORS' REMUNERATION

Remuneration Committee

The Remuneration Committee was established by the Board on 28 February 2002 and its members are:

Mr Norman Ip Ka Cheung	–	Chairman, Non-Executive Director
Dato' Siew Nim Chee	–	Independent Non-Executive Director
Mr Choi Siew Hong	–	Independent Non-Executive Director
Dato' Mohd Ajib Anuar	–	Executive Director

The Remuneration Committee is responsible for recommending the remuneration framework for Executive Directors and senior management staff, including their remuneration packages. The Executive Director does not participate in any way in determining his individual remuneration.

The Board as a whole determines the remuneration of Non-Executive Directors with the individual Director concerned abstaining from the decision in respect of his remuneration. Taking into account the performance of the Group, and, the responsibilities and performance of the Directors, Directors' fees are set in accordance with a remuneration framework comprising responsibility fees and attendance fees. The Company pays its Directors annual fee, which is approved annually by the shareholders.

The policy adopted by the Remuneration Committee is to provide the remuneration packages necessary to attract, retain and motivate the Executive Director of the quality required to manage the business of the Company and to align the interest of the Executive Director with those of the shareholders.

Details of the nature and amount of each major element of the remuneration of Directors of the Company, during the financial year, are as follows:

Category	Fees (RM'000)	Salaries and other emoluments (RM'000)
Executive Director	20	558
Non-Executive Directors	380	–

The number of Directors whose remuneration fell within the following bands is:

Range of remuneration	Executive Director	Non-Executive Directors
RM550,001 to RM600,000	1	–
RM50,000 to RM100,000	–	3
Less than RM50,000	–	4

C. SHAREHOLDERS

The Company recognizes the importance of communicating with its shareholders and does this through the Annual Reports, Annual General Meetings (AGM) and Extraordinary General Meetings. At the AGM, the shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general.

In addition, the Company makes various announcements through the KLSE, in particular, the timely release of the quarterly results within two months from the close of a particular quarter. Summaries of the interim and the full year's results and copies of the full announcement are supplied to the shareholders and members of the public upon request. Members of the public can also obtain the full financial results and the Company's announcement from the KLSE's website.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly announcement of the results to shareholders and the Chairman's statement in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' Responsibility Statement in respect of the Preparation of the Audited Financial Statements

The Board is responsible for ensuring that the financial statements of the Group give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of their results and cashflows for the year then ended. In preparing the financial statements, the Directors have ensured that applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been complied with.

In preparing the financial statements, the Directors have selected and applied consistently suitable accounting policies and made reasonable and prudent judgments and estimates.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

State of Internal Controls

The Statement on Internal Control furnished on pages 29 and 30 of the Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

Key features underlying the relationship of the Audit Committee with the internal and external auditors are included in the Audit Committee's terms of reference as detailed on pages 24 to 26 of the Annual Report.

A summary of the activities of the Audit Committee during the financial year under review, including the evaluation of the independent audit process, are set out in the Audit Committee Report on pages 27 and 28 of the Annual Report.

D. ACCOUNTABILITY AND AUDIT (CONT'D)

Compliance Statement

The Group has complied, throughout the financial year ended 31 December 2002, with all the Best Practices of corporate governance set out in Part 2 of the Code except for the following:

- Appointment of a Senior Independent Non-Executive Director to whom concerns may be conveyed was made on 29 January 2003.
- A Remuneration Committee was established on 28 February 2002 with specific terms of reference to recommend, amongst others, the remuneration of the Executive Directors and Senior Management Staff. Before this, the Board as a whole determined the remuneration of the Directors.
- A Nominating Committee was formed on 28 February 2002 with specific terms of reference, mainly to propose new nominees to the Board and to assess the performance of Directors and Board Committees on a periodic basis.
- With the adoption of the Board Charter on 29 January 2003, the Board has in place a formal schedule of matters specifically reserved to it for decision. Before this, it was the practice for the Board to deliberate on matters that involve overall Group strategy and direction, acquisition and divestment policy, approval of major capital expenditure, consideration of significant financial matters and the review of financial and operating performance of the Group.
- The Board Charter as mentioned above explicitly formalizes and delineates the roles and functions of the Board, the Chairman of the Board, the Group Chief Executive Officer and the various Board Committees.

Date: 25th February, 2003

TERMS OF REFERENCE

The Audit Committee (the "Committee") was established to act as a Committee of the Board of Directors (the "Board") to fulfill its fiduciary responsibilities. The authority, functions and duties of the Committee shall be extended to Malaysia Smelting Corporation Berhad (the "Company") and its subsidiary companies (the "Group").

1. Membership

The present members of the Committee comprises:

Mr Choi Siew Hong, Chairman (Independent Non-Executive Director)
Mr Norman Ip Ka Cheung (Non-Executive Director)
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii (Independent Non-Executive Director)

2. Composition

The Board shall elect and appoint Committee members from amongst their members, comprising no fewer than three (3) Directors, the majority of whom shall be Independent Non-Executive Directors. In this respect, the Board adopts the definition of "independent director" under the Kuala Lumpur Stock Exchange ("KLSE") Listing Requirements. At least one member of the Committee shall:

- be a member of the Malaysian Institute of Accountants ("MIA");
- if he is not a member of MIA, he must have at least three (3) years of working experience and:
  - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967;
  - he must be a member of the associations of accountants specified in Part II of the Accountants Act 1967.
- be a holder of a degree/masters/doctorate in accounting or finance and has at least 3 years' post qualification experience in accounting or finance; or
- have at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

If a member of the Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of the event appoint such number of new members as may be required to fill the vacancy.

The Chairman of the Committee shall be an Independent Non-Executive Director. No alternate Director of the Board shall be appointed as a member of the Committee.

3. Meetings

Meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate.

In order to form a quorum for the meeting, the majority of the members present must be Independent Non-Executive Directors. In the absence of the Chairman, the members present shall elect a Chairman for the meeting from amongst the members present.

The Company Secretary shall be appointed Secretary of the Committee. The Secretary, in conjunction with the Chairman, shall draw up an agenda, which shall be circulated at least one (1) week prior to each meeting to the members of the Committee. The minutes of all Committee meetings shall be circulated to members of the Board. The Chairman shall submit an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.

The Committee shall meet at least annually with the External Auditors without the presence of any executive Board member. In addition, Management, the Internal Auditor and the External Auditors may request for a private session with the Committee to discuss any matter of concern.

4. Authority

The Committee is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and employees are directed to co-operate with any request made by the Committee. The Committee can obtain, at the expense of the Company, outside legal or other independent professional advice if it considers necessary.

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the KLSE Listing Requirements, the Committee shall promptly report such matter to the KLSE.

5. Responsibilities and Duties

In fulfilling its primary objective, the Committee shall undertake the following responsibilities and duties:

- Review the Audit Committee's Terms of Reference as conditions dictate;
- Review with the External Auditors, the audit scope and plan, including any changes to the planned scope of the audit plan;
- Review the adequacy of the internal audit scope and plan, functions and resources of the internal audit function and that it has the necessary authority to carry out its work;
- Appoint Internal Auditors who will report functionally to the Audit Committee and review their performance on an annual basis;
- Review the external and internal audit reports to ensure that appropriate and prompt remedial action is taken by Management on major deficiencies in controls or procedures that are identified;
- Review major audit findings and the Management's response during the year with Management, External Auditors and Internal Auditors, including the status of previous audit recommendations;
- Review the assistance given by the Group's officers to the auditors, and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.

5. Responsibilities and Duties (cont'd)

- Review the independence and objectivity of the External Auditors and their services, including non-audit services and the professional fees, so as to ensure a proper balance between objectivity and value for money;
- Review the appointment and performance of External Auditors, the audit fee and any question of resignation or dismissal before making recommendations to the Board;
- Review the Internal Audit Charter, budget and staffing of the Internal Audit Department;
- Review the adequacy and integrity, including effectiveness, of internal control systems, management information system, and the Internal Auditors' and/or External Auditors' evaluation of the said systems;
- Direct and, where appropriate, supervise any special projects or investigation considered necessary, and review investigation reports on any major defalcations, frauds and thefts;
- Review the quarterly results and the year-end financial statements, prior to approval by the Board, focussing particularly on:
  - changes in or implementation of major accounting policy changes;
  - significant or unusual events; and
  - compliance with accounting standards and other legal requirements;
- Review procedures in place to ensure that the Group is in compliance with the Companies Act 1965, KLSE Listing Requirements and other legislative and reporting requirements;
- Review any related party transaction and conflict of interest situation that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raises question on Management's integrity;
- Prepare reports, at least once (1) a year, to the Board summarising the work performed in fulfilling the Committee's primary responsibilities; and
- Any other activities, as authorised by the Board.

Membership

The Directors who have served as members of the Audit Committee (the "Committee") during the financial year under review and as at the date of this report are:

Mr Choi Siew Hong	Chairman, Independent Non-Executive Director
Norman Ip Ka Cheung	Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales)
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii (appointed on 27.11.02)	Independent Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales and member of the Malaysian Institute of Accountants)
Dato' Mohd Ajib Anuar (resigned: 26.3.02)	Executive Director
Mohamed Jamal Dato' Mohd Ramli (resigned: 29.8.02)	Independent Non-Executive Director (member of the Malaysian Institute of Accountants)

Terms of Reference

The Committee was established on 30 August 1994 to act as a Committee of the Board of Directors, with the terms of reference as set out on pages 24 to 26 of the Annual Report.

Meetings

The Committee convened five (5) meetings during the financial year. Details of the members' attendances are shown in the Statement on Corporate Governance set out on page 18 of the Annual Report. The meetings were structured through the use of agendas, which were distributed to members with sufficient notification.

The Company Secretary was present by invitation in all the meetings. Representatives of the External Auditors, Messrs Ernst & Young, the Head of Internal Audit as well as the Group Chief Executive Officer/Executive Director, Group Chief Operating Officer, Smelting and the Group Chief Financial Officer also attended the meetings, where appropriate, upon invitation.

Summary of activities of the Committee during the financial year

The Committee carried out its duties in accordance with its terms of reference during the year. The main activities undertaken by the Committee were as follows:

- Reviewed with the External Auditors:
  (a) Their scope of work and audit plan;
  (b) The audited financial statements of the Group and the Company prior to submission to the Board for consideration and approval;
  (c) Their management letter, including management's response relating to its adequacy; and
  (d) Without the presence of the management, the extent of cooperation of management in providing required information, explanation and clarification and whether there had been any problems impinging on their independence and objectivity in the course of their audit.

- Reviewed with the Group Chief executive Officer, the Group Chief Financial Officer and other Senior Management Staff the unaudited quarterly financial statements before submission to the Board for consideration and approval for release to the Kuala Lumpur Stock Exchange.

Summary of activities of the Committee during the financial year (cont'd)

- Reviewed the Internal Audit Department's resources requirements, programmes and plan for the financial year under review and the annual assessment of the Internal Audit Department's performance.
- Reviewed with the Internal Auditor and Senior Management Staff the findings in the internal audit reports and the corrective actions taken or proposed to be taken by management.
- Considered and recommended to the Board audit fees payable to the External Auditors and the reappointment of External Auditors for the Board's submission to the shareholders for approval at the Annual General Meeting.
- Reviewed pertinent issues of the Group, which had a significant impact on the results of the Group including cost rationalization measures and human resource development.

Internal Audit Function

The Internal Audit Department is independent of the activities or operations of other operating units. The principal role of the department is to undertake regular and systematic reviews of the systems of internal control so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. It is the responsibility of the Internal Audit Department to provide the Audit Committee with independent and objective reports on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements.

Further details of the activities of the Internal Audit Department are set out in the Statement on Internal Control on pages 29 and 30 of the Annual Report.

Date: 25th February, 2003

Introduction

Paragraph 15.27(b) of the Kuala Lumpur Stock Exchange Listing Requirements requires the Board of Directors of public listed companies to include in its annual reports a "statement about the state of internal control of the listed issuer as a group". The Board is committed to maintaining a sound system of internal control in the Group and is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the financial year under review.

Board Responsibility

The Board is ultimately responsible for the Group's system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. Because of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter-alia, risk management and financial, organizational, operational and compliance controls.

Following the publication of the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Internal Control Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, that has been in place during the year and up to the date of approval of the annual report and financial statements, and that this process is regularly reviewed by the Board and accords with the Internal Control Guidance. As part of continuous improvement, the Board has approved a group-wide policy for the management of risk in formalizing the group-wide risk management practices.

Enterprise Risk Management Framework

The Board fully supports the contents of the Internal Control Guidance and, with the assistance of the Internal Audit Department and external advisers, reviewed the existing risk management processes in place within the various operating businesses in Malaysia and the Republic of Indonesia, with the aim of strengthening the risk management functions across the Group.

The formalization of the enterprise risk management framework encompasses the following key elements:

- The Board Executive Committee, which includes the Group Chief Executive Officer, undertakes the responsibility to identify and communicate to the Board of Directors the critical risks (present and potential) the Group faces, their changes, and the management action plans to manage the risks;
- The Internal Audit function has been entrusted to coordinate enterprise risk management within the Group;
- The issuance of a Risk Management Policy and Procedure Document in June 2002, which outlines the risk management framework for the Group and offers practical guidance to all employees on risk management issues.
- Workshops and interviews were conducted with Directors and operational managers from the major business units in the Group. A database of all risk and controls has been created, and information filtered to produce a detailed risk register, and individual risk profiles for the major business units. Key risks to each business unit's objectives, aligned with the Group's strategic objectives, are identified and scored for likelihood of the risks occurring and the magnitude of impact;
- Key management of each business unit has prepared action plans, with implementation time-scales to address any risk and control issues;
- The risk profiles of each of the significant business units were developed, which together with a summary of the key findings, was discussed with the Group Chief Executive Officer for the inclusion of action plan by management before submitted to the Board for consideration;

The next steps in the risk management process are as follows:

- Embedding internal control and risk management further into the operations of the business through the installation of a process of control self assessment, using the assistance of external facilitators, if necessary;
- Submitting periodic risk management reports to the Heads of the business unit for reporting to the Board Executive Committee; and
- Formal periodic review by the Board on the adequacy and integrity of the system of internal control.

Internal Audit Function

The Group has in place an internal audit function, which provides the Board with much of the assurance it requires regarding the adequacy and effectiveness of internal control system. To strengthen the internal audit function, the Board appointed external consultants during the year to assist the Internal Audit Department in the review of the adequacy and effectiveness of internal control system in the subsidiary located in the Republic of Indonesia. As at the end of the financial year, the review by the external consultants has yet to commence.

The internal audit function independently reviews the risk identification procedures and control processes implemented by the management, and reports to the Audit Committee on a quarterly basis, following the establishment of the enterprise risk management framework. The internal audit also reviews the internal controls in the key activities based on a 3-year internal audit strategy and a detailed annual internal audit plan presented to the Audit Committee for approval. The internal audit function adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the major business units of the Group.

The Audit Committee considers reports from internal audit and from management, before reporting and making recommendations to the Board in strengthening the internal control and governance systems. The Committee presents its findings to the Board on a quarterly basis.

Other Risk and Control Processes

Apart from risk management and internal audit, the Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established, which provides for a documented and auditable trail of accountability. The procedures include the establishment of limits of authority coupled with the publication of the Management Staff Handbook and the periodically negotiated Collective Agreements, which highlight amongst others policies on health and safety, training and development, equality of opportunity, staff performance and serious misconduct. These procedures are relevant across the Group's operations and provide for continuous assurance to be given at increasingly higher levels of management and, finally to the Board. The process is now facilitated by internal audit, which also provides a degree of assurance as to validity of the systems of internal control. Planned corrective actions are independently monitored for timely completion.

The Group Chief Executive Officer also reports to the Board on significant changes in the business and the external environment. The Group Chief Financial Officer provides the Board with quarterly financial information, which includes pertinent key performance indicators. This includes, among others, the monitoring of results against budget, with variances being followed up and management action taken, where necessary. Where areas of improvement in the system are identified, the Board considers the recommendation made by the Audit Committee and the Management.

Weaknesses in Internal Controls that result in Material Losses

There were no material losses incurred during the financial year under review as a result of weaknesses in internal control. Management continues to take measures to improve the control environment as appropriate.

Date: 25th February, 2003

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The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the smelting of tin concentrates and tin bearing materials, the production of various grades of refined tin metal under the MSC brand name and the sales and delivery of refined tin metal and by-products. The subsidiaries are primarily engaged in tin mining and smelting, investment holding and to provide an authorised warehouse for tin metal under Kuala Lumpur Tin Market and Kuala Lumpur Commodity Exchange warrant.

The principal activities of the associate are the manufacture and sale of solder products.

There have been no significant changes in the nature of these activities during the financial year other than those relating to tin mining and investment holding which arose as a result of the acquisition of the subsidiaries.

RESULTS

	Group RM'000	Company RM'000
Profit before taxation	**39,666**	**23,116**
Taxation	**(13,318)**	**(7,731)**
Profit after taxation	**26,348**	**15,385**
Minority interest	**(2,544)**	**–**
Profit after taxation attributable to shareholders	**23,804**	**15,385**
Retained profits brought forward (as restated)	**75,345**	**74,009**
Profits available for appropriation	**99,149**	**89,394**
Dividends -		
2001 - Final - 12 sen per share less 28% tax	**(6,480)**	**(6,480)**
2002 - Interim - 8 sen per share tax exempt	**(6,000)**	**(6,000)**
Retained profits carried forward	**86,669**	**76,914**

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company distributed the following dividends -

(a) a final dividend of 12 sen per RM1.00 ordinary share, less 28% tax, amounting to RM6,480,000 on 10th June, 2002 in respect of the previous financial year; and

(b) an interim dividend of 8 sen per RM1.00 ordinary share, tax exempt amounting to RM6,000,000 on 11th October, 2002 for the year ended 31st December, 2002.

On 25th February, 2003, the Directors declared the payment of a second interim dividend of 10 sen per RM1.00 ordinary share, tax exempt amounting to RM7,500,000.The financial statements for the current financial year do not reflect this declared dividend which will be accounted for in shareholders' equity as an appropriation of retained profits in the next financial year ending 31st December, 2003. This will be payable on 28th April, 2003 to members registered on the Company's register at the close of business at 5.00 p.m. 8th April, 2003.

SHARE CAPITAL

No shares were issued by the Company and no option has been granted to any person or party to acquire shares in the Company during the year.

DIRECTORS

The Directors of the Company who have held office since the date of the last report and at the date of this report are -

Jeneral (B) Tun Ibrahim bin Datuk Ismail (Chairman)
Dato' Mohd Ajib Anuar (Executive Director)
Choi Siew Hong
Norman Ip Ka Cheung
Dato' Siew Nim Chee
Dato' Syed Abdul Jabbar bin Syed Hassan
Ayyaril Karikulath Feizal Ali *(Resigned on 27/9/2002)*
Mohamed Jamal Dato' Mohd Ramli *(Appointed on 26/3/2002; Resigned on 29/8/2002)*
Dato' Ismail bin Shahudin *(Appointed on 27/9/2002)*
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii *(Appointed on 27/11/2002)*

In accordance with Article 101 of the Articles of Association of the Company, the Director retiring by rotation this year is Norman Ip Ka Cheung and, being eligible offers himself for re-election.

In accordance with Article 106 of the Articles of Association of the Company, Dato' Ismail bin Shahudin and Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii, retire at the forthcoming Annual General Meeting, and being eligible offer themselves for re-election.

Jeneral (B) Tun Ibrahim bin Datuk Ismail, Mr. Choi Siew Hong and Dato' Siew Nim Chee all being over seventy years of age, retire in accordance with Section 129(2) of the Companies Act, 1965 and offer themselves for reappointment in accordance with Section 129(6) of the said Act to hold office until the conclusion of the next Annual General Meeting.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in or debentures of the company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments or other benefits received or due and receivable by the Directors shown in the financial statements or the salary of a full-time employee of the Company as disclosed in Note 17 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest required to be disclosed by Section 169 (8) of the Companies Act, 1965.

DIRECTORS' INTEREST IN SHARES

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows -

	Number of ordinary shares of RM1 each			
Name of directors	As at 1/1/2002	Acquired	Disposed	As at 31/12/2002
Jeneral (B) Tun Ibrahim bin Datuk Ismail	10,000	–	–	10,000
Dato' Mohd Ajib Anuar	250,000	–	–	250,000
Choi Siew Hong	10,000	–	–	10,000
Norman Ip Ka Cheung	10,000	–	–	10,000

OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps -

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render -

(i) it necessary to write-off any debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report there does not exist -

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other persons; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION (CONT'D)

(f) In the opinion of the Directors -

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due, other than the contigent liability as disclosed in the Note 24 to the financial statements;

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made; and

(iii) the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, other than the significant events stated below.

OTHER SIGNIFICANT EVENTS

During the year, the Company completed the acquisition of a 100% equity interest in Kajuara Mining Corporation Pty. Ltd. through its newly incorporated 100% owned subsidiary, Bemban Corporation Ltd.. This comprises an initial cash consideration of USD13.7 million (approximately RM52.1million) and deferred payments of not more than USD6 million (approximately RM22.8 million) over 3 years from 2002 to 2004 based on average annual tin price reaching certain levels.The total cost of investments including incidental cost of acquisition in Kajuara Mining Corporation Pty Ltd is approximately RM 56.5 million. Kajuara Mining Corporation Pty. Ltd. owns a 75% interest in PT Koba Tin, a tin mining company in Indonesia.

There was no deferred payment in respect of 2002 as the average annual tin price for 2002 did not reach the required levels. Subsequent to the year end, the deferred payments were reduced to not more than USD4 million (approximately RM15.2 million) payable over 2 years from 2003 to 2004 based on average annual tin prices reaching certain levels as disclosed in Note 24 to the financial statements.

The Company's smelting plant in Butterworth has been downsized from 4 furnaces to 2 furnaces as a result of the Company's continuous effort to rationalise its Group smelting operations due to the reduction in supply of tin concentrates arising from the continuing weak global tin market, low tin prices and consequent closure of most marginal and high cost mines in many tin producing countries.

AUDITORS

Ernst & Young have expressed their willingness to accept reappointment as auditors and a resolution proposing their appointment will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25th February, 2003.

Jeneral (B) Tun Ibrahim bin Datuk Ismail
Director
Kuala Lumpur
Date: 25th February, 2003

Dato' Mohd Ajib Anuar
Director

STATEMENT BY THE DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Jeneral (B) Tun Ibrahim bin Datuk Ismail and Dato' Mohd Ajib Anuar, being two of the Directors of Malaysia Smelting Corporation Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 38 to 70 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of -

(i) the financial position of the Group and of the Company as at 31st December, 2002 and of the results of the Group and of the Company for the year ended on that date; and

(ii) the cash flows of the Group and of the Company for the year ended 31st December, 2002.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25th February, 2003.

Jeneral (B) Tun Ibrahim bin Datuk Ismail
Director
Kuala Lumpur
Date: 25th February, 2003

Dato' Mohd Ajib Anuar
Director

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Yap Fook Ping being the person primarily responsible for the financial management of Malaysia Smelting Corporation Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 38 to 70 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed Yap Fook Ping at)
Butterworth in the state of Penang) **Yap Fook Ping**
on 25th February, 2003) (member of the Malaysian Institute of Accountants)

Before me,

Md Nazan bin Yusuf
P 064
Commissioner for Oaths
Butterworth

ERNST & YOUNG
(Firm No: AF: 0039)

Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50940 Kuala Lumpur

Mail Address:
P.O. Box 10068
50704 Kuala Lumpur

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Fax: (03) 20955532
www.ey.com

REPORT OF THE AUDITORS TO THE MEMBERS OF MALAYSIA SMELTING CORPORATION BERHAD (43072-A) (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 38 to 70. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of -

(i) the financial position of the Group and of the Company as at 31st December, 2002 and of the results and the cash flows of the Group and of the Company for the year then ended; and

(ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 5 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' report on the financial statements of the subsidiaries were not subject to any qualification and did not include any comments required to be made under Section 174(3) of the Act.

ERNST & YOUNG
AF: 0039
Chartered Accountants

DATO' NORDIN BAHARUDDIN 837/03/04 (J)
Partner
Kuala Lumpur, Malaysia
Date: 25th February, 2003

BALANCE SHEETS
AT 31ST DECEMBER, 2002

	Note	Group 2002 RM'000	Group Restated 2001 RM'000	Company 2002 RM'000	Company Restated 2001 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	3	**115,539**	63,040	**60,846**	63,040
Base inventory	4	**3,000**	3,000	**3,000**	3,000
Investment in subsidiaries	5	**–**	–	**–**	–
Investment in an associate	6	**13,678**	13,445	**10,473**	10,473
CURRENT ASSETS					
Inventories	7	**131,779**	51,920	**59,492**	51,920
Receivables	8	**44,545**	38,728	**15,991**	38,728
Amount due from subsidiaries	5.1	**–**	–	**60,942**	18
Cash, bank balances and deposits	9	**56,475**	60,116	**53,438**	60,116
		232,799	150,764	**189,863**	150,782
CURRENT LIABILITIES					
Payables	10	**29,206**	24,539	**10,753**	24,536
Amount due to a subsidiary	5.1	**–**	–	**89**	91
Amount due to an associate	6.1	**362**	1,000	**362**	1,000
Taxation		**54**	4,221	**54**	4,221
Bank borrowings (unsecured)	11	**49,757**	35,495	**49,757**	35,495
Current portion of term loan (unsecured)	12	**9,500**	–	**9,500**	–
		88,879	65,255	**70,515**	65,343
NET CURRENT ASSETS		**143,920**	85,509	**119,348**	85,439
		276,137	164,994	**193,667**	161,952
Financed by -					
SHARE CAPITAL	13	**75,000**	75,000	**75,000**	75,000
RESERVES	14	**118,303**	88,519	**88,382**	85,477
SHAREHOLDERS' EQUITY		**193,303**	163,519	**163,382**	160,477
MINORITY INTEREST		**27,532**	–	–	–
NON-CURRENT LIABILITIES					
Term loan (unsecured)	12	**28,500**	–	**28,500**	–
Deferred taxation	15	**4,492**	1,475	**1,785**	1,475
Deferred liability	10	**22,310**	–	**–**	–
		276,137	164,994	**193,667**	161,952

The accompanying notes form an integral part of the financial statements

	Note	Group 2002 RM'000	Group 2001 RM'000	Company 2002 RM'000	Company 2001 RM'000
Revenue	16	**719,457**	582,647	**563,610**	582,646
Profit from operations	16	**41,298**	34,508	**25,189**	34,604
Finance cost		**(2,077)**	(1,440)	**(2,073)**	(1,440)
Share of results of an associate		**445**	626	**–**	–
Profit before taxation	17	**39,666**	33,694	**23,116**	33,164
Taxation	18	**(13,318)**	(10,398)	**(7,731)**	(10,223)
Profit after taxation		**26,348**	23,296	**15,385**	22,941
Minority interest		**(2,544)**	–	**–**	–
Profit after taxation attributable to shareholders		**23,804**	23,296	**15,385**	22,941
Earnings per share - (sen)					
Basic	19	**31.7**	31.1		
Net dividends per share - (sen)	20	**16.6**	13.0	**16.6**	13.0

The accompanying notes form an integral part of the financial statements

	Note	Share capital RM'000	Non-Distributable: Capital reserve (Note 14) RM'000	Non-Distributable: Reserve on consolidation (Note 14) RM'000	Non-Distributable: Revaluation reserve (Note 14) RM'000	Distributable: Retained profits (Note 14) RM'000	Total RM'000
Group							
At 1st January, 2001 -							
As previously reported		75,000	1,706	–	11,468	56,369	144,543
Prior year adjustment	21	–	–	–	–	5,400	5,400
As restated		75,000	1,706	–	11,468	61,769	149,943
Net profit for the year		–	–	–	–	23,296	23,296
Dividends	20	–	–	–	–	(9,720)	(9,720)
At 31st December, 2001		75,000	1,706	–	11,468	75,345	163,519
At 1st January, 2002 -							
As previously reported		**75,000**	**1,706**	**–**	**11,468**	**68,865**	**157,039**
Prior year adjustment	21	**–**	**–**	**–**	**–**	**6,480**	**6,480**
As restated		**75,000**	**1,706**	**–**	**11,468**	**75,345**	**163,519**
Reserve on consolidation		**–**	**–**	**18,460**	**–**	**–**	**18,460**
Net profit for the year		**–**	**–**	**–**	**–**	**23,804**	**23,804**
Dividends	20	**–**	**–**	**–**	**–**	**(12,480)**	**(12,480)**
At 31st December, 2002		**75,000**	**1,706**	**18,460**	**11,468**	**86,669**	**193,303**

The accompanying notes form an integral part of the financial statements

	Note	Share capital RM'000	Non-Distributable Revaluation reserve (Note 14) RM'000	Distributable Retained profits (Note 14) RM'000	Total RM'000
Company					
At 1st January, 2001 -					
As previously reported		75,000	11,468	55,388	141,856
Prior year adjustment	21	–	–	5,400	5,400
As restated		75,000	11,468	60,788	147,256
Net profit for the year		–	–	22,941	22,941
Dividends	20	–	–	(9,720)	(9,720)
At 31st December, 2001		75,000	11,468	74,009	160,477
At 1st January, 2002 -					
As previously reported		**75,000**	**11,468**	**67,529**	**153,997**
Prior year adjustment	21	**–**	**–**	**6,480**	**6,480**
As restated		**75,000**	**11,468**	**74,009**	**160,477**
Profit after taxation for the year		**–**	**–**	**15,385**	**15,385**
Dividends	20	**–**	**–**	**(12,480)**	**(12,480)**
At 31st December, 2002		**75,000**	**11,468**	**76,914**	**163,382**

The accompanying notes form an integral part of the financial statements

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**39,666**	33,694	**23,116**	33,164
Adjustments for -				
Depreciation	**14,586**	2,946	**1,965**	2,946
Dividend income	**–**	–	**(93)**	(93)
Loss/(Gain) on disposal of property, plant and equipment	**81**	(2)	**(19)**	(2)
Impairment loss on property, plant and equipment	**459**	–	**459**	–
Interest expense	**2,091**	1,425	**2,058**	1,425
Property, plant and equipment written off	**–**	40	**–**	40
Provision for severance benefits	**2,168**	1,000	**1,595**	1,000
Specific provision for doubtful debts	**–**	93	**–**	93
Interest income	**(2,323)**	(3,193)	**(2,224)**	(3,193)
Share of associate's results	**(445)**	(626)	**–**	–
Operating profit before working capital changes	**56,283**	35,377	**26,857**	35,380
Increase in inventories	**(32,035)**	(7,961)	**(7,572)**	(7,961)
Decrease/(Increase) in receivables	**28,035**	(2,017)	**22,430**	(2,017)
Increase in amount due from subsidiaries	**–**	–	**(4,415)**	(2)
Decrease in amount due to a subsidiary	**–**	–	**(2)**	(1)
Decrease in amount due to an associate	**(638)**	–	**(638)**	–
(Decrease)/Increase in payables	**(12,975)**	4,759	**(13,009)**	4,759
Cash generated from operations	**38,670**	30,158	**23,651**	30,158
Interest paid	**(1,864)**	(1,473)	**(1,831)**	(1,473)
Income tax paid	**(18,616)**	(7,245)	**(11,589)**	(7,245)
Severance benefits paid	**(13,074)**	–	**(2,595)**	–
Net cash from operating activities carried forward	**5,111**	21,440	**7,636**	21,440

The accompanying notes form an integral part of the financial statements

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Net cash from operating activities brought forward	**5,111**	21,440	**7,636**	21,440
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries net of cash and cash equivalents acquired(Note 5)	**(51,695)**	–	**–**	–
Gross dividend received from an associate	**93**	93	**93**	93
Interest received	**2,630**	2,960	**2,531**	2,960
Loan given to a subsidiary	**–**	–	**(56,509)**	–
Purchase of property, plant and equipment	**(1,701)**	(29,756)	**(230)**	(29,756)
Proceeds from disposal of property, plant and equipment	**2,139**	3	**19**	3
Net cash used in investing activities	**(48,534)**	(26,700)	**(54,096)**	(26,700)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowing from short term trade financing	**14,262**	14,751	**14,262**	14,751
Borrowing from term loan	**38,000**	–	**38,000**	–
Dividends paid	**(12,480)**	(9,720)	**(12,480)**	(9,720)
Net cash from financing activities	**39,782**	5,031	**39,782**	5,031
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,641)**	(229)	**(6,678)**	(229)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**60,116**	60,345	**60,116**	60,345
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**56,475**	60,116	**53,438**	60,116
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER				
Cash, bank balances and deposits (Note 9)	**56,475**	60,116	**53,438**	60,116

The accompanying notes form an integral part of the financial statements

1 CORPORATE INFORMATION

The principal activities of the Company are the smelting of tin concentrates and tin bearing materials, the production of various grades of refined tin metal under the MSC brand name and the sale and delivery of refined tin metal and by-products. The principal activities of the subsidiaries and an associate are set out in Notes 5 and 6 to the financial statements respectively. There have been no significant changes in the nature of these activities during the financial year other than those relating to investment holding and tin mining which arose as a result of the acquisition of the subsidiaries.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the main board of the Kuala Lumpur Stock Exchange.

The address of the registered office and the principal place of business of the Company is as follows -

27 Jalan Pantai
12000 Butterworth,
Penang, Malaysia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention, except for the revaluation of freehold and leasehold land and buildings.

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

Freehold and leasehold land and buildings located within Malaysia are revalued at least once in every five years based on a valuation by an independent valuer on a present use basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A revaluation decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

Freehold land are not depreciated. Leasehold land is depreciated over the unexpired period of the respective leases which range from 4 years to 25 years. Buildings are depreciated on a straight line basis over 8 to 40 years or the unexpired lease period or lives of the mines, whichever is shorter.

In the tin mining subsidiary, plant and equipment are depreciated using the units-of-production method based on recoverable tin over the estimated useful lives of the assets. Changes in estimated reserves and the useful lives of plant and equipment are accounted for on a prospective basis from the beginning of the year in which the change arises. Earthmoving vehicles are depreciated based on hours worked over the estimated useful life of each assets.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the shorter of their estimated useful lives or life of the mine.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The depreciation rates used for the remaining assets are as follows -

Plant, equipment and vehicles	4 to 40 years
Furniture	5 to 10 years

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement and the attributable portion of the revaluation surplus is taken directly to retained profits.

(c) Base inventory

Base inventory is the fixed recirculating inventory in the smelting process. The value of this inventory which comprises a metallic tin content of 381 tonnes is reviewed at each balance sheet date and stated in the balance sheet at conservative net realisable value which is lower than cost. In view of the long term nature of the inventory, it is not intended to adjust the value for short-term price fluctuations.

(d) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill or reserve and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minorities' share of the fair values of the identifiable assets and liabilities of the acquiree.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ii) Associate

An associate is a company in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associate. Under the equity method of accounting, the Group's share of profits less losses of an associate during the year is included in the consolidated income statement. The Group's interest in an associate is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves as well as goodwill on acquisition.

Unrealised gains on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

(e) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet while goodwill arising on the acquisition of an associate is included in the carrying amount of investment in an associate.

(f) Investments in subsidiaries and an associate

The Company's investments in subsidiaries and an associate are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is charged or credited to the income statement.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost of trading inventory of refined tin metal is determined on a first-in first-out basis. Inventories of tin-in-concentrates and tin-in-process which have matching sales contracts for refined tin metal from tin smelting operation, are stated at the value of such contracts less allowance for conversion. This value is consistent with cost, as it is the practice of the Company to buy tin-in-concentrates and sell refined tin metal on a back to back price basis for its tin smelting operation.

Absorption costing is used in the mining operation to assign costs to tin inventories using the weighted average cost method which includes both variable and fixed overhead cost components. Inventories of purchased medium grade tin concentrates prior to processing are valued at their purchase cost.

Cost of other inventories comprising stores, spares, fuels and saleable by-products is determined on the weighted average cost basis. Production cost is not allocated to by-products as it is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories, deferred tax assets and financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(i) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the liability.

(j) Mine exploration and evaluation expenditure

Mine exploration and evaluation expenditure incurred during exploration and evaluation of new areas of interest is written off as incurred.

(k) Mine development and construction expenditure

Mine development expenditure incurred during the development of new mine sites is generally expensed as incurred as mining operations involve a number of smaller pits which turn over after a relatively short period of time at a constant rate. These expenditures are considered to provide minimal benefit to future periods and accordingly are not deferred.

Construction expenditure on new mine sites incurred prior to production relating to capital equipment is classified as property, plant and equipment. Expenditure for other items is only deferred where it is significant and considered to provide benefit to future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Mine environmental expenditure

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is charged as part of the cost of production of the mine property concerned.

Significant restoration, rehabilitation and environmental expenditure to be incurred subsequent to the cessation of production at each mine property is accrued over the life of the mine.

(m) Employee severance benefits

Provision is made for the liability which accrues annually for severance benefits payable to all employees under the mining subsidiary's labour agreements, based on compensation during years of employment and years of service. Expected future severance benefits payments are discounted to the balance sheet date using forecast bond discount rates. Severance benefits paid during the year are charged against the provision.

(n) Deferred tax

The tax expense for the year is based on the profit for the year, as adjusted for tax purposes, together with a charge or credit for deferred taxation.

Deferred taxation is provided for by the liability method for all timing differences except when there is reasonable evidence that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(o) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward foreign exchange contracts. The accounting policy of these contracts is further described in Note 2 (p)(vii).

(ii) Foreign entities

Financial statements of foreign consolidated subsidiaries are translated at year end exchange rates with respect to the assets and liabilities, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are included in the foreign exchange reserve in shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the date of the transaction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used are as follows -

	2002 RM	2001 RM
Australian Dollar	2.16	–
United States Dollar	3.80	–

(p) Financial instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities, assets or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability or asset, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Other non-current investments

Non-current investments other than investments in subsidiaries and an associate are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(ii) Trade receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(iii) Trade payables

Trade payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iv) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Equity instruments

Ordinary shares are classified as equity.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(vi) Derivative financial instruments

The Group uses derivative financial instruments, including forward foreign exchange contracts, to hedge its exposure to interest rate and foreign exchange and other risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are not recognised in the financial statements on inception.

(vii) Forward foreign exchange contracts

The underlying foreign currency assets or liabilities are translated at their respective hedged exchange rate and all exchange gains or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

(q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of goods and services

Revenue relating to sale of goods and services is recognised upon delivery or transfer of ownership of products or performance of service.

(ii) Interest income

Interest income is recognised on an accrual basis.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Tin warrant charges and administrative fees

Revenue from tin warrant charges and administrative fees are recognised upon performance of services.

(v) Warehouse rent

Revenue from warehouse rent is recognised on an accrual basis.

(r) Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

3 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Short leasehold land RM'000	Buildings RM'000	Plant, equipment, vehicles and furniture RM'000	Capital work-in-progress RM'000	2002 Total RM'000
Cost or valuation						
At 1st January	42,048	667	16,882	33,846	1,439	**94,882**
On acquisition of subsidiaries	–	–	22,134	246,066	–	**268,200**
Additions	–	–	–	1,495	206	**1,701**
Transfers	–	–	518	387	(905)	**–**
Disposals	–	–	–	(7,714)	–	**(7,714)**
At 31st December	42,048	667	39,534	274,080	740	**357,069**
Representing -						
Cost	23,841	–	28,313	274,080	740	**326,974**
Valuation 1998	18,207	667	11,221	–	–	**30,095**
	42,048	667	39,534	274,080	740	**357,069**
Accumulated depreciation and impairment losses						
At 1st January	–	89	4,045	27,708	–	**31,842**
On acquisition of subsidiaries	–	–	22,016	178,120	–	**200,136**
Charge for the year	–	30	696	13,860	–	**14,586**
Disposals	–	–	–	(5,493)	–	**(5,493)**
Impairment losses	–	–	–	459	–	**459**
At 31st December	–	119	26,757	214,654	–	**241,530**
Net book value						
At 31st December, 2002	**42,048**	**548**	**12,777**	**59,426**	**740**	**115,539**
At 31st December, 2001	42,048	578	12,837	6,138	1,439	63,040
Net book value (had the assets been carried at cost less depreciation)						
At 31st December, 2002	**31,521**	**147**	**8,919**	**59,426**	**740**	**100,753**
At 31st December, 2001	31,521	154	8,690	6,138	1,439	47,942

3 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Freehold land RM'000	Short leasehold land RM'000	Buildings RM'000	Plant, equipment, vehicles and furniture RM'000	Capital work-in-progress RM'000	2002 Total RM'000
Cost or valuation						
At 1st January	42,048	667	16,882	33,846	1,439	**94,882**
Additions	–	–	–	24	206	**230**
Transfers	–	–	518	387	(905)	**–**
Disposals	–	–	–	(92)	–	**(92)**
At 31st December	42,048	667	17,400	34,165	740	**95,020**
Representing -						
Cost	23,841	–	6,179	34,165	740	**64,925**
Valuation 1998	18,207	667	11,221	–	–	**30,095**
	42,048	667	17,400	34,165	740	**95,020**
Accumulated depreciation and impairment losses						
At 1st January	–	89	4,045	27,708	–	**31,842**
Charge for the year	–	30	646	1,289	–	**1,965**
Disposals	–	–	–	(92)	–	**(92)**
Impairment losses	–	–	–	459	–	**459**
At 31st December	–	119	4,691	29,364	–	**34,174**
Net book value						
At 31st December, 2002	**42,048**	**548**	**12,709**	**4,801**	**740**	**60,846**
At 31st December, 2001	42,048	578	12,837	6,138	1,439	63,040
Net book value (had the assets been carried at cost less depreciation)						
At 31st December, 2002	**31,521**	**147**	**8,851**	**4,801**	**740**	**46,060**
At 31st December, 2001	31,521	154	8,690	6,138	1,439	47,942

Group / Company

The short leasehold land comprises leases with a current duration of between 4 to 25 years.

The land and buildings stated at valuation were revalued by the Directors in December 1998 based on an independent professional valuation on a present use basis.

4 BASE INVENTORY

As stated in Note 2(c), base inventory which comprises a metallic tin content of 381 tonnes is stated in the balance sheet at RM3,000,000 based on a conservative net realisable value calculated at a tin metal price of RM11 per kg, as compared with the tin metal price of RM16.13 per kg as at 31st December, 2002.

5 INVESTMENT IN SUBSIDIARIES

	Company	
	2002 RM'000	2001 RM'000
Unquoted shares, at cost	–	–

Details of the subsidiaries are as follows -

Name of subsidiaries	Country of incorporation	Issued and paid-up capital	Effective interest held 2002	Effective interest held 2001	Principal activities
Malaysia Smelting Corporation (Warehousing) Sdn. Bhd.	Malaysia	2 shares of RM1 each	**100%**	100%	Tin warehousing
MSC Properties Sdn. Bhd.	Malaysia	2 shares of RM1 each	**100%**	100%	Dormant
Bemban Corporation Ltd.	British Virgin Islands	1 share of USD1 each	**100%**	–	Investment holding
* Kajuara Mining Corporation Pty. Ltd.	Australia	4 million non par value AUD shares	**#100%**	–	Investment holding
** PT Koba Tin	Indonesia	1 million shares of USD1 each	**#75%**	–	Tin mining and smelting

* Audited by member of Ernst & Young Global
** Audited by firms of auditors other than Ernst & Young
\# Indirect interest

On 12th March, 2002, the Company incorporated in British Virgin Islands, a wholly owned subsidiary, Bemban Corporation Ltd. (BCL) for a total cash consideration of USD1 (RM3.80).

5 INVESTMENT IN SUBSIDIARIES (CONT'D)

On 9th April, 2002, the Company completed its acquisition of a 100% equity interest in Kajuara Mining Corporation Pty Ltd (KMC), a company incorporated in Australia via BCL for an initial cash consideration of USD13.7 million (RM52.1 million) and deferred payments of not more than USD6 million (RM22.8 million) over 3 years from 2002 to 2004 based on the average annual tin price reaching certain levels as disclosed in Notes 24 to the financial statements. The total cost of investments, including incidental cost of acquisition in Kajuara Mining Corporation Pty. Ltd. is approximately RM56.5 million.

KMC owns 75% equity interest in PT Koba Tin.

There was no deferred payment in respect of 2002 as the average annual tin price for 2002 did not reach the required levels. Subsequent to the year end, the deferred payments were reduced to not more than USD4.0 million (approximately RM15.2 million) payable over 2 years from 2003 to 2004 based on average annual tin prices reaching certain levels as disclosed in Note 24 to the financial statements.

The effect of the acquisitions on the financial results of the Group from the date of acquisition to 31st December, 2002 is as follows -

	RM'000
Revenue	**258,652**
Profit from operation	**16,127**
Finance cost	**(4)**
Profit before taxation	**16,123**
Taxation	**(5,468)**
Profit after taxation	**10,655**

The effect of the acquisitions on the financial position of the Group as at 31st December, 2002 is as follows -

	RM'000
Property, plant and equipment	**54,693**
Inventories	**72,287**
Receivables	**28,554**
Cash, bank balances and deposits	**3,037**
Payables	**(18,444)**
Deferred taxation	**(2,707)**
Deferred liability	**(22,310)**
Minority interest	**(27,532)**
Group's share of net assets	**87,578**

5 INVESTMENT IN SUBSIDIARIES (CONT'D)

The fair values of the assets acquired and liabilities assumed from the acquisition of the subsidiary as at 9th April, 2002 were as follows -

	RM'000
Net assets acquired -	
Property, plant and equipment	**68,063**
Inventories	**47,823**
Receivables	**34,159**
Cash and bank balances	**4,805**
Payables	**(17,356)**
Deferred taxation	**(4,267)**
Deferred liability	**(33,280)**
Fair value of total net assets	**99,947**
Less - Minority interest	**(24,987)**
Group's share of net assets	**74,960**
Reserve on consolidation	**(18,460)**
Total consideration	**56,500**
Satisfied by cash	**56,500**
Net cash outflows arising on acquisition -	
Cash consideration	**56,500**
Cash and cash equivalents of the subsidiary acquired	**(4,805)**
	51,695

5.1 Amount due to / from subsidiaries

Amounts due to / from subsidiaries are unsecured, trade and non-trade in nature, interest-free and have no fixed terms of repayments except that interest at 7.5% p.a. is charged to a subsidiary for payments made in advance to the subsidiary before delivery of goods.

Included in amounts due from subsidiaries is an unsecured, interest free loan of RM56.5 million (2001 - RM Nil) given to a subsidiary to finance the acquisition of its investment in Kajuara Mining Corporation Pty. Ltd..

6 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Unquoted shares, at cost	**10,473**	10,473	**10,473**	10,473
Share of reserves since acquisition	**3,205**	2,972	**–**	–
	13,678	13,445	**10,473**	10,473

The Group's investment in an associate is represented by -

	Group	
	2002 RM'000	2001 RM'000
Group's share of net tangible assets	**10,873**	10,640
Premium arising on acquisition	**2,805**	2,805
	13,678	13,445

Details of the associate are as follows -

Name of Company	Country of incorporation	Effective interest held 2002	Effective interest held 2001	Principal activities
Redring Solder (M) Sdn. Bhd.	Malaysia	40%	40%	Manufacture and sale of solder products

6.1 Amount due to an associate

The amount due to an associate includes a security deposit of RM1 million (2001 - RM1 million) received for its purchase of refined tin metal. This amount is placed in fixed deposit with licensed banks and earns interest at an average rate of 4% (2001 - 4.1%) per annum. The fixed deposit interest earned on the security deposit is payable to the associate.

7 INVENTORIES

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
At cost -				
Inventories of tin-in-concentrates, tin-in-process and refined tin metal	**107,407**	44,670	**46,468**	44,670
Goods in transit	**6,355**	–	**6,355**	–
Other inventories (stores, spares, fuels and by-products)	**18,017**	7,250	**6,669**	7,250
	131,779	51,920	**59,492**	51,920

The cost of inventories of the Group and of the Company charged as an expense during the financial year amounted to RM 664.1million (2001 - RM543.2 million) and RM531.9 million (2001 - RM543.2 million) respectively.

8 RECEIVABLES

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Trade receivables	**28,757**	33,285	**15,181**	33,285
Other receivables, deposits and prepayments	**13,905**	5,536	**903**	5,536
Tax recoverable	**1,976**	–	**–**	–
	44,638	38,821	**16,084**	38,821
Specific provision for doubtful debts				
- Trade receivables	**(74)**	(74)	**(74)**	(74)
- Other receivables	**(19)**	(19)	**(19)**	(19)
	(93)	(93)	**(93)**	(93)
	44,545	38,728	**15,991**	38,728

There were no deposits and other expenses included in other receivables, deposits and prepayments in the financial year for the acquisition of 100% equity interest in Kajuara Mining Corporation Pty. Ltd.(2001 - RM4,066,000).

9 CASH, BANK BALANCES AND DEPOSITS

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Deposits with licensed banks	**46,657**	47,025	**46,657**	47,025
Deposits with licensed finance companies	**5,024**	8,100	**5,024**	8,100
Cash and bank balances	**4,794**	4,991	**1,757**	4,991
	56,475	60,116	**53,438**	60,116

The range of interest rates earned during the financial year and the average maturities of deposits as at 31st December, 2002 are as follows -

	Range of interest rates % per annum	Average maturities days
Licensed banks	1.2 - 4.0	39
Licensed finance companies	3.2	34

10 PAYABLES

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Trade payables	**5,208**	7,495	**2,945**	7,495
Other payables and accruals	**22,939**	16,044	**7,808**	16,041
Provision	**1,059**	1,000	**–**	1,000
	29,206	24,539	**10,753**	24,536

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Analysis of provision -				
Deferred liability-severance benefits				
At 1st January, 2002	**1,000**	–	**1,000**	–
On acquisition of subsidiaries	**33,280**	–	**–**	–
Provision during the year	**2,168**	1,000	**1,595**	1,000
Paid during the year	**(13,079)**	–	**(2,595)**	–
At 31st December, 2002	**23,369**	1,000	**–**	1,000
At 31st December, 2002				
- Current	**1,059**	1,000	**–**	1,000
- Non-current	**22,310**	–	**–**	–
	23,369	1,000	**–**	1,000

10 PAYABLES (CONT'D)

Provision for severance benefits of the Company arose from the downsizing of the Company's smelting plant in Butterworth from 4 furnaces to 2 furnaces during the year. Provision for severance benefits of the Group other than the Company is in respect of a mining subsidiary,which is provided according to the accounting policy as described in Note 2 (m)-Employee severance benefits.

11 BANK BORROWINGS (UNSECURED)

	Group / Company	
	2002	**2001**
	RM'000	**RM'000**
Short term trade financing	**33,317**	20,017
Bankers' acceptance	**16,440**	15,478
	49,757	35,495

The bank borrowings bear interest at rates ranging from 1.85 % to 6.80 % (2001 - 2.20 % to 6.80%) per annum.

12 TERM LOAN (UNSECURED)

	Group / Company	
	2002	**2001**
	RM'000	**RM'000**
Balance at 31st December	**38,000**	–
Repayable after the next 12 months	**(28,500)**	–
Repayable within the next 12 months	**9,500**	–
Maturity of term loan -		
Within 1 year	**9,500**	–
More than 1 year and less than 2 years	**9,500**	–
More than 2 years and less than 5 years	**19,000**	–
5 years and more	**–**	–
	38,000	–

The unsecured term loan is denominated in US Dollar and is repayable by 8 semi-annual principal repayments of RM4.75 million (USD1.25 million) each commencing on 5th April, 2003. Interest is charged at 1% above 3 months Singapore Interbank Offer Rate.

13 SHARE CAPITAL

	Company			
	Number of ordinary shares of RM1 each		Amount	
	2002 '000	2001 '000	2002 RM'000	2001 RM'000
Authorised -				
At 31st December	**100,000**	100,000	**100,000**	100,000
Issued and fully paid -				
At 31st December	**75,000**	75,000	**75,000**	75,000

14 RESERVES

	Group		Company	
	2002 RM'000	Restated 2001 RM'000	2002 RM'000	Restated 2001 RM'000
Non-distributable -				
Surplus on revaluation of land and buildings	**11,468**	11,468	**11,468**	11,468
Capital reserve	**1,706**	1,706	**–**	–
Reserve on consolidation	**18,460**	–	**–**	–
Distributable -				
Retained profits	**86,669**	75,345	**76,914**	74,009
	118,303	88,519	**88,382**	85,477

The capital reserve represents share of post acquisition share premium of an associate.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank by way of dividends all of its distributable reserves as at 31st December, 2002.

In addition, the Company also has, tax exempt profit of approximately RM16,570,000 (2001 - RM22,400,000) as at 31st December, 2002 available for distribution.

15 DEFERRED TAXATION

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
At 1st January	**1,475**	1,435	**1,475**	1,435
On acquisition of subsidiaries	**4,267**	–	**–**	–
Transfer (from)/to income statement (Note 18)	**(1,250)**	40	**310**	40
At 31st December	**4,492**	1,475	**1,785**	1,475
Analysis of deferred taxation -				
Component of deferred tax liabilities -				
Capital allowance in excess of depreciation	**6,211**	1,319	**1,560**	1,319
Provisions, expenses and income taken to tax in different year	**225**	156	**225**	156
Unutilised tax losses	**(1,944)**	–	**–**	–
	4,492	1,475	**1,785**	1,475

The Group and the Company do not have any tax effect on timing differences which will not reverse for some considerable period ahead. The deferred tax effects on revalued assets are not disclosed because the amount involved is not material and the Group and the Company have no intention to dispose of these assets in the foreseeable future.

16 PROFIT FROM OPERATIONS

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Profit from operations is calculated as follows -				
Sale of goods	**715,801**	578,499	**559,955**	578,499
Tin warehousing and delivery charges	**3,656**	4,148	**3,655**	4,147
Revenue	**719,457**	582,647	**563,610**	582,646
Cost of goods sold and services provided	**(667,517)**	(544,873)	**(533,757)**	(544,873)
Gross profit	**51,940**	37,774	**29,853**	37,773
Other operating income	**3,385**	3,272	**2,452**	3,365
Marketing and distribution expenses	**(6,050)**	(2,145)	**(2,239)**	(2,145)
Administrative expenses	**(7,965)**	(4,355)	**(4,865)**	(4,351)
Other operating expenses	**(12)**	(38)	**(12)**	(38)
Profit from operations	**41,298**	34,508	**25,189**	34,604

17 PROFIT BEFORE TAXATION

	Group		Company	
	2002 RM'000	**2001 RM'000**	**2002 RM'000**	**2001 RM'000**
Profit before taxation is stated after charging/ (crediting) -				
Auditors' remuneration				
- Statutory audit	**184**	61	**60**	60
- Other services	**46**	–	**–**	–
Depreciation	**14,586**	2,946	**1,965**	2,946
Directors' remuneration				
- fees	**834**	120	**400**	120
- emoluments	**548**	399	**548**	399
- estimated monetary value of benefits-in-kind	**10**	10	**10**	10
- secretarial fees payable to a director	**11**	–	**–**	–
Hire of equipment and vehicles	**18**	59	**18**	59
Interest expense	**2,091**	1,425	**2,058**	1,425
Loss on foreign exchange	**12**	–	**12**	–
Impairment loss on property, plant and equipment	**459**	–	**459**	–
Loss/(Gain) on disposal of property, plant and equipment	**81**	(2)	**(19)**	(2)
Property, plant and equipment written off	**–**	40	**–**	40
Provision for severance benefits	**2,168**	1,000	**1,595**	1,000
Rents of land and buildings	**365**	208	**198**	208
Specific allowance for doubtful debts	**–**	93	**–**	93
Staff costs (excluding Directors' remuneration)	**33,923**	17,263	**17,791**	17,263
Gross dividend received from an associate	**–**	–	**(93)**	(93)
Gain on foreign exchange	**(217)**	(6)	**–**	(6)
Interest income	**(2,323)**	(3,193)	**(2,224)**	(3,193)

The number of employees for the Group and for the Company at 31st December, 2002 was 1,291 (2001 - 584) and 393 (2001 - 584) respectively.

18 TAXATION

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Tax expense for the year -				
Malaysian income tax	**(6,889)**	(9,882)	**(6,889)**	(9,882)
Foreign tax	**(7,028)**	–	**–**	–
	(13,917)	(9,882)	**(6,889)**	(9,882)
Transfer to/(from) deferred taxation (Note 15)	**1,250**	(40)	**(310)**	(40)
	(12,667)	(9,922)	**(7,199)**	(9,922)
Tax expense of prior years -				
Malaysian income tax	**(532)**	(301)	**(532)**	(301)
	(13,199)	(10,223)	**(7,731)**	(10,223)
Share of taxation of an associate	**(119)**	(175)	**–**	–
	(13,318)	(10,398)	**(7,731)**	(10,223)

The effective tax rate for the financial year is higher than the statutory tax rate in Malaysia due to the higher tax rate payable by a foreign subsidiary.

19 EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on consolidated profit after taxation and minority interests attributable to shareholders of RM23,804,000 (2001 - RM23,296,000) for the Group and 75,000,000 (2001 - 75,000,000) shares in issue during the year.

20 DIVIDENDS

	Amount		Net dividend per share	
	2002 RM'000	2001 RM'000	2002 Sen	2001 Sen
Group and Company				
Interim dividend for the year of 8 sen tax exempt (2001 - 8 sen less tax at 28%)	**6,000**	4,320	**8.0**	5.8
Final dividend for the previous year of 12 sen (2001 - 10%) less tax at 28%	**6,480**	5,400	**8.6**	7.2
	12,480	9,720	**16.6**	13.0

A second interim dividend in respect of the year ended 31st December, 2002, of 10 sen tax exempt on 75,000,000 ordinary shares, amounting to RM 7,5000,000 has been declared by the Directors on 25th February, 2003. The financial statements for the current financial year do not reflect this declared dividend which will be accounted for in shareholders' equity as an appropriation of retained profits in the next financial year ending 31st December, 2003.

21 PRIOR YEAR ADJUSTMENT

In compliance with MASB 19 Events After the Balance Sheet Date, the Company discontinued the recognition of dividend declared or proposed after the balance sheet date, as a liability. This change in accounting policy has been applied retrospectively with the resulting adjustment reported as an adjustment to opening balance of retained earnings.

Comparative information has been restated accordingly.

This change in accounting policy has no effect on the income statements for the current and previous financial years.

22 SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Group	2002 RM'000	Amount outstanding as at 31/12/2002 RM'000	2001 RM'000	Amount outstanding as at 31/12/2001 RM'000
(a) Sales to an associate, Redring Solder (M) Sdn Bhd	**11,087**	**638**	14,488	84
(b) Share of profit from services provided for the extraction and sales of tin slags on behalf of a substantial shareholder, The Straits Trading Company Limited	**–**	**–**	1,597	–
(c) Tolling smelting charges paid to a corporate shareholder, PT Timah TBK	**4,968**	**–**	–	–

22 SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES (CONT'D)

Company	2002 RM'000	Amount outstanding as at 31/12/2002 RM'000	2001 RM'000	Amount outstanding as at 31/12/2001 RM'000
(a) Sales to an associate, Redring Solder (M) Sdn. Bhd.	**11,087**	**638**	14,488	84
(b) Share of profit from services provided for the extraction and sales of tin slags on behalf of a substantial shareholder, The Straits Trading Company Limited	**–**	**–**	1,597	–
(c) Purchases from a subsidiary, PT Koba Tin	**99,099**	**–**	–	–
(d) Interest income charged to a subsidiary, PT Koba Tin	**32**	**32**	–	–
(e) Loan to a subsidiary, Bemban Corporation Ltd for investment in Kajuara Mining Corp. Pty. Ltd.	**56,509**	**56,509**	–	–

The above other than loan to a subsidiary arose from normal trade transactions on a negotiated basis.

23 CAPITAL COMMITMENTS

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Contracted but not provided for -				
Property, plant and equipment	**316**	358	**161**	358
Investment	**–**	76,000	**–**	76,000

24 CONTINGENT LIABILITY (UNSECURED)

Group / Company

At 31st December, 2002, the Group and the Company has the following contingent payments of up to USD4 million (2001 - USD6 million) [approximately RM15.2 million (2001 - RM22.8 million)] based on the average annual tin price, payable within 21 days of each calendar year end arising from the acquisition of Kajuara Mining Corporation Pty. Ltd. -

2002 - a payment of USD2 million (approximately RM7.6 million) if the average tin price for 2002 calendar year exceeds USD5,175 per tonne declining to zero if the average tin price does not exceed USD4,575 per tonne;

2003 - a payment of USD2 million (approximately RM7.6 million) if the average tin price for the 2003 calendar year exceeds USD5,675 per tonne declining to zero if the average tin price does not exceed USD5,075 per tonne; and

2004 - a payment of USD2 million (approximately RM7.6 million) if the average tin price for the 2004 calendar year exceeds USD5,675 per tonne declining to zero if the average tin price does not exceed USD5,075 per tonne.

25 FINANCIAL INSTRUMENTS

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

(a) Interest rate risk

The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

The Group places its excess funds in fixed deposits with banks and financial institutions with a good mix of maturity periods to obtain the most favourable interest rates and ensure funds are available when required.

(b) Foreign exchange risk

The Group has exposure to fluctuations in foreign exchange rates. The Group has foreign exchange rate risk exposure mainly in US Dollar, Australian Dollar and Indonesian Rupiah. Due to concentration of its purchases and sales in US Dollars, there is a natural hedge and the exposure to foreign currency risk is minimised.

The net unhedged financial assets and liabilities of the Group and of the Company as at 31st December, 2002 that are not denominated in their functional currencies are as follows -

25 FINANCIAL INSTRUMENTS (CONT'D)

Group

Functional currency	Ringgit Malaysia RM'000	US Dollar RM'000
Trade receivables		
US Dollar	7,402	–
Other receivables		
US Dollar	9	
Indonesian Rupiah	–	11,627
Cash and bank balances		
US Dollar	12,703	
Indonesian Rupiah	–	1,055
Trade payables		
Indonesian Rupiah	–	2,065
Other payables		
US Dollar	2,763	
Indonesian Rupiah	–	16,710
Trade financing		
US Dollar	33,317	–
Term loan		
US Dollar	38,000	–
Deferred Liability		
Indonesian Rupiah	–	22,310

Company

Functional currency	Ringgit Malaysia RM'000
Trade receivables	
US Dollar	7,402
Other receivables	
US Dollar	9
Cash and bank balances	
US Dollar	12,703
Other payables	
US Dollar	2,763
Trade financing	
US Dollar	33,317
Term loan	
US Dollar	38,000

25 FINANCIAL INSTRUMENTS (CONT'D)

As at 31st December 2002, the Group has entered into foreign exchange contracts with the following notional amounts and maturities -

		Maturities			
	Currency	Within 1 year RM'000	1 year up to 5 years RM'000	5 years or more RM'000	Total notional amount RM'000
Forwards used to hedge anticipated sales	USD	9,066	–	–	9,066
Forwards used to hedge trade receivables	USD	2,937	–	–	2,937
		12,003	–	–	12,003

The net unrecognised gains as at 31st December, 2002 on forward contracts used to hedge anticipated sales which are expected to occur during 2003 amounted to RM 20,000 and are deferred until the related sales occur, at which time they will be included in the measurement of the sales.

(c) Credit risk

The carrying amount of trade and other receivables, cash and bank balances and deposits represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

(d) Liquidity risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

25 FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair values

The following methods and assumptions are used to estimate the fair value of each class of financial instruments -

(i) Cash, bank balances, deposits, other receivables and other payables

The carrying amounts of cash, bank balances, deposits, other receivables and other payables approximate fair value due to their short-term nature.

(ii) Trade receivables, trade payables and bank borrowings

The carrying amounts of trade receivables and trade payables approximate fair value because these are subject to normal trade credit terms. The carrying value of bank borrowings approximates the fair value as these bank borrowings bear interest at rates which approximates the current incremental borrowing rates for similar types of lending and borrowing arrangements.

(iii) Amount due from/to subsidiaries and amount due to an associate

No disclosure of their fair value is made for amounts due from/to subsidiaries and amount due to an associate, as it is not practical to determine their fair values with sufficient reliability since these balances have no fixed terms of repayment.

26 SEGMENTAL INFORMATION

The Company and its principal subsidiaries operate principally within one industry. The Group operates in two geographical areas, namely, Malaysia and Indonesia. Geographical segment revenue and assets are based on geographical location of the Group's assets. Segment accounting policies are the same as the policies as described in Note 2, inter-segment sales where applicable are based on terms determined on a commercial basis.

The following table presents the financial information by geographical segments -

	Revenue		Total assets		Profit before taxation	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Malaysia	**460,806**	582,647	**205,138**	230,249	**23,558**	33,694
Indonesia	**258,651**	–	**159,874**	–	**16,178**	–
Others	**–**	–	**4**	–	**(70)**	–
	719,457	582,647	**365,016**	230,249	**39,666**	33,694

27 COMPARATIVE FIGURES

(a) The following comparative figures have been restated to reflect the treatment of proposed dividends in accordance with MASB 19 Events After Balance Sheet Date -

	Group		Company	
	As restated 2001 RM'000	As previously reported 2001 RM'000	As restated 2001 RM'000	As previously reported 2001 RM'000
Balance sheets				
Proposed dividend	–	6,480	–	6,480
Reserves	88,519	82,039	85,477	78,997
Note 14 to the financial statements				
Distributable -				
Retained profit	75,345	68,865	74,009	67,529

(b) The following comparative figures have been reclassified to conform with current year's presentation -

	Group / Company	
	As reclassified 2001 RM'000	As previously reported 2001 RM'000
Note 3 to the financial statements		
Cost or Valuation		
At 31st December, 2001		
Plant,equipment,vehicles and furniture	33,846	35,285
Capital work-in-progress	1,439	–
Net book value		
At 31st December, 2001		
Plant,equipment,vehicles and furniture	6,138	7,577
Capital work-in-progress	1,439	
Net book value (had the assets been carried at cost less depreciation)		
At 31st December, 2001		
Plant,equipment,vehicles and furniture	6,138	7,577
Capital work-in-progress	1,439	
Note 11 to the financial statements		
Bank borrowings		
Short term trade financing	20,017	35,495
Bankers' acceptance	15,478	–

(c) Comparatives are not disclosed for certain information relating to financial instruments as permitted by MASB 24 Financial Instruments: Disclosure and presentation upon first application.

Location	Description	Approximate area	Tenure	Year of expiry	Approximate age of buildings	Net book value at 31-12-02 RM'000	Date of last revaluation / acquisition
Malaysia							
1. 27 Jalan Pantai 12000 Butterworth							
a) Lot 142-187 and 362	Land with offices and factory buildings	12.5 acres	Freehold	–	1 – 49 years	22,619	1998
b) Lot 268	Land with offices and factory buildings	45,575 sq. ft.	Leasehold	2028	1 – 49 years	511	1998
c) Lot 263	Seabed leases with main wharf	15,000 sq. ft.	Leasehold	2006	NA	38	1998
2. Lot 1199 Mukim 12, Daerah Seberang Perai Tengah	Vacant Land	13.40 acres	Freehold	–	NA	2,900	1998
3. Unit No. B-15-11 Megan Avenue II 12, Jln Yap Kwan Seng 50450 Kuala Lumpur	Office premises	4,629 sq. ft.	Freehold	–	3 years	903	2000
4. Taman Desa Palma Alma 14000 Bukit Mertajam	80 units of Flats	52,000 sq. ft.	Freehold	–	2 years	4,494	2001
5. Lot 1202, 1203 & 1439, Mukim 12, Daerah Seberang Perai Tengah	Vacant Land	81.67 acres	Freehold	–	NA	23,841	2001
Indonesia							
6. PT Koba Tin Bangka Island	Offices, factory buildings and houses on mining lease	41,680.3 hectares	Mining lease	2013	5 – 30 years	67	1997

THE GLOBAL TIN INDUSTRY

The global tin industry remained depressed during the year under review as continued weak price levels resulted in more production cuts while potentially explosive social, political and economic events worldwide stalled any real recovery in economic growth and demand for base metals in major industrialized regions. Tin prices started declining in the 2nd Quarter of 2001 and any hope of a quick upturn was dashed as prices, although recovered from their historical lows, were generally lackluster and stayed at uneconomic levels for a majority of the tin producers. There is, however, a silver lining in the horizon as the prolonged low tin prices are expected to produce a significant supply deficit in 2003 and this will invariably result in higher prices, which were evident at the time of compiling this review.

Although the industry, on the supply side, responded to the low tin prices with production cuts from most of the tin producing countries, the increase in Indonesian tin production due to the proliferation of small-scale mines offset the reduction, resulting in supply maintaining at around the same level as previous year. Most tin producing countries including Malaysia, China, Thailand, Brazil and Bolivia suffered various degrees of decline in production with Australia been the hardest hit casualty. Somincor, the tin copper producer in Portugal halted all tin recovery operation as a result of the low tin prices. At its height the mine was producing about 6,000 tonnes of tin-in-concentrates.

The Renison mine in Tasmania continued to be battered financially by the low tin prices and production was significantly reduced by nearly 50% to 5,600 tonnes tin-in-concentrates in 2002. In China, production appeared to have peaked in 2001 and published statistics indicated that 2002 tin-in-concentrates production in China would most likely be down by nearly 9% to 72,000 tonnes. While Yunan Tin Corporation (YTC) is expected to maintain its output, the country's 2nd largest producer, Liuzhou China Tin was severely affected by the fall in production in the Guangxi tin-producing region, producing only 13,760 tonnes in 2002 against previous years' levels of around 20,000 tonnes. Given the increasing local tin consumption (now estimated at around 50,000+ tonnes) and decreasing supply, it is unlikely that China will be a major exporter of refined tin in the coming years.

Peruvian tin mining industry remained profitable and their only tin producer, Minsur SA, was able to maintain production at 38,000 tonnes tin-in-concentrates in 2002 from their San Rafael mine, the largest producing tin mine in the world. During the year, Minsur was able to upgrade their Ausmelt plant in Pisco to smelt the entire production from their mine. In the other South America's tin producing countries, the Bolivian tin industry was thrown into turmoil as the owner of the Vinto smelter and Huanuni mine operations, RBG Group (formerly Allied Deals), went into financial liquidation. Brazilian tin industry continued its decline and is expected to be an insignificant producer in the coming years as the remaining alluvial deposits and high-grade tin tailings are worked out.

In Indonesia, the Government imposed a ban in tin-concentrates export in May 2002. As Indonesia's refined tin production is limited by the installed smelting capacity on the island of Bangka, the ban produced an immediate impact on the availability of tin concentrates for custom smelters, which led to a reduction in worldwide refined tin output during the last Quarter of the year.

After suffering a decline in 2001, world demand for tin managed to recover slightly from the previous year. Published figures showed a 2.3% increase in worldwide consumption as strong demand from the electronic sector in Japan and Korea aided a recovery in their tin consuming sector of solder. Current projections are that demand will further increase by almost 4% next year as consumption of lead free solder is expected to pick up momentum. Other new tin applications, particularly those spearheaded by Tin Technology Ltd., UK, will also assist tin demand growth in the coming years. However, the fallouts from Sept 11 events and the current US-led war in Iraq will continue to weigh heavily against any sustainable upward recovery in the world economy and hence tin consumption.

Given the above supply and demand scenarios, the global tin supply/demand balance is expected to plunge into a significant supply deficit in 2003 and this should bring about a recovery in tin prices. The equilibrium price level will obviously depend on the ability of additional supply coming into the market at higher price levels.

MALAYSIAN TIN INDUSTRY

Malaysian tin production declined by another 15.2% to 4,215 tonnes of tin-in-concentrates in 2002. The local industry is at the higher end of the cost curve and at current price levels, most of the available mineable areas are uneconomic.

A potential increase in price levels next year may see a small resurgence in the domestic production but support from the Federal and State Governments in the area of land utilization will be necessary to re-establish a sound and sustainable tin mining industry in Malaysia.

Domestic tin metal consumption remained below pre-Asian crisis levels of around 6,000+ tonnes. A total of 4,300 tonnes tin was estimated to be consumed locally in 2002 with most of the tin being consumed in the solder, tinplate and pewter industries.

KLTM / LME MARKETS

After a disastrous 2001 when tin prices at the London Metal Exchange (LME) hit historical lows, prices recovered from its lows but remained at depressed levels during the year under review. The LME 3 months' average price further declined by 9.4% from an average of US$4,520 per tonne to US$4,086 in 2002. As previously anticipated, the coming on-stream of LME warehouses in Singapore during the year saw the LME tin stocks spiraling upwards as regional producers started to move their stocks and production to these warehouses. LME tin stocks came close to reaching 40,000 tonnes before coming down and closing the year at 25,610 tonnes. The expected supply deficit next year will continue to see a draw down of LME stocks.

At the Kuala Lumpur Tin Market (KLTM), market prices during the year closely tracked the LME with an average price of US$4,064 per tonne (RM15.44 per kilo equivalent) representing a decline of 8.1% from previous year. Market turnover declined by 4,408 tonnes to 17,176 tonnes.

DLA'S TIN STOCKPILE

The disposal program continued with some 8,800 tonnes of tin metal disposed of during the year. The stockpile, after the disposal, has now been reduced to around 57,000 tonnes from its peak of 300,000+ tonnes.

ITRI / TIN TECHNOLOGY

ITRI / Tin Technology continued to refocus and realign its activities to be market orientated, results driven and to provide value to its customers and the industry. The work of the organization has contributed to critical applications in electronic, aerospace and automotive industries worldwide. More importantly, the underlying value for most of these applications (as expounded in the report's cover theme) is in their contribution to the preservation of the earth's environment for our future generations.

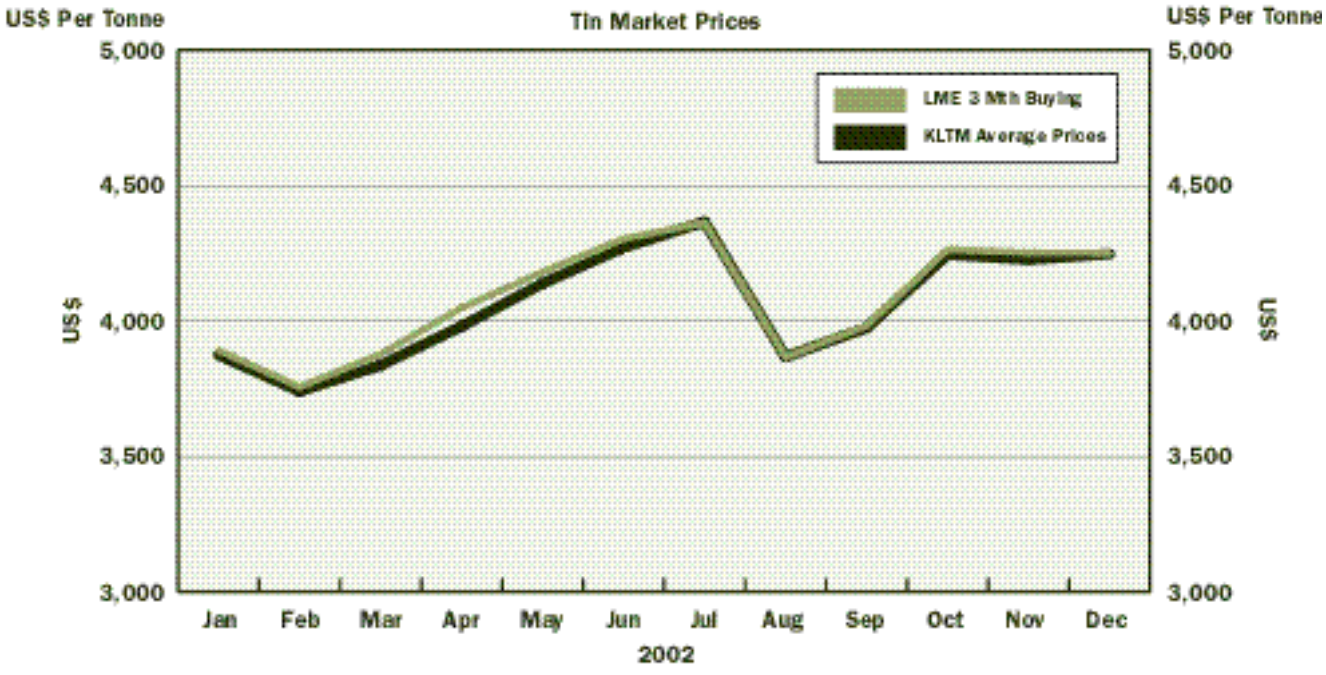
Tin Technology is in the forefront of the development and application of lead free solders that is expected to increase tin consumption by as much as 30,000 tonnes annually as lead free soldering is implemented globally. Shotgun cartridges have been changed to tin from lead based and are now widely used in Europe. Non-toxic tin based bullets are also currently been developed in the US market. Tin based fire retardants are currently been developed commercially to replace toxic retardants currently in the market. Tin wheel weights is also gaining prominence as a viable non-toxic replacement for lead based weights in automobiles. The organization also works closely with the steel industry to provide technology and leadership to ensure tinplate maintains its pre-eminence as a packaging material.

Besides providing technological resources to develop new tin applications, Tin Technology has also been involved in the development of legislation relating to the disposal of electrical equipment and automobiles that are now in various stages of formulation and implementation and one that will pave the way for increased tin consumption.

Date: 31st March, 2003

Tin Market Prices

	*KLTM Prices			KLTM	LME 3 Months Buying
	Highest	Lowest	Average	Turnover (Tonnes)	Average US$ Per Tonne
1996	16.24	14.31	15.26	26,083	6,202
1997	21.13	13.52	15.61	25,421	5,670
1998	24.68	17.80	21.24	16,323	5,489
1999	22.33	18.72	20.16	18,599	5,406
2000	22.84	19.42	20.45	15,972	5,461
2001 *	5,205	3,510	4,424	21,584	4,519
2002 *	4,500	3,647	4,064	17,176	4,086
2002					
January	4,001	3,810	3,874	1,215	3,891
February	3,860	3,647	3,740	1,307	3,756
March	3,970	3,795	3,836	2,118	3,877
April	4,030	3,910	3,980	2,633	4,048
May	4,210	4,020	4,138	1,822	4,180
June	4,374	4,155	4,271	1,595	4,303
July	4,500	4,010	4,365	1,388	4,363
August	4,010	3,730	3,867	1,237	3,866
September	4,145	3,825	3,974	938	3,982
October	4,375	4,105	4,245	1,122	4,263
November	4,300	4,155	4,226	904	4,252
December	4,315	4,190	4,247	897	4,250



*Tin Prices for KLTM for the year 1996 to 2000 are stated in Ringgit per kg and in USD per tonne for the year 2001 onwards

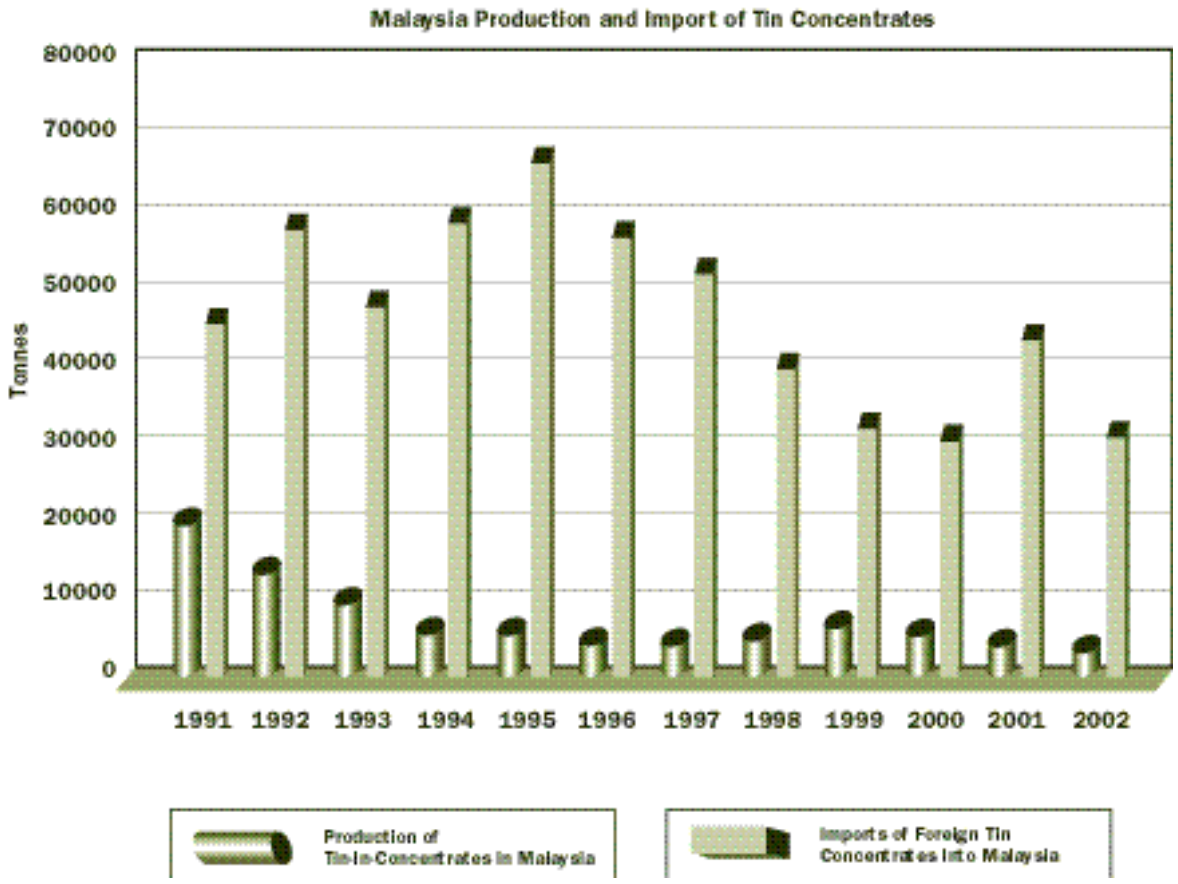
PRODUCTION OF TIN-IN-CONCENTRATES IN MALAYSIA

Year	Tonnes
1991	20,710
1992	14,339
1993	10,384
1994	6,517
1995	6,403
1996	5,176
1997	5,060
1998	5,764
1999	7,340
2000	6,307
2001	4,972
2002	4,215

IMPORTS OF FOREIGN TIN CONCENTRATES INTO MALAYSIA

Year	Tonnes
1991	46,458
1992	58,638
1993	48,702
1994	59,539
1995	67,346
1996	57,762
1997	52,954
1998	40,547*
1999	32,955
2000	31,297
2001	44,410
2002	31,788

** After the closure of Escoy Smelting Sdn Bhd in mid-1998, MSC became the sole tin smelter in Malaysia.*



Deliveries Of Refined Tin From Penang
(Tonnes Refined Tin by reported destination)

Destination	1998	1999	2000	2001	2002
Africa	1,250	1,322	1,232	1,508	1,362
Australia & New Zealand	283	233	332	539	1,558
China	4	–	86	20	60
EEC (incl. UK)	10,706	11,558	7,361	10,751	1,487
India, Pakistan & Bangladesh	2,339	2,106	1,984	3,275	1,073
Japan	2,299	3,395	2,940	1,499	1,735
Middle East	958	360	888	1,139	845
Taiwan	1,636	2,561	1,030	1,060	709
Korea	1,355	1,369	4,030	3,499	7,303
Rest of Asia Pacific	106	136	64	62	76
Singapore	377	665	575	3,612	10,749
South America	100	–	–	6	8
USA	657	416	67	482	125
	22,070	**24,121**	**20,589**	**27,452**	**27,091**
Malaysia (domestic consumption)	4,747	5,087	5,076	3,518	3,339
Total	**26,817**	**29,208**	**25,665**	**30,970**	**30,430**

LME and U.S. DLA's STOCKS & DISPOSALS
(In tonnes)

Period End	LME Stocks	DLA Stocks	DLA Disposals
1997	**13,040**	**100,409**	**11,714**
1998	**8,180**	**88,226**	**12,185**
1999	**9,155**	**84,339**	**3,887**
2000	**12,885**	**72,339**	**12,000**
2001	**27,485**	**65,839**	**6,500**
2002			
1st Quarter	**36,110**	**65,839**	**–**
2nd Quarter	**36,740**	**65,699**	**140**
3rd Quarter	**27,955**	**57,182**	**8,517**
4th Quarter	**25,610**	**57,027**	**155**

Analysis of Shareholdings

Size Of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Capital
Less than 1,000	2	0.11	1,000	0.00
1,000 to 10,000	1,791	95.26	3,582,000	4.78
10,001 to 100,000	64	3.40	1,895,000	2.53
100,001 to less than 5% of issued shares	21	1.12	13,352,000	17.80
5% and above of issued shares	2	0.11	56,170,000	74.89
Total	1,880	100.00	75,000,000	100.00

Thirty Largest Shareholders

	Name	No. of Shares Held	% of Issued Capital
1.	Mayban Nominees (Asing) Sendirian Berhad -The Straits Trading Company Limited	28,090,000	37.45
2.	Malaysia Mining Corporation Berhad	28,080,000	37.44
3.	Malaysia Nominees (Tempatan) Sendirian Berhad -Great Eastern Life Assurance (Malaysia) Berhad	3,368,440	4.49
4.	HSBC Nominees (Asing) Sendirian Berhad -The Great Eastern Life Assurance Co Ltd (PAR 1)	3,108,000	4.14
5.	Mayban Nominees (Asing) Sendirian Berhad -Baxterley Holdings Private Limited	1,145,000	1.53
6.	Amanah Raya Nominees (Tempatan) Sendirian Berhad -Skim Amanah Saham Bumiputera	957,000	1.28
7.	Mayban Nominees (Asing) Sendirian Berhad -Sword Investments Private Limited	760,000	1.01
8.	Anglo-Oriental (Annuities) Sendirian Berhad	564,000	0.75
9.	Malaysian Trustees Berhad -The Pacific Insurance Berhad	500,000	0.67
10.	Malaysia Nominees (Tempatan) Sendirian Berhad -Great Eastern Life Assurance (Malaysia) Berhad (NON PAR 1)	448,560	0.60
11.	Mutual Way Premix Sendirian Berhad	351,000	0.47
12.	Mutual Way Development & Construction Sendirian Berhad	322,000	0.43
13.	Ibrahim bin Menudin	315,000	0.42
14.	Mayban Securities Nominees (Tempatan) Sendirian Berhad-Ab. Sukor bin Shahar	262,000	0.35
15.	Syarikat Pembangunan Hawa Bersih Sendirian Berhad	171,000	0.23
16.	Abdul Malik bin Abdul Kadir	170,000	0.23

Thirty Largest Shareholders (cont'd)

Name	No. of Shares Held	% of Issued Capital
17. Mayban Nominees (Tempatan) Sendirian Berhad -Md Ajib bin Hj Anuar	150,000	0.20
18. Wan Holdings Sendirian Berhad	135,000	0.18
19. Winnie Hamzah Sendut Nee Toh Wee Nee	132,000	0.18
20. Durabeau Corporation Sendirian Berhad	130,000	0.17
21. Wong Kum Fatt	129,000	0.17
22. RMT Metals Sendirian Berhad	120,000	0.16
23. Chong Fa @ Chong Nam Yen	114,000	0.15
24. Cartaban Nominees (Asing) Sendirian Berhad -Mr Royston P Holmes	100,000	0.13
25. Howe Yoon Chong	100,000	0.13
26. Mayfin Nominees (Tempatan) Sendirian Berhad -Md Ajib bin Hj Anuar	100,000	0.13
27. Yap Song Yung	84,000	0.11
28. Malaysia Nominees (Tempatan) Sendirian Berhad -Wan Holdings Sdn Bhd	80,000	0.11
29. HLB Nominees (Tempatan) Sendirian Berhad -Lee Toon Hian	75,000	0.10
30. Redring Solder (Malaysia) Sendirian Berhad	74,000	0.10
Total	70,135,000	93.51

Substantial Shareholders as at 31 March 2003

Shareholders	Direct (No of Shares)	Percentage %	Deemed Interests (No of Shares)	Percentage %
1. Malaysia Mining Corporation Berhad	28,080,000	37.44	564,000	0.75
2. The Straits Trading Company Limited	28,090,000	37.45	1,905,000	2.54
3. Great Eastern Life Assurance Co. Ltd.	3,108,000	4.14	3,817,000	5.09
4. Overseas-Chinese Banking Corporation Limited	–	–	6,925,000	9.23
5. Great Eastern Holdings Limited	–	–	6,925,000	9.23

PROXY FORM

MALAYSIA SMELTING CORPORATION BERHAD (43072-A)
(Incorporated in Malaysia)

I / We_____(full name in block letters)
of_____(address)
being a member/members of MALAYSIA SMELTING CORPORATION BHD hereby appoint

Name	Address	NRIC / Passport Number	Proportion of Shareholdings %

and/or (delete as appropriate)

Name	Address	NRIC / Passport Number	Proportion of Shareholdings %

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company, to be held on Monday 26th May 2003 and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Meeting.

No	Resolutions	For	Against
1	Adoption of the Report and Audited Financial Statements		
2	Re-election of Directors : a) Mr Norman Ip Ka Cheung		
	b) YBhg. Dato' Ismail bin Shahudin		
	c) Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii		
3	Reappointment of Directors :- a) YBhg. Jeneral (B) Tun Ibrahim bin Datuk Ismail		
	b) Mr Choi Siew Hong		
	c) YBhg. Dato' Siew Nim Chee		
4	Approval of Directors' Fee		
5	Reappointment of Auditors		

Dated this _____day of _____ 2003

Total Number of shares	

_____
Signature(s) of Member(s)/Common Seal

IMPORTANT : PLEASE READ NOTES BELOW

Note :

A proxy may but need not be a member of the Company and the provisions of Section 149(1) of the Act shall not apply to the Company. To be valid this form duly completed must be deposited at the Registered Office of the Company at 27, Jalan Pantai, 12000 Butterworth, Penang not less than forty eight (48) hours before the time for holding the meeting.
A member shall be entitled to appoint more than one(1) proxy to attend and vote at the same meeting.
Where a member appoints more than one (1) proxy the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
If the appointor is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

Fold along this line

Affix Postage Here

To:

The Company Secretary
MALAYSIA SMELTING CORPORATION BERHAD
(Co. No. 43072-A)
27 Jalan Pantai
12000 Butterworth,
Penang, Malaysia.

Fold along this line