

# STATEMENT ON CORPORATE GOVERNANCE

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

#### 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 overall direction of the Group.

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

Details of Directors' attendances at 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	5/5	Not applicable
Mr Choi Siew Hong	6/6	4/5	6/6
Mr Norman Ip Ka Cheung	6/6	5/5	6/6
Dato' Dr Mohd Ajib Anuar	6/6	5/5	Not applicable
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	6/6	Not applicable	Not applicable
Dato' Ismail bin Shahudin	6/6	3/5	Not applicable
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	6/6	Not applicable	6/6
Dato' Siew Nim Chee (Resigned on 31 December 2005)	4/6	Not applicable	Not applicable

Encik Razman bin Ariffin was appointed as an Independent Non-Executive Director of the Company in place of Dato' Siew Nim Chee with effect from 15 February 2006.

### A. BOARD OF DIRECTORS (cont'd)

#### 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 Board Committees have written terms of reference and operating procedures and the Board receives all minutes and reports of their proceedings and deliberations, where relevant. The Chairman of the various Committees reports 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

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-Independent 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 9 to 12 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-Independent Non-Executive Chairman while the executive management of the Company is led by Dato' Dr Mohd Ajib Anuar, the Group Chief Executive Officer.

According to the Board Charter of the Company, 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.

Pursuant to Best Practices of the Code, the Board has appointed Mr Choi Siew Hong as the Senior Independent Non-Executive Director of the Board to whom concerns of Directors, Shareholders, Management and others may be conveyed.

The Board will from time to time review its composition and size to fairly reflect the investments of the shareholders in the Company.

#### Supply of Information

All members of the Board are supplied with information in a timely manner. Board reports are circulated prior to the Board meetings to enable Directors to obtain further information and explanation, where necessary, before the meetings.

Every Director has unhindered access to the advice and services of the Company Secretaries. The Board believes that the current Company Secretaries are capable of carrying out their duties to ensure the effective functioning of the Board. The Articles of Association of the Company specify that the removal of the Company Secretary is a matter for the Board as a whole.

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 his duties, any Director may do so with the prior consent and approval of the Chairman.

## A. BOARD OF DIRECTORS (cont'd)

### Appointments to the Board

#### *Nominating Committee*

The Nominating Committee, during the financial year under review, comprised the following members:

Mr Choi Siew Hong	–	Chairman, Independent Non-Executive Director
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	–	Non Independent Non-Executive Director
En Razman Ariffin (appointed on 16 March 2006)	–	Independent Non-Executive Director
Dato' Siew Nim Chee (Resigned on 31 December 2005)	–	Independent Non-Executive Director

The Nominating Committee is empowered by the Board to bring to the Board recommendations on 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 and evaluates the effectiveness of the Board, Board Committees and the contribution of each individual Director on an annual basis through the prescribed competency matrix form completed and submitted by the individual Directors in strict confidence to the Chairman of the Nominating Committee. During the financial year, the Nominating Committee met once with the meeting attended by all its members.

### Appointment Process

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

New appointees will be considered and evaluated by the Nominating Committee before recommending the candidates to be approved and appointed by the Board. The Company Secretaries 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 fulfil the duties of a Director appropriately. As at end of financial year under review, all Directors have successfully completed the Mandatory Accreditation Programme and have further fulfilled their Continuing Education Programme (CEP) obligation by accumulating the requisite points by way of attending Bursa Malaysia accredited CEP courses.

Subsequent to repeal of the CEP programme in 2005 and inception of the new requirement that the Board identifies and determines the training needs of its members, the Board took the view that familiarisation visits to the various operational sites would equip them with a thorough understanding of the Group's operations. Accordingly, the Board visited the key operating sites during the year under review.

In addition, two (2) of the Directors attended international conferences relating to tin operations during the year under review.

### Re-election

The Articles of Association provide that all 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 shareholders to renew their mandate. The Directors to retire in each year are those 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.

**A. BOARD OF DIRECTORS (cont'd)**

**Board Executive Committee**

The Board established a Board Executive Committee to focus on corporate governance and the operational performance of the Group. The Committee, during the financial year under review, comprised the following members:

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

The Board Executive Committee met five (5) times during the financial year under review, examined the depth of 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 evaluate and recommend to the Board 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, during the financial year under review, comprised the following members:

Mr Norman Ip Ka Cheung	–	Chairman, Non-Independent Non-Executive Director
Mr Choi Siew Hong	–	Independent Non-Executive Director
Dato' Dr Mohd Ajib Anuar	–	Executive Director
Dato' Siew Nim Chee (Resigned on 31 December 2005)	–	Independent Non-Executive Director

The Remuneration Committee met twice during the financial year, attended by all its members. The Committee is responsible for recommending the remuneration framework for Executive Director and senior management staff, including their remuneration packages. In formulating the recommended framework and levels of remuneration, the Committee has considered information prepared by independent consultants and survey data on the remuneration practices of comparable companies. 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 shareholders.

The policy adopted by the Remuneration Committee is to provide the remuneration package 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.

## STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

### B. DIRECTORS' REMUNERATION (cont'd)

#### Remuneration Committee (cont'd)

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	1,167
Non-Executive Directors	378	–

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

RANGE OF REMUNERATION	EXECUTIVE DIRECTOR	NON-EXECUTIVE DIRECTORS
RM800,001 to RM1,200,000	1	–
RM50,001 to RM100,000	–	3
RM50,000 and below	–	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 Bursa Malaysia, in particular, the timely release of the quarterly results within two (2) months from the close of a particular quarter. Summaries of the quarterly and full year's results and copies of the full announcement are supplied to shareholders and members of the public upon request. Members of the public can also obtain the full financial results and the Company's announcements from Bursa Malaysia'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 the 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.

### D. ACCOUNTABILITY AND AUDIT (cont'd)

#### 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.

#### 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 31 to 32 of this 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, is set out in the Audit Committee Report on pages 33 to 34 of this Annual Report.

#### State of Internal Controls

The Statement on Internal Control furnished on pages 35 to 36 of this Annual Report provides an overview of the state of internal controls within the Group during the financial year under review.

### STATEMENT OF COMPLIANCE

The Group has complied, throughout the financial year ended 31 December 2005, with all the Best Practices of corporate governance set out in Part 2 of the Code.

Date : 16 March 2006

## 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 comprise:

Mr Choi Siew Hong, Chairman (Independent Non-Executive Director)

Mr Norman Ip Ka Cheung (Non-Independent 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 its 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 Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), which stipulate that 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; or
  - 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 a meeting, the majority of 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 before each meeting to 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 financial 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 Listing Requirements of Bursa Malaysia, the Committee shall promptly report such matter to Bursa Malaysia.

### 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 financial 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;
- 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, focusing particularly on:
  - changes in or implementation of major accounting policy;
  - 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, the Listing Requirements of Bursa Malaysia 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.

# AUDIT COMMITTEE REPORT

## Membership

The Directors who 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
Mr Norman Ip Ka Cheung	Non-Independent Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales)
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	Independent Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales and member of Malaysian Institute of Accountants)

## Terms of Reference

The Committee was established on 30 August 1994 by the Board of Directors, with the terms of reference set out on pages 31 to 32 of this Annual Report.

## Meetings

The Committee convened six (6) meetings and recorded a 100% attendance of its members during the financial year. The meetings were structured through the use of agenda, which were distributed to members with sufficient notification.

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

## Summary of activities of the Committee during the financial year under review

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 the issues highlighted; and
  - (d) Without the presence of Management, the extent of co-operation 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 Bursa Malaysia Securities Berhad;
- Reviewed the Internal Audit Department's resource 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, including external consultants who were engaged to conduct internal audit and enterprise risk management review of an overseas subsidiary company, and Senior Management staff the findings in the risk management review and the internal audit reports, including corrective actions taken or proposed to be taken by Management; and
- Considered and recommended to the Board audit fees payable to the External Auditors and the re-appointment of External Auditors for the Board's submission to shareholders for approval at the Annual General Meeting;

### **Internal Audit Function**

The Internal Audit Department is independent of the activities or operations it audits. The principal role of the Internal Audit Department is to undertake regular and systematic reviews of the systems of internal control in order 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.

In respect of the operations of an overseas subsidiary company, an independent firm of consultants was engaged to carry out risk-based internal audit in close liaison with the Head of Internal Audit of the Group. In view of the Group's expansion, the Internal Audit Department has plans to increase the number of staff in 2006 to undertake internal audit projects more effectively.

Further details of the activities of the Internal Audit Department are set out in the Statement on Internal Control on pages 35 to 36 of this Annual Report.

Date : 16 March 2006

# STATEMENT ON INTERNAL CONTROL

## Introduction

Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”) requires the Board of Directors of public listed companies to include in its annual report 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, financial, operational and compliance controls and risk management procedures.

The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the financial year under review. The Board regularly reviews this process, which accords with the Statement on Internal Control: Guidance for Directors of Public Listed Companies (the “Internal Control Guidance”).

Whilst the Board maintains ultimate control over risk and control issues, it has delegated to Management the implementation of the system of risk management and internal control within an established framework. The Board has established key policies and has carried out a specific assessment of the Group’s risk management and internal control systems.

## Enterprise risk management framework

The Board fully supports the contents of the Internal Control Guidance and, through the Audit Committee, continually reviews the adequacy and effectiveness of the 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. Furthermore, the Board is taking active steps to extend the enterprise risk management process to newly acquired businesses.

Management is responsible for the management of risks, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so in accordance with the policies adopted by the Board. Further, independent assurance is provided by the internal audit function, which operates across the Group, with emphasis on key companies in the Group.

The Board believes that maintaining a sound system of internal control is premised upon a clear understanding and appreciation of the following key elements of the Group’s enterprise risk management framework:

- A risk management structure, which depicts the lines of reporting and responsibility at the Board, Audit Committee and Management levels, has been established. The risk management structure enhances risk oversight and management, and integrates expectation on risk management into quarterly performance management and reporting;
- The Audit Committee, which is assisted by Internal Audit Function and external consultants, 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;
- Risk appetite (qualitative and quantitative) for the major business units in the Group have been determined so as to gauge acceptability of risk exposure;
- The Internal Audit Function has been entrusted to coordinate enterprise risk management within the Group and to provide clear leadership, direction and coordination of the group-wide application of risk management;
- The issuance of a Risk Management Policy and Procedure Document, which outlines the risk management framework for the Group and offers practical guidance to all employees on risk management issues;

### Enterprise risk management framework (cont'd)

- The Group Management's implementation of a group-wide risk assessment process, which identifies the key risks facing each major business unit, the potential impact and likelihood of those risks occurring, the control effectiveness and action plans being taken to manage those risks to the desired level. A database of all risks and controls has been created, and information filtered to produce a detailed risk register, and individual risk profiles for the major business units; and
- Key management of each business unit has prepared action plans, with implementation time-scales to address any risk and control issues on an ongoing basis.

The Board considers that the enterprise risk management framework is robust, but will still subject the framework to continuous improvement, taking into consideration better practices and the changing business environment, where appropriate.

### Internal Audit Function

The Group has in place an independent Internal Audit Department, which provides the Board with much of the assurance it requires regarding the adequacy and effectiveness of risk management, internal control and governance systems. To strengthen the Internal Audit Function, the Board engaged an independent firm of consultants to assist the Internal Audit Department in the review of the adequacy and effectiveness of internal control system in the business unit located in the Republic of Indonesia.

The Internal Audit Function independently reviews the risk identification procedures and control processes implemented by Management, and reports to the Audit Committee periodically. The Internal Audit Department also reviews the internal controls in the key activities of the Group's businesses based on a rolling 3-year internal audit strategy and plan in line with the risk profiles of the major business units in the Group. In addition, the Internal Audit Department carries out periodic assignments to ensure the policies and procedures established by the Board are complied with by Management.

The Audit Committee considers reports from the Internal Audit Function and from Management, before reporting and making recommendations to the Board in strengthening the internal control and governance systems. Internal control deficiencies highlighted by the Internal Audit Function for improvements are independently monitored and followed up to ensure recommendations and action plans to address the issues are carried out by Management to enhance the system of internal controls on a timely basis. 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 reviewed by the Internal Audit Function, which provides a degree of assurance as to the operations and validity of the systems of internal control.

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 strengthen the control environment.

Date : 16 March 2006

# FINANCIAL STATEMENTS



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# REPORT OF THE DIRECTORS

## REPORT OF THE DIRECTORS

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 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and 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 principal activities of the subsidiaries and associates are set out in Notes 10 and 11 to the financial statements respectively.

There have been no significant changes in the nature of the principal activities during the financial year other than the incorporation of a wholly-owned subsidiary, PT Bangka Resources by its wholly-owned subsidiary, PT MSC Indonesia which intends to carry on tin exploration and mining operations in Indonesia. PT Bangka Resources has remained dormant since its incorporation.

## RESULTS

	<b>GROUP RM'000</b>	<b>COMPANY RM'000</b>
Profit after taxation	<b>63,148</b>	<b>44,058</b>
Minority interest	<b>(7,232)</b>	<b>-</b>
Net profit for the year	<b>55,916</b>	<b>44,058</b>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDENDS

The amount of dividends paid by the Company since 31 December 2004 were as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2004 as reported in the directors' report of that year:	
Special interim dividend of 10 sen per share less tax at 28 % paid on 28 March 2005	5,400
Second interim dividend of 15 sen per share less tax at 28 % paid on 28 March 2005	8,100
In respect of the financial year ended 31 December 2005:	
Interim dividend of 15 sen per share less tax at 28 % paid on 28 September 2005	8,100

On 15 February 2006, the directors declared the payment of a second interim dividend of 10 sen per share tax exempt and 5 sen per share less tax at 28%, totalling RM 10.2 million net for the financial year ended 31 December 2005. This dividend will be paid on 28 March 2006. The directors do not intend to propose a final dividend for the financial year ended 31 December 2005.

The financial statements for the current financial year do not reflect this declared dividend. This will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006.

# REPORT OF THE DIRECTORS (CONT'D)

## 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 name of the directors of the Company in 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' Dr Mohd Ajib Anuar	(Executive Director)
Mr. Choi Siew Hong	
Mr. Norman Ip Ka Cheung	
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	
Dato' Ismail bin Shahudin	
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	
En. Razman Ariffin	(appointed on 15.2.06)
Dato' Siew Nim Chee	(resigned on 31.12.05)

In accordance with Article 101 of the Articles of Association of the Company, the director retiring by rotation this year is Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii and, being eligible offers himself for re-election.

In accordance with Article 106 of the Articles of Association of the Company, En. Razman Ariffin retires at the forthcoming Annual General Meeting and, being eligible offers himself for re-election.

Jeneral (B) Tun Ibrahim bin Datuk Ismail and Mr. Choi Siew Hong, both 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 a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements or the fixed salary of a full-time employee of the Company as disclosed in Note 3 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 he is a member, or with a company in which he has a substantial financial interest required to be disclosed by Section 169 (8) of the Companies Act, 1965.

## DIRECTORS' INTERESTS

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

Holding Company	Number of ordinary shares of SGD1 each			31 December 2005
	1 January 2005	Bought	Sold	
<b>Direct interest</b>				
Jeneral (B) Tun Ibrahim bin Datuk Ismail	6,000	—	—	6,000
Mr. Norman Ip Ka Cheung	23,640	—	—	23,640

## REPORT OF THE DIRECTORS (CONT'D)

### DIRECTORS' INTERESTS (CONT'D)

Holding Company	Number of ordinary shares of SGDI each			31 December 2005
	1 January 2005	Bought	Sold	
<b>Indirect interest</b>				
Mr. Norman Ip Ka Cheung	25,644	–	–	25,644

The Company	Number of ordinary shares of RMI each			31 December 2005
	1 January 2005	Bought	Sold	
<b>Direct interest</b>				
Jeneral (B) Tun Ibrahim bin Datuk Ismail	10,000	–	–	10,000
Dato' Dr Mohd Ajib Anuar	250,000	–	–	250,000
Mr. Choi Siew Hong	10,000	20,000	–	30,000
Mr. Norman Ip Ka Cheung	100,000	–	–	100,000
<b>Indirect interest</b>				
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	2,000	–	2,000	–

### 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:
- 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
  - 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 any circumstances which would render:
- it necessary to write off bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
  - 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:
- 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 person; or
  - any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- other than the contingent liabilities as disclosed in Note 29 to the financial statements:
- 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; and
  - 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.

### OTHER SIGNIFICANT EVENTS

The following were the other significant events during the financial year:

- (a) A wholly-owned subsidiary, PT MSC Indonesia incorporated a wholly-owned subsidiary, PT Bangka Resources which intends to carry on tin exploration and mining operations in Indonesia. PT Bangka Resources has remained dormant since its incorporation.
- (b) The Company increased its shareholding in its associate, Australia Oriental Minerals NL from 35% to 40% through the conversion of debts and convertible notes together with additional acquisitions of shares.
- (c) The Company entered into a sales and purchase agreement with Juru Heights Sdn Bhd for the sale of two parcels of land Lot 1202 and Lot 1439, Mukim 12, Daerah Seberang Perai Tengah totalling 81.2547 acres for a total consideration of RM23.9 million.
- (d) On 2 March 2005, a subsidiary company entered into agreements with three separate parties namely, PT Mutiara Prima Sejahtera, PT Permata Mustika Rajawali and PT Prima Stania Nusantara to explore and mine certain alluvial tin deposits in the area covered by the Mining licenses held by them.

Under each agreement, the joint venture company will be owned 75% by the said subsidiary and 25% by the joint venture partner.

### SUBSEQUENT EVENT

Subsequent to the year end, the Company's application for a further extension of time from 31 December 2005 to comply with the public shareholding spread requirements was rejected by Bursa Malaysia on 20 January 2006. The Company's shares have been suspended from trading since 31 May 2005 pursuant to paragraph 8.15(4) of the Listing Requirements of Bursa Malaysia. The substantial shareholders are still in discussion for a viable solution to address the Company's shortfall in its public shareholding spread.

### ULTIMATE HOLDING COMPANY

The holding and ultimate holding company is The Straits Trading Company Limited, a public limited liability company incorporated in Singapore and listed on the Singapore Stock Exchange.

### AUDITORS

The 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 in accordance with a resolution of the directors:



**JENERAL (B) TUN IBRAHIM BIN DATUK ISMAIL**



**DATO' DR. MOHD AJIB ANUAR**

Kuala Lumpur, Malaysia

Date: 16 March 2006

## STATEMENT BY DIRECTORS

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

We, JENERAL (B) TUN IBRAHIM BIN DATUK ISMAIL and DATO' DR. 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 44 to 87 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed in accordance with a resolution of the directors:



**JENERAL (B) TUN IBRAHIM BIN DATUK ISMAIL**



**DATO' DR. MOHD AJIB ANUAR**

Kuala Lumpur, Malaysia  
Date: 16 March 2006

## STATUTORY DECLARATION

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

I, YAP FOOK PING, being the officer 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 44 to 87 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  
Georgetown in the state of Penang  
on 16 March 2006



**YAP FOOK PING**

Before me,

**CHAI CHOON KIAT, PJM**  
P073

Commissioner for Oaths  
Penang

Mail Address:  
P.O. Box 10068  
Kuala Lumpur**REPORT OF THE AUDITORS TO THE MEMBERS OF  
MALAYSIA SMELTING CORPORATION BERHAD  
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 44 to 87. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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 MASB 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 31 December 2005 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 10 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 AccountantsKuala Lumpur, Malaysia  
Date: 16 March 2006**MOHD. SUKARNO BIN TUN SARDON**1697/03/07 (J)  
Partner

## INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	3	<b>1,692,830</b>	1,862,530	<b>1,683,341</b>	1,613,885
Profit from operations	3	<b>99,170</b>	150,936	<b>66,069</b>	57,041
Finance costs	4	<b>(12,052)</b>	(4,869)	<b>(10,055)</b>	(4,825)
Share of results of associates		<b>(1,185)</b>	(18,695)	-	-
Profit before taxation		<b>85,933</b>	127,372	<b>56,014</b>	52,216
Taxation	5	<b>(22,785)</b>	(45,912)	<b>(11,956)</b>	(8,489)
Profit after taxation		<b>63,148</b>	81,460	<b>44,058</b>	43,727
Minority interest		<b>(7,232)</b>	(20,415)	-	-
Net profit for the year		<b>55,916</b>	61,045	<b>44,058</b>	43,727
Earnings per share - (sen)					
Basic	6	<b>74.6</b>	81.4		
Net dividends paid per share - (sen)	7	<b>28.8</b>	20.9	<b>28.8</b>	20.9

## BALANCE SHEETS

AS AT 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	8	139,851	119,725	35,134	35,421
Base inventory	9	3,000	3,000	3,000	3,000
Investment in subsidiaries	10	-	-	18,366	18,366
Investment in associates	11	19,566	14,669	15,126	10,473
Other investments	12	520	1,108	520	1,108
Other assets	13	22,466	5,633	-	-
Deferred tax asset	26	9,887	-	-	-
Goodwill on consolidation	14	-	9,922	-	-
Mining rights	15	8,518	-	-	-
		<b>203,808</b>	154,057	<b>72,146</b>	68,368
<b>CURRENT ASSETS</b>					
Inventories	16	380,543	267,429	144,351	94,151
Trade receivables	17	42,970	112,432	42,970	110,204
Other receivables	18	51,774	22,745	3,696	3,290
Tax recoverable		11,660	119	-	-
Amount due from subsidiaries	10.1	-	-	284,681	117,781
Amount due from associates	11.1	1,794	678	1,794	678
Cash, bank balances and deposits	19	64,582	112,981	37,834	81,653
		<b>553,323</b>	516,384	<b>515,326</b>	407,757
<b>CURRENT LIABILITIES</b>					
Trade payables	20	15,522	16,339	9,174	7,627
Other payables	21	35,065	39,355	11,035	10,687
Provisions for liabilities	22	2,714	4,562	897	746
Amount due to a subsidiary	10.1	-	-	82	83
Amount due to an associate	11.2	1,000	1,000	1,000	1,000
Taxation		6,081	32,390	5,177	4,411
Borrowings	23	340,530	241,327	340,530	241,327
		<b>400,912</b>	334,973	<b>367,895</b>	265,881
<b>NET CURRENT ASSETS</b>					
		<b>152,411</b>	181,411	<b>147,431</b>	141,876
<b>FINANCED BY:</b>					
Share capital	24	75,000	75,000	75,000	75,000
Reserves	25	209,094	173,435	141,586	117,812
Shareholders' equity		<b>284,094</b>	248,435	<b>216,586</b>	192,812
Minority interest		36,684	38,454	-	-
		<b>320,778</b>	286,889	<b>216,586</b>	192,812
<b>NON-CURRENT LIABILITIES</b>					
Provisions for liabilities	22	30,572	27,080	-	-
Deferred tax liabilities	26	2,541	5,646	663	1,579
Borrowings	23	2,328	15,853	2,328	15,853
		<b>35,441</b>	48,579	<b>2,991</b>	17,432
		<b>356,219</b>	335,468	<b>219,577</b>	210,244

The accompanying notes form an integral part of the financial statements

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

Group	Note	← Non-Distributable →				Distributable		Total shareholders' funds RM'000
		Share capital RM'000	Capital reserve RM'000	Reserve on consolidation RM'000	Revaluation reserve RM'000	Foreign exchange reserve RM'000	Retained profits RM'000	
<b>At 1 January 2004</b>		75,000	1,706	18,399	9,194	662	101,972	206,933
Foreign exchange differences representing net gains not recognised in the income statement		-	-	-	-	636	-	636
Contingent payment for acquisition of a subsidiary		-	-	(4,519)	-	-	-	(4,519)
Net profit for the year		-	-	-	-	-	61,045	61,045
Dividends	7	-	-	-	-	-	(15,660)	(15,660)
<b>At 31 December 2004</b>		<b>75,000</b>	<b>1,706</b>	<b>13,880</b>	<b>9,194</b>	<b>1,298</b>	<b>147,357</b>	<b>248,435</b>
<b>At 1 January 2005</b>		<b>75,000</b>	<b>1,706</b>	<b>13,880</b>	<b>9,194</b>	<b>1,298</b>	<b>147,357</b>	<b>248,435</b>
Foreign exchange differences representing net losses not recognised in the income statement		-	-	-	-	(878)	-	(878)
Revaluation surplus for the year (net of minority interest)		-	-	-	3,084	-	-	3,084
Transfer to deferred taxation (net of minority interest)		-	-	-	(863)	-	-	(863)
Net profit for the year		-	-	-	-	-	55,916	55,916
Dividends	7	-	-	-	-	-	(21,600)	(21,600)
<b>At 31 December 2005</b>		<b>75,000</b>	<b>1,706</b>	<b>13,880</b>	<b>11,415</b>	<b>420</b>	<b>181,673</b>	<b>284,094</b>

## STATEMENTS OF CHANGES IN EQUITY (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2005

Company	Note	← Non-Distributable →			Distributable	Total
		Share capital RM'000	Revaluation reserve RM'000	Foreign exchange reserve RM'000	Retained profits RM'000	Shareholders' Funds RM'000
<b>At 1 January 2004</b>		75,000	9,194	(2,491)	82,159	163,862
Realisation of revaluation surplus on disposal of property, plant and equipment		–	(6,463)	–	6,463	–
Realisation of deferred tax on disposal of property, plant and equipment		–	712	–	–	712
Foreign exchange differences representing net gain not recognised in the income statement		–	–	171	–	171
Net profit for the year		–	–	–	43,727	43,727
Dividends	7	–	–	–	(15,660)	(15,660)
<b>At 31 December 2004</b>		<b>75,000</b>	<b>3,443</b>	<b>(2,320)</b>	<b>116,689</b>	<b>192,812</b>
<b>At 1 January 2005</b>		<b>75,000</b>	<b>3,443</b>	<b>(2,320)</b>	<b>116,689</b>	<b>192,812</b>
Foreign exchange differences representing net gain not recognised in the income statement		–	–	1,316	–	1,316
Net profit for the year		–	–	–	44,058	44,058
Dividends	7	–	–	–	(21,600)	(21,600)
<b>At 31 December 2005</b>		<b>75,000</b>	<b>3,443</b>	<b>(1,004)</b>	<b>139,147</b>	<b>216,586</b>

The accompanying notes form an integral part of the financial statements

# CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	85,933	127,372	56,014	52,216
Adjustments for:				
Amortisation of mining rights on consolidation	1,404	-	-	-
Amortisation and write-off of deferred mine development and exploration expenditure	1,003	1,357	-	-
Depreciation	18,341	13,598	1,557	1,634
Interest expense	12,011	4,854	10,040	4,810
(Decrease)/Increase in provision for diminution in value of investment in an associate	(1,500)	1,558	1,190	20,330
Provision for diminution in value of other investment	588	-	588	-
Provision for mine rehabilitation	1,625	6,258	-	-
Provision for severance benefits	3,604	1,419	-	-
Provision for inventory obsolescence	18,293	1,596	-	-
Increase/(Decrease) in provision for unutilised annual leave	164	94	151	(32)
Share of associates' results	1,185	18,695	-	-
Specific provision for doubtful debts	3,452	4,735	3,125	4,735
Specific provision for doubtful debts recovered	(6,202)	-	(6,202)	-
Dividend income	-	-	(140)	(39,716)
(Gain)/Loss on disposal of property, plant and equipment	(1,540)	4	(53)	(396)
Interest income	(6,944)	(2,934)	(21,544)	(6,828)
<b>Operating profit before working capital changes</b>	<b>131,417</b>	<b>178,606</b>	<b>44,726</b>	<b>36,753</b>
Increase in inventories	(130,505)	(57,528)	(50,200)	(20,906)
Decrease/(Increase) in receivables	39,104	(87,626)	65,830	(78,147)
Increase in amount due from subsidiaries	-	-	(166,900)	(2,892)
Increase/(Decrease) in amount due from associates	3,257	(2,515)	3,257	(2,515)
(Decrease)/Increase in payables	(6,036)	13,851	967	(3,068)
Decrease in amount due to a subsidiary	-	-	(1)	(5)
Cash generated from/(used in) operations	37,237	44,788	(102,321)	(70,780)
Income tax paid	(74,573)	(31,195)	(12,106)	(5,359)
Interest paid	(11,326)	(4,228)	(9,357)	(4,392)
Severance benefits paid	(2,118)	(660)	-	-
<b>Net cash (used in)/from operating activities carried forward</b>	<b>(50,780)</b>	<b>8,705</b>	<b>(123,784)</b>	<b>(80,531)</b>

## CASH FLOW STATEMENTS (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Net cash (used in)/from operating activities brought forward</b>	<b>(50,780)</b>	8,705	<b>(123,784)</b>	(80,531)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of subsidiaries (Note 10)	-	(15,105)	-	(18,366)
Release of fixed deposit pledged by a subsidiary	<b>1,590</b>	-	-	-
Purchase of shares in an associate	<b>(5,843)</b>	(4,299)	<b>(5,843)</b>	(4,299)
Purchase of other investment	-	(1,108)	-	(1,108)
Gross dividend received from an associate	<b>140</b>	140	<b>140</b>	140
Gross dividend received from a subsidiary	-	-	-	39,576
Interest received	<b>6,890</b>	2,919	<b>21,490</b>	4,576
Purchase of property, plant and equipment	<b>(34,660)</b>	(12,200)	<b>(1,278)</b>	(657)
Payment of deferred mine development and exploration expenditure (net)	<b>(17,796)</b>	(6,990)	-	-
Proceeds from disposal of property, plant and equipment	<b>1,565</b>	210	<b>61</b>	87
Net cash (used in)/from investing activities	<b>(48,114)</b>	(36,433)	<b>14,570</b>	19,949
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Borrowings from short term trade financing	<b>98,896</b>	101,740	<b>98,896</b>	101,740
Repayment of term loans	<b>(11,901)</b>	(11,898)	<b>(11,901)</b>	(11,898)
Effect of changes in exchange rates	<b>(3,568)</b>	-	-	-
Dividends paid				
- shareholders of the Company	<b>(21,600)</b>	(15,660)	<b>(21,600)</b>	(15,660)
- minority shareholders	<b>(9,742)</b>	(13,323)	-	-
Net cash from financing activities	<b>52,085</b>	60,859	<b>65,395</b>	74,182
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>				
	<b>(46,809)</b>	33,131	<b>(43,819)</b>	13,600
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>111,391</b>	78,260	<b>81,653</b>	68,053
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>64,582</b>	111,391	<b>37,834</b>	81,653
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>				
Cash, bank balances and deposits (Note 19)	<b>64,582</b>	112,981	<b>37,834</b>	81,653
Fixed deposit pledged	-	(1,590)	-	-
	<b>64,582</b>	111,391	<b>37,834</b>	81,653

The accompanying notes form an integral part of the financial statements

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

## I. CORPORATE INFORMATION

The principal activities of the Company are investment holding and 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 associates are set out in Notes 10 and 11 to the financial statements respectively.

There have been no significant changes in the nature of the principal activities during the financial year other than the incorporation of a wholly-owned subsidiary, PT Bangka Resources by its wholly-owned subsidiary, PT MSC Indonesia. PT Bangka Resources intends to carry on tin exploration and mining operations in Indonesia, and it has remained dormant since its incorporation.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of the Bursa Malaysia Securities Berhad. The holding and ultimate holding company of the Company is The Straits Trading Company Limited, a public limited liability company incorporated in Singapore and listed on the Singapore Stock Exchange.

The Registered Office of the Company is located at 27 Jalan Pantai, 12000 Butterworth, Penang, Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 March 2006.

## 2. 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 certain freehold and leasehold land and buildings.

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

### (b) 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 the 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 negative goodwill arising on consolidation. Goodwill on consolidation is stated at cost less impairment losses.

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 the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minority's share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (b) Basis of Consolidation (cont'd)

#### ii. Associates

Associates are those companies in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. Under the equity method of accounting, the Group's share of profits less losses of associates during the year are included in the consolidated income statement. The Group's interest in associates 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.

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

### (c) Investments in Subsidiaries and Associates

The Company's investments in subsidiaries and associates are stated at cost less impairment losses. The policy for the measurement of impairment losses is in accordance with Note 2(e).

On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised in the income statement.

### (d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(e).

Freehold and leasehold land and buildings are revalued at least once in every five years based on a valuation by an independent valuer on an open market value or depreciated replacement cost. 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 is not depreciated. Leasehold land is depreciated over the unexpired period of the respective leases which range from 1 to 22 years. Buildings are depreciated on a straight line basis over 8 to 40 years or the unexpired lease period or life of the mine, whichever is shorter.

In the tin mining subsidiary, plant and equipment used in mining 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 an hour worked basis over the estimated useful life of each asset.

Depreciation of other property, plant and equipment of the tin mining subsidiary 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 economic useful lives or life of the mine.

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

Plant, equipment and vehicles	3 to 40 years
Furniture	5 to 10 years

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (d) Property, Plant and Equipment and Depreciation (cont'd)

During the year, the estimated useful life of certain class of office equipment has been reduced from 5 to 3 years in order to reflect its economic useful life. The impact of the change in accounting estimate on the current year's profit is immaterial.

Upon disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

#### (e) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. 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.

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

#### (f) 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, the value is not intended to be adjusted for short-term price fluctuations.

#### (g) Mining Rights

Mining rights are stated at cost of acquisition less accumulated amortisation and impairment losses if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(e).

Mining rights are amortised based on the unit-of-production method to write off the cost in proportion to the depletion of the estimated quantity of recoverable ore reserves.

A review is carried out annually on the carrying amount to determine whether there is any indication of impairment. An impairment loss is recognised as an expense in the income statement.

#### (h) 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (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 obligation.

### (j) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, by the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets, unused tax losses and unused tax credits are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case deferred tax is included in the resulting goodwill or negative goodwill.

### (k) Employee Benefits

#### (i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating unutilised annual leave such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (ii) Defined Contribution Plans

Contributions made to Defined Contribution Plans, including the state pension scheme, the Employees Provident Fund (EPF) in Malaysia, by the Group and by the Company are recognised as an expense in the income statement as incurred.

#### (iii) Severance Benefits

The subsidiaries in Indonesia operate an unfunded, defined Severance Benefits Scheme (the Scheme) for their eligible employees. The subsidiaries' obligations under the Scheme are determined on the estimated amount of benefits that employees have earned in return for their service in the current and prior years. The benefit is discounted using the Projected Unit Credit Method in order to determine its present value.

Actuarial gains or losses are recognised as income or expense over the expected average remaining working lives of eligible employees when the cumulative unrecognised actuarial gains or losses for the benefits exceed 10% of the present value of the defined obligation. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (k) Employee Benefits (cont'd)

##### (iv) Termination benefits

Termination benefits payable by the Group and by the Company in cases of termination of employment within the framework of a restructuring are recognised as a liability and are expensed or charged against provision when the Group and Company have a detailed formal plan for the termination and is without realistic possibility of withdrawal.

#### (l) Mine Exploration and Evaluation Expenditure

Prior to 1 January 2005, the exploration and evaluation expenditure incurred during exploration and evaluation of new areas of interest is written off as incurred.

Starting from 1 January 2005, the Group changed its accounting policy in relation to mine exploration and evaluation expenditures. No restatement has been made to the prior years' financial statements as it is impractical to do so and the impact to the prior year result will not be material. Exploration and evaluation expenditures are stated at cost less accumulated amortisation and impairment losses.

Exploration and evaluation expenditure incurred in an area of interest is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area which have not yet reached a stage that permit reasonable assessment of the existence of economically recoverable ore reserves.

Accumulated costs in relation to an abandoned area are written off in full to income statement in the year in which the decision to abandon the area is made.

When production in an area of interest commences, the accumulated cost for the relevant area of interest is amortised. Amortisation is calculated based on the unit-of-production method. Under certain circumstances, the amortisation is calculated based on the estimated useful economic life of the area of interest if it is considered to result in more accurate financial information. The basis for calculation of amortisation is applied consistently.

Review is carried out annually on the carrying amount of deferred exploration and evaluation expenditure to determine whether there is any indication of impairment. An impairment loss is recognised as an expense in the income statement.

#### (m) Mine Development Expenditure

Mine development expenditure is stated at cost less accumulated amortisation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(e).

Mine development expenditure incurred in connection with development activities in respect of each area of interest, which includes all activities conducted in the preparation of economically recoverable reserves until commercial production is accumulated in respect of each identifiable area of interest. These costs are only deferred to the extent that they are expected to be recouped through the successful development of the area. Mine development expenditure which is considered to provide minimal benefit to future periods is charged to income statement.

When production in an area of interest commences, the accumulated cost for the relevant area of interest is amortised based on the unit-of-production method so as to write off the expenditure in proportion to the depletion of the estimated economically recoverable ore reserves.

A review is carried out annually on the carrying amount of deferred development expenditure to determine whether there is any indication of impairment. An impairment loss is recognised as an expense in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (n) Mine Environmental Expenditure

Restoration, rehabilitation and environmental expenditure incurred during the production phase of operations is recognised in the income statement 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 of each mine property is provided based on the present value of the estimated expenditure to be incurred.

### (o) 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 assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as an asset or liability, 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 associates, are stated at cost less impairment losses. On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

### (ii) Receivables

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) Payables

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 borrowings are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining another qualifying asset. For borrowings made specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the year less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as an expense in the income statement in the year in which they are incurred.

### (v) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the year in which they are declared.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (o) Financial Instruments (cont'd)

#### (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.

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

#### 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 transactions, at which time they are included in the measurement of such transactions.

### (p) Foreign Currencies

#### (i) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction unless hedged by 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 initially denominated in foreign currencies, 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.

All exchange rate differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These exchange differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

#### (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.

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

	<b>2005</b>	<b>2004</b>
	<b>RM</b>	<b>RM</b>
Australian Dollar	<b>2.77</b>	2.91
United States Dollar	<b>3.78</b>	3.80
Indonesian Rupiah (100 units)	<b>0.038</b>	0.039

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (q) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company 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 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. PROFIT FROM OPERATIONS

#### i. Profit from operations is calculated as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Sale of goods and services	1,690,650	1,860,505	1,681,161	1,611,860
Tin warehousing and delivery charges	2,180	2,025	2,180	2,025
Revenue	1,692,830	1,862,530	1,683,341	1,613,885
Cost of goods sold and services provided	(1,565,382)	(1,654,493)	(1,640,198)	(1,577,564)
Gross profit	127,448	208,037	43,143	36,321
Other operating income	22,793	6,308	37,271	52,097
Marketing and distribution expenses	(31,182)	(29,765)	(2,672)	(2,234)
Administrative expenses	(13,534)	(12,294)	(5,444)	(8,813)
Other operating expenses	(6,355)	(21,350)	(6,229)	(20,330)
Profit from operations	99,170	150,936	66,069	57,041

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 3. PROFIT FROM OPERATIONS (CONT'D)

#### ii. Profit from operations is stated:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
After charging:				
Auditors' remuneration				
- statutory audit:				
- current year	287	263	70	70
- underprovision of prior year	3	10	-	10
- other services	-	8	-	8
Amortisation of mining rights	1,404	-	-	-
Amortisation and write off of deferred mine exploration and development expenditure	1,003	1,357	-	-
Depreciation	18,341	13,598	1,557	1,634
Directors' remuneration				
- fees	813	799	400	400
- emoluments	1,097	703	1,097	703
- benefits-in-kind	70	69	70	69
Secretarial fees payable to a director of a foreign subsidiary	17	14	-	-
Hire of equipment and vehicles	10	98	10	10
Unrealised loss on foreign exchange	2,124	-	2,124	-
Realised loss on foreign exchange	370	-	-	-
Loss on disposal of property, plant and equipment	-	4	-	-
Provision for diminution in value of investment in an associate	-	1,558	1,190	20,330
Provision for diminution in value of other investment	588	-	588	-
Provision for mine rehabilitation	1,625	6,258	-	-
Provision for severance benefits	3,604	1,419	-	-
Provision for inventory obsolescence	18,293	1,596	-	-
Rents of land and buildings	883	555	1,959	530
Restructuring costs	-	176	-	176
Specific provision for doubtful debts	3,452	4,735	3,125	4,735
and crediting:				
Realised gain on foreign exchange	1,894	746	1,403	584
Gross dividend received from an associate	-	-	140	140
Gross dividend received from a subsidiary	-	-	-	39,576
Gain on disposal of property, plant and equipment	1,540	-	53	396
Interest income	6,944	2,934	21,544	6,828
Specific provision for doubtful debts recovered	6,202	-	6,202	-
Provision for diminution in value of investment in an associate written back	1,500	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 4. FINANCE COSTS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Included herein is interest expenses on borrowings	<b>12,011</b>	4,854	<b>10,040</b>	4,810

### 5. TAXATION

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Tax expense for the year:				
Malaysian income tax	<b>12,848</b>	10,034	<b>12,697</b>	10,007
Foreign tax	<b>23,700</b>	41,487	–	–
	<b>36,548</b>	51,521	<b>12,697</b>	10,007
Deferred tax (Note 26) :				
Relating to origination and reversal of temporary differences	<b>(12,630)</b>	(5,689)	<b>(1,027)</b>	(1,289)
(Over)/Underprovision in prior year	<b>(1,481)</b>	–	<b>111</b>	–
	<b>(14,111)</b>	(5,689)	<b>(916)</b>	(1,289)
Under/(over) provided in prior years:				
Malaysian income tax	<b>175</b>	(229)	<b>175</b>	(229)
Company and subsidiaries	<b>22,612</b>	45,603	<b>11,956</b>	8,489
Share of taxation of associates	<b>173</b>	309	–	–
	<b>22,785</b>	45,912	<b>11,956</b>	8,489

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 5. TAXATION (CONT'D)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group	
	2005 RM'000	2004 RM'000
Profit before taxation	<b>85,933</b>	127,372
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	<b>24,061</b>	35,664
Effect of different tax rate in other countries	<b>609</b>	2,462
Income not subject to tax	<b>(5,128)</b>	(155)
Expenses not deductible for tax purposes	<b>2,901</b>	7,861
Deferred tax assets on losses not recognised	<b>1,475</b>	–
Share of associates tax	<b>173</b>	309
Tax under/( over) provided in prior years	<b>175</b>	(229)
Deferred tax overprovided in prior years	<b>(1,481)</b>	–
Tax expense for the year	<b>22,785</b>	45,912
	Company	
	2005 RM'000	2004 RM'000
Profit before taxation	<b>56,014</b>	52,216
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	<b>15,684</b>	14,620
Income not subject to tax	<b>(4,707)</b>	(12,205)
Underprovision of deferred tax in prior years	<b>111</b>	–
Expenses not deductible for tax purposes	<b>693</b>	6,303
Tax under/(over) provided in prior years	<b>175</b>	(229)
Tax expense for the year	<b>11,956</b>	8,489
	Group	
	2005 RM'000	2004 RM'000
<b>Tax losses are analysed as follows:</b>		
Unabsorbed tax losses	<b>9,016</b>	1,959
Unutilised capital allowance	<b>41</b>	–

The unused tax losses are available for offset against future taxable profits of subsidiaries in which those items arose. Deferred tax assets have not been recognised in respect of these items in the subsidiaries as they may not be used to offset taxable profits of other subsidiaries in the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on net profit for the year of RM55,916,000 (2004: RM61,045,000) for the Group and 75,000,000 (2004: 75,000,000) shares in issue during the year.

### 7. DIVIDENDS

	Amount		Net dividends paid per share	
	2005 RM'000	2004 RM'000	2005 Sen	2004 Sen
<b>Group and Company</b>				
Special interim dividend for the previous year 10 sen less tax at 28% (2004: Nil)	<b>5,400</b>	–	<b>7.2</b>	–
Second interim dividend for the previous year 15 sen less tax at 28% (2004: 14 sen less tax at 28%)	<b>8,100</b>	7,560	<b>10.8</b>	10.1
Interim dividend for the year 15 sen less tax at 28% (2004: 15 sen less tax at 28%)	<b>8,100</b>	8,100	<b>10.8</b>	10.8
	<b>21,600</b>	15,660	<b>28.8</b>	20.9

On 15 February 2006, the directors declared the payment of a second interim dividend of 10 sen per share tax exempt and 5 sen per share less tax at 28%, totalling RM 10.2 million net for the financial year ended 31 December 2005. This dividend will be paid on 28 March 2006. The directors do not intend to propose a final dividend for the financial year ended 31 December 2005.

The financial statements for the current financial year do not reflect this declared dividend. This will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 8. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Short leasehold land RM'000	Freehold buildings RM'000	Short leasehold buildings RM'000	Plant, equipment, vehicles and furniture RM'000	Capital work-in-progress RM'000	Total RM'000
<b>Cost or Valuation</b>							
At 1 January 2005	39,351	1,916	15,143	23,029	286,944	1,159	367,542
Additions	-	-	21	46	28,971	5,622	34,660
Disposals	-	-	-	-	(2,413)	-	(2,413)
Revaluation adjustment	-	-	-	(18,009)	-	-	(18,009)
Transfer in/(out)	-	-	-	-	1,461	(1,461)	-
Currency translation	-	(5)	-	(119)	(1,296)	(4)	(1,424)
At 31 December 2005	39,351	1,911	15,164	4,947	313,667	5,316	380,356
Representing:							
Cost	105	1,274	66	656	313,667	5,316	321,084
Valuation 2003	39,246	637	15,098	179	-	-	55,160
Valuation 2005	-	-	-	4,112	-	-	4,112
	39,351	1,911	15,164	4,947	313,667	5,316	380,356
<b>Accumulated depreciation and impairment losses</b>							
At 1 January 2005	-	56	497	22,130	225,134	-	247,817
Charge for the year	-	162	503	115	17,561	-	18,341
Disposals	-	-	-	-	(2,390)	-	(2,390)
Revaluation adjustment	-	-	-	(22,121)	-	-	(22,121)
Currency translation	-	-	-	(116)	(1,026)	-	(1,142)
At 31 December 2005	-	218	1,000	8	239,279	-	240,505
<b>Net book value</b>							
At 31 December 2005	39,351	1,693	14,164	4,939	74,388	5,316	139,851
At 31 December 2004	39,351	1,860	14,646	899	61,810	1,159	119,725
<b>At 1 January 2004</b>							
Cost or valuation	39,246	637	15,077	22,334	273,077	744	351,115
Accumulated Depreciation	-	-	-	22,095	215,156	-	237,251
<b>Depreciation charge for 2004</b>	-	56	495	36	13,011	-	13,598
<b>Net book value (had the assets been carried at cost less depreciation)</b>							
At 31 December 2005	31,626	1,254	7,510	661	74,388	5,316	120,755
At 31 December 2004	31,626	1,362	8,298	4,167	61,810	1,159	108,422

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Freehold land RM'000	Short leasehold land RM'000	Freehold buildings RM'000	Short leasehold buildings RM'000	Plant, equipment, vehicles and furniture RM'000	Capital work-in-progress RM'000	Total RM'000
<b>Cost or Valuation</b>							
At 1 January 2005	25,660	-	5,500	-	34,959	186	66,305
Additions	-	-	-	-	3	1,275	1,278
Disposals	-	-	-	-	(319)	-	(319)
Transfer in/(out)	-	-	-	-	1,461	(1,461)	-
At 31 December 2005	25,660	-	5,500	-	36,104	-	67,264
Representing:							
Cost	-	-	-	-	36,104	-	36,104
Valuation 2003	25,660	-	5,500	-	-	-	31,160
	25,660	-	5,500	-	36,104	-	67,264
<b>Accumulated depreciation and impairment losses</b>							
At 1 January 2005	-	-	137	-	30,747	-	30,884
Charge for the year	-	-	138	-	1,419	-	1,557
Disposals	-	-	-	-	(311)	-	(311)
At 31 December 2005	-	-	275	-	31,855	-	32,130
<b>Net book value</b>							
At 31 December 2005	25,660	-	5,225	-	4,249	-	35,134
At 31 December 2004	25,660	-	5,363	-	4,212	186	35,421
<b>At 1 January 2004</b>							
Cost or valuation	39,246	637	15,077	200	34,210	744	90,114
Accumulated Depreciation	-	-	-	-	30,024	-	30,024
<b>Depreciation charge for 2004</b>	-	30	417	-	1,187	-	1,634
<b>Net book value (had the assets been carried at cost less depreciation)</b>							
At 31 December 2005	26,587	-	4,981	-	4,249	-	35,817
At 31 December 2004	26,587	-	5,123	-	4,212	186	36,108
<b>Group/Company</b>							

The short leasehold land comprises leases with a current duration of between 1 to 22 years.

Freehold land, short leasehold land and buildings owned by the Group and the Company in Malaysia were revalued in December 2003 by the directors based on a valuation carried out by a firm of professional valuers using the open market values and depreciated replacement cost basis.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

In 2005, PT Koba Tin in Indonesia revalued its buildings and the revaluation surplus of RM4,112,000 less share of minority interest of RM1,028,000 has been included in the revaluation reserve account at the Group level. Details of the independent professional valuation of the buildings at 31 December 2005 were as follows:

Valuer	Date of valuation	Description of property	Valuation amount	Net Book Value	Basis of Valuation
			RM'000	RM'000	
<b>Stefanus Gunadi</b> Senior Certified Valuer MBA appraisal	30 Dec 2005	Buildings and land improvements on a mining lease	4,236	124	Depreciated replacement cost

### 9. BASE INVENTORY

As stated in Note 2(f), base inventory which comprises a metallic tin content of 381 tonnes is stated in the balance sheet at RM13,000,000 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 RM25.076 per kg as at 31 December 2005.

### 10. INVESTMENT IN SUBSIDIARIES

	Company	
	2005	2004
	RM'000	RM'000
Unquoted shares, at cost	<b>18,366</b>	18,366

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Issued and paid-up capital	Effective interest held		Principal activities
			2005	2004	
Malaysia Smelting Corporation (Warehousing) Sdn. Bhd.	Malaysia	2 shares of RMI each	<b>100%</b>	100%	Tin warehousing
MSC Properties Sdn. Bhd.	Malaysia	2 shares of RMI each	<b>100%</b>	100%	Property holding and rental
Rahman Hydraulic Tin Sdn. Bhd. **	Malaysia	97,232,000 shares of RMI each	<b>100%</b>	100%	Tin mining
Bemban Corporation Ltd.	British Virgin Islands	1 share of USD1 each	<b>100%</b>	100%	Investment holding
Kajuara Mining Corporation Pty. Ltd. *	Australia	4 million non par value AUD shares	<b>100%#</b>	100%#	Investment holding
PT MSC Indonesia *	Indonesia	800,000 shares of USD1 each	<b>100%</b>	100%	Tin exploration and mining
PT Koba Tin *	Indonesia	1 million shares of USD1 each	<b>75%#</b>	75%#	Tin mining and smelting
PT Bangka Resources **	Indonesia	400,000 shares of USD1 each	<b>100%#</b>	—	Dormant

\* Audited by member firm of Ernst & Young Global

\*\* Audited by firms of auditors other than Ernst & Young

# Indirect interest

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 10. INVESTMENT IN SUBSIDIARIES (CONT'D)

In January 2005, a wholly-owned subsidiary PT MSC Indonesia, incorporated a wholly-owned subsidiary PT Bangka Resources which intends to carry on tin exploration and mining operations in Indonesia. PT Bangka Resources has remained dormant since its incorporation.

### Analysis of the acquisitions of subsidiaries

The acquisitions of PT Bangka Resources in 2005 and Rahman Hydraulic Tin Sdn. Bhd. and PT MSC Indonesia in 2004 had the following effects on the Group's results for the year:

	<b>2005 Total RM'000</b>	<b>2004 Total RM'000</b>
Revenue	-	2,772
Loss from operations	<b>(7)</b>	(1,607)
Finance cost	-	(263)
Loss before taxation	<b>(7)</b>	(1,870)
Taxation	-	(24)
Loss after taxation	<b>(7)</b>	(1,894)

The acquisitions of PT Bangka Resources in 2005 and Rahman Hydraulic Tin Sdn. Bhd. and PT MSC Indonesia in 2004 had the following effects on the financial position of the Group at the end of the year:

	<b>2005 Total RM'000</b>	<b>2004 Total RM'000</b>
Property, plant and equipment	-	10,035
Other assets	-	5,633
Inventories	-	1,171
Receivables	-	1,241
Cash, bank balances and deposits	<b>1,512</b>	2,131
Payables	<b>(3)</b>	(2,756)
Taxation	-	(77)
Deferred taxation	-	(2,069)
Amount owing to holding company	<b>(4)</b>	(8,762)
Group's share of net assets	<b>1,505</b>	6,547

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 10. INVESTMENT IN SUBSIDIARIES (CONT'D)

The fair values of the assets acquired and liabilities assumed from the acquisitions of the subsidiaries, were as follows:

	<b>2005 Total RM'000</b>	<b>2004 Total RM'000</b>
Net assets acquired:		
Property, plant and equipment	-	7,473
Inventories	-	459
Receivables	-	1,150
Cash and bank balances	<b>1,512</b>	4,851
Payables	-	(3,420)
Deferred taxation	-	(2,069)
Fair value of total net assets	<b>1,512</b>	8,444
Goodwill on acquisition	-	9,922
Total consideration	<b>1,512</b>	18,366
Satisfied by cash	<b>1,512</b>	18,366
Net cash outflows arising on acquisition:		
Cash consideration	<b>1,512</b>	18,366
Cash and cash equivalents of the subsidiaries acquired	<b>(1,512)</b>	(3,261)
	-	15,105
Cash and cash equivalents of the subsidiaries acquired:		
Cash and bank balances	<b>1,512</b>	4,851
Fixed deposit pledged	-	(1,590)
	<b>1,512</b>	3,261

#### 10.1 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due from subsidiaries are unsecured, trade and non-trade in nature and payable on demand. Included in amounts due from subsidiaries are unsecured advances to subsidiaries amounting to RM284.7 million (2004: RM117.2 million). Interest rates of between 3% and 9% (2004: 3% and 9%) per annum are charged on the advances.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## II. INVESTMENT IN ASSOCIATES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unquoted shares, at cost	10,473	10,473	10,473	10,473
Share of post-acquisition reserves	4,501	4,196	–	–
	<b>14,974</b>	14,669	<b>10,473</b>	10,473
Outside Malaysia:				
Quoted shares, at cost	26,173	19,546	26,173	19,546
Exchange translation difference	2,670	3,618	–	–
	<b>28,843</b>	23,164	<b>26,173</b>	19,546
Share of post-acquisition reserves	(24,193)	(22,390)	–	–
	<b>4,650</b>	774	<b>26,173</b>	19,546
Unsecured redeemable convertible notes	–	784	–	784
	<b>4,650</b>	1,558	<b>26,173</b>	20,330
Provision for diminution in value of investment	(58)	(1,558)	(21,520)	(20,330)
	<b>4,592</b>	–	<b>4,653</b>	–
	<b>19,566</b>	14,669	<b>15,126</b>	10,473
Market value of quoted shares	<b>4,653</b>	*	<b>4,653</b>	*

\* No market value of the quoted shares was available in 2004 as the share was suspended on the Australian Stock Exchange.

	Group	
	2005 RM'000	2004 RM'000
Represented by:		
Share of net assets	16,761	11,864
Premium arising on acquisition	2,805	2,805
	<b>19,566</b>	14,669

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### II. INVESTMENT IN ASSOCIATES (CONT'D)

Details of the associates are as follows:

Name of Company	Country of incorporation	Effective interest held		Principal activities
		2005	2004	
Redring Solder (M) Sdn. Bhd.	Malaysia	40%	40%	Manufacture and sale of solder products
Australia Oriental Minerals NL	Australia	40%	35%	Tin exploration

During the year, the Company increased its shareholding in Australia Oriental Minerals NL (AOM) from 35% to 40% through the conversion of debts and convertible notes together with additional acquisitions of shares.

Pursuant to the completion of its recapitalisation and capital raising exercise, AOM's shares were requoted on the Australia Stock Exchange on 27 July 2005.

#### II.1 AMOUNT DUE FROM ASSOCIATES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Amounts due from associates	1,794	5,051	1,794	5,051
Specific provision for doubtful debt	-	(4,373)	-	(4,373)
	<b>1,794</b>	<b>678</b>	<b>1,794</b>	<b>678</b>

The amounts due from associates are unsecured, trade and non-trade in nature and are subject to the Group's normal credit terms which range from cash to 90 days.

#### II.2 AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate represents security deposit of RM1 million (2004: RM1 million) received for its purchase of refined tin metal. This amount is placed in fixed deposit with licensed banks and earns interest at average rate of 3.70% (2004: 3.70%) per annum.

The fixed deposit interest earned on the security deposit is payable to the associate.

### 12. OTHER INVESTMENTS

	Group / Company	
	2005 RM'000	2004 RM'000
Outside Malaysia:		
Quoted share, at cost	1,108	1,108
Provision for diminution in value of investment	(588)	-
	<b>520</b>	<b>1,108</b>
Market value	<b>520</b>	<b>732</b>

No provision for diminution in value of investment was made in 2004 as the investments are held on a long term basis and the directors were of the opinion that the diminution in value was only temporary.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 13. OTHER ASSETS

	Group	
	2005 RM'000	2004 RM'000
<b>i) Deferred exploration and evaluation expenditure</b>		
At 1 January	5,633	-
Additions	3,623	6,990
Written off to income statement	(895)	(1,357)
Transfer	(386)	-
Translation difference	(29)	-
At 31 December	<b>7,946</b>	5,633
<b>ii) Deferred mine development expenditure</b>		
At 1 January	-	-
Additions	14,559	-
Amortisation	(108)	-
Translation difference	69	-
At 31 December	<b>14,520</b>	-
Total Other Assets	<b>22,466</b>	5,633

The above represents mine development and exploration and evaluation expenditure for several areas of interest. The costs are carried forward to the extent that they are expected to be recouped through the successful development of the areas or activities of the areas which have not reached a stage that permit reasonable assessment of the existence of economically recoverable reserves.

### 14. GOODWILL ON CONSOLIDATION

	Group	
	2005 RM'000	2004 RM'000
At 1 January, at cost	9,922	-
On acquisition of subsidiaries (Note 10)	-	9,922
	<b>9,922</b>	9,922
Transfer to Mining Rights (Note 15)	(9,922)	-
At 31 December, at cost	<b>-</b>	9,922

Goodwill is in respect of the acquisition of Rahman Hydraulic Tin Sdn. Bhd. and has been reclassified to mining rights in the current year. The reclassification has been made as the acquisition price was based on the projected value of the estimated quantity of recoverable ore reserves of the mining rights.

The application for the extension for the mining rights has been submitted to the relevant authorities for approval.

The reclassification has no material impact on the financial statements in the current year.

### 15. MINING RIGHTS

	Group	
	2005 RM'000	2004 RM'000
At 1 January, at cost	-	-
Transfer from goodwill on consolidation (Note 14)	9,922	-
	<b>9,922</b>	-
Amortisation	(1,404)	-
At 31 December	<b>8,518</b>	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 16. INVENTORIES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At cost:				
Inventories of tin-in-concentrates, tin-in-process and refined tin metal	335,888	230,919	124,920	72,166
Goods in transit	12,478	16,823	12,478	16,823
Other inventories (stores, spares, fuels and by-products)	32,177	19,687	6,953	5,162
	<b>380,543</b>	<b>267,429</b>	<b>144,351</b>	<b>94,151</b>

The cost of inventories consumed by the Group and the Company during the financial year amounted to RM1,563.2 million (2004: RM1,652.5 million) and RM1,638.0 million (2004: RM1,577.6 million) respectively.

### 17. TRADE RECEIVABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade receivables	47,241	115,506	47,241	113,278
Specific provision for doubtful debts	(4,271)	(3,074)	(4,271)	(3,074)
	<b>42,970</b>	<b>112,432</b>	<b>42,970</b>	<b>110,204</b>

The Group's normal trade credit terms range from cash to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to group of debtors.

### 18. OTHER RECEIVABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Other receivables	35,164	12,529	3,086	2,406
Specific provision for doubtful debts	(689)	(381)	(362)	(381)
	<b>34,475</b>	<b>12,148</b>	<b>2,724</b>	<b>2,025</b>
Deposits	1,087	1,417	723	719
Prepayments	16,212	9,180	249	546
	<b>51,774</b>	<b>22,745</b>	<b>3,696</b>	<b>3,290</b>

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or group of debtors.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 19. CASH, BANK BALANCES AND DEPOSITS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash on hand and at banks	32,343	30,454	5,744	716
Cash in transit	149	-	-	-
Deposits with:				
licensed banks	30,090	77,527	30,090	75,937
licensed finance companies	2,000	5,000	2,000	5,000
	<b>64,582</b>	<b>112,981</b>	<b>37,834</b>	<b>81,653</b>

In 2005 there was no fixed deposit pledged. In 2004 the Group's fixed deposits of RM1,590,000 were pledged to a licensed bank as securities for bank guarantee facility granted to a subsidiary.

The range of interest rates earned at the balance sheet date were as follows:

	Group		Company	
	2005 % per annum	2004 % per annum	2005 % per annum	2004 % per annum
Licensed banks	2.20 to 4.05	1.25 to 3.94	2.20 to 4.05	1.25 to 3.94
Licensed finance companies	3.00 to 3.03	3.10	3.00 to 3.03	3.10

The range of maturities of the deposits at the end of the financial year were as follows:

	Group		Company	
	2005 Days	2004 Days	2005 Days	2004 Days
Licensed banks	1 to 365	3 to 365	1 to 365	3 to 365
Licensed finance companies	30	92	30	92

### 20. TRADE PAYABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade payables	15,522	16,339	9,174	7,627

The Group's normal trade credit terms range from cash to 90 days.

### 21. OTHER PAYABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Accruals	19,121	27,401	5,384	4,525
Other payables	15,944	11,954	5,651	6,162
	<b>35,065</b>	<b>39,355</b>	<b>11,035</b>	<b>10,687</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 22. PROVISIONS FOR LIABILITIES

Group	Severance benefits RM'000	Mine rehabilitation RM'000	Unutilised annual leave RM'000	Total RM'000
At 1 January 2005	18,922	11,678	1,042	31,642
Provision during the year	3,604	1,625	1,119	6,348
Paid/utilised during the year	(2,118)	-	(955)	(3,073)
Translation difference	(1,570)	(61)	-	(1,631)
At 31 December 2005	<b>18,838</b>	<b>13,242</b>	<b>1,206</b>	<b>33,286</b>
<b>At 31 December 2005</b>				
Current	1,508	-	1,206	2,714
Non-current:				
Later than 1 year but not later than 2 years	2,519	1,511	-	4,030
Later than 2 years but not later than 5 years	8,106	4,868	-	12,974
Later than 5 years	6,705	6,863	-	13,568
	<b>17,330</b>	<b>13,242</b>	<b>-</b>	<b>30,572</b>
	<b>18,838</b>	<b>13,242</b>	<b>1,206</b>	<b>33,286</b>
<b>At 31 December 2004</b>				
Current	1,182	2,338	1,042	4,562
Non-current:				
Later than 1 year but not later than 2 years	1,589	-	-	1,589
Later than 2 years but not later than 5 years	2,156	4,670	-	6,826
Later than 5 years	13,995	4,670	-	18,665
	17,740	9,340	-	27,080
	18,922	11,678	1,042	31,642

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 22. PROVISIONS FOR LIABILITIES (CONT'D)

Company	Severance benefits RM'000	Mine rehabilitation RM'000	Unutilised annual leave RM'000	Total RM'000
At 1 January 2005	-	-	746	746
Provision during the year	-	-	798	798
Paid/ utilised during the year	-	-	(647)	(647)
At 31 December 2005	-	-	897	897
<b>At 31 December 2005</b>				
Current	-	-	897	897
Non-current:				
Later than 1 year but not later than 2 years	-	-	-	-
Later than 2 years but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	-	-	-	-
	-	-	897	897
<b>At 31 December 2004</b>				
Current	-	-	746	746
Non-current:				
Later than 1 year but not later than 2 years	-	-	-	-
Later than 2 years but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	-	-	-	-
	-	-	746	746

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 22. PROVISIONS FOR LIABILITIES (CONT'D)

#### 22.1 SEVERANCE BENEFIT OBLIGATIONS

The subsidiaries in Indonesia operate an unfunded, Severance Benefits Scheme (the Scheme) for their eligible employees. Under the Scheme, eligible permanent employees confirmed in service are entitled to severance benefits due to reduction or termination of operations, termination due to ill-health or death and on attainment of the normal retirement age of 55 or early retirement age of 50 due to ill-health. The obligations under the Scheme are determined based on actuarial valuation.

The amounts recognised in the balance sheet are determined as follows:

	Group	
	2005 RM'000	2004 RM'000
Present value of unfunded defined benefit obligations	<b>18,838</b>	18,922
Analysed as:		
Current	<b>1,508</b>	1,182
Non-current:		
Later than 1 year but not later than 2 years	<b>2,519</b>	1,589
Later than 2 years but not later than 5 years	<b>8,106</b>	2,156
Later than 5 years	<b>6,705</b>	13,995
	<b>17,330</b>	17,740
	<b>18,838</b>	18,922

The amounts recognised in the income statement are as follows:

	Group	
	2005 RM'000	2004 RM'000
Current service cost	<b>1,112</b>	(572)
Interest cost	<b>2,492</b>	1,991
Total, included in staff costs (Note 28)	<b>3,604</b>	1,419

The amount charge for the year has been included in cost of sales.

Movements in the net liability in the current year are as follows:

	Group	
	2005 RM'000	2004 RM'000
At 1 January	<b>18,922</b>	18,163
Amounts recognised in the income statement	<b>3,604</b>	1,419
Paid during the year	<b>(2,118)</b>	(660)
Translation difference	<b>(1,570)</b>	-
At 31 December	<b>18,838</b>	18,922

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 22. PROVISIONS FOR LIABILITIES (CONT'D)

### 22.1 SEVERANCE BENEFIT OBLIGATIONS (CONT'D)

Principal actuarial assumptions used:

	Group	
	2005	2004
	%	%
Discount rate	12.00	12.00
Expected rate of salary increases	10.00	10.00

## 23. BORROWINGS

### Short Term Borrowings

Unsecured:

	Group / Company	
	2005	2004
	RM'000	RM'000
Short-term trade financing	83,340	170,360
Bankers' acceptances	195,075	26,000
Revolving credit	49,109	32,296
Term loan 1	9,444	9,500
Term loan 2	3,562	3,171
	<b>340,530</b>	<b>241,327</b>

### Long Term Borrowings

Unsecured:

Term loan 1	-	9,500
Term loan 2	2,328	6,353
	<b>2,328</b>	<b>15,853</b>

### Total Borrowings

Short-term trade financing	83,340	170,360
Bankers' acceptances	195,075	26,000
Revolving credit	49,109	32,296
Term loan 1	9,444	19,000
Term loan 2	5,890	9,524
	<b>342,858</b>	<b>257,180</b>

### Maturity of borrowings

Within 1 year	340,530	241,327
More than 1 year and less than 2 years	2,328	12,676
More than 2 years and less than 5 years	-	3,177
	<b>342,858</b>	<b>257,180</b>

The unsecured term loan 1 is denominated in US Dollar and is repayable by 8 semi-annual principal repayments of RM4.75 million (USD1.25 million) each commencing on 5 April 2003.

The unsecured term loan 2 is denominated in Australian Dollar and is repayable by 8 semi-annual principal repayments of RM1.588 million (AUD525,000) each commencing on 17 April 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 23. BORROWINGS (CONT'D)

The range of interest rates incurred during the year for borrowings were as follows:

	Group/Company	
	2005 % per annum	2004 % per annum
Bank overdrafts	<b>6.00 to 6.75</b>	6.00 to 6.50
Bankers' acceptances	<b>3.00 to 3.35</b>	2.99 to 3.10
US Dollar Trade Loans	<b>2.96 to 4.70</b>	1.52 to 2.95
Revolving credit	<b>2.70 to 4.60</b>	1.80 to 2.87
Term loan 1	<b>3.62 to 5.11</b>	2.14 to 3.06
Term loan 2	<b>6.70 to 7.00</b>	6.70 to 6.85

### 24. SHARE CAPITAL

	Company			
	Number of ordinary shares of RM1 each		Amount	
	2005 '000	2004 '000	2005 RM'000	2004 RM'000
Authorised:				
At 31 December	<b>100,000</b>	100,000	<b>100,000</b>	100,000
Issued and fully paid:				
At 31 December	<b>75,000</b>	75,000	<b>75,000</b>	75,000

### 25. RESERVES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Distributable:				
Retained profit	<b>181,673</b>	147,357	<b>139,147</b>	116,689
Non-distributable:				
Surplus on revaluation of land and buildings	<b>11,415</b>	9,194	<b>3,443</b>	3,443
Foreign exchange reserve	<b>420</b>	1,298	<b>(1,004)</b>	(2,320)
Capital reserve	<b>1,706</b>	1,706	-	-
Reserve on consolidation	<b>13,880</b>	13,880	-	-
	<b>209,094</b>	173,435	<b>141,586</b>	117,812

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

As at 31 December 2005, the Company has tax exempt profits available for distribution of approximately RM59.5 million (2004: RM15.7 million), subject to the agreement of the Inland Revenue Board.

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 reserve as at 31 December 2005 subject to the agreement of the Inland Revenue Board.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 26. DEFERRED TAX LIABILITIES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At 1 January	5,646	9,266	1,579	3,581
Recognised in the income statement (Note 5)	(14,111)	(5,689)	(916)	(1,289)
Acquisition of a subsidiary	-	2,069	-	-
Arising from revaluation surplus during the year	1,151	-	-	(713)
Translation difference	(32)	-	-	-
At 31 December	<b>(7,346)</b>	5,646	<b>663</b>	1,579
Presented after appropriate offsetting as follows:				
Deferred tax assets	(9,887)	-	-	-
Deferred tax liabilities	2,541	5,646	663	1,579
	<b>(7,346)</b>	5,646	<b>663</b>	1,579

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

#### Deferred tax assets of the Group

	1 January 2005 RM'000	Translation Difference RM'000	Recognised in income statements RM'000	Charged to equity RM'000	31 December 2005 RM'000
Other provisions	(3,265)	(11)	(12,637)	-	(15,913)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 26. DEFERRED TAX LIABILITIES (CONT'D)

#### Deferred tax liabilities of the Group

	1 January 2005 RM'000	Translation Difference RM'000	Recognised in income statements RM'000	Charged to equity RM'000	31 December 2005 RM'000
Capital allowances	8,322	(21)	(1,175)	-	7,126
Revaluation of property	589	-	(299)	1,151	1,441
	<b>8,911</b>	<b>(21)</b>	<b>(1,474)</b>	<b>1,151</b>	<b>8,567</b>

#### Deferred tax assets of the Company

Other provisions	(535)	-	(902)	-	(1,437)
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#### Deferred tax liabilities of the Company

Capital allowances	1,447	-	(14)	-	1,433
Revaluation of property	667	-	-	-	667
	<b>2,114</b>	<b>-</b>	<b>(14)</b>	<b>-</b>	<b>2,100</b>

### 27. CAPITAL COMMITMENTS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Approved but not contracted	-	10,688	-	-
Contracted but not provided for	1,647	6,161	132	131

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 28. STAFF COSTS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Wages and salaries	38,024	35,429	13,063	11,986
Restructuring costs	-	176	-	176
Severance benefits (Note 22.1)	3,604	1,419	-	-
EPF and Socso	2,611	2,055	1,746	1,561
Other staff related expenses	1,996	1,651	693	535
	<b>46,235</b>	40,730	<b>15,502</b>	14,258

The staff costs exclude directors' remuneration as disclosed in Note 3(ii).

The number of employees in the Group and the Company at the end of the financial year were 1,497 (2004: 1,472) and 400 (2004: 386) respectively.

### 29. CONTINGENT LIABILITIES (UNSECURED)

#### Group

At 31 December 2005 the Group has the following contingent liabilities:

- (a) A claim from a party against the Company and 3 others, seeking a declaration that the award for the sale of 100% issued shares of Rahman Hydraulic Tin Sdn. Bhd. (RHT) to the Company pursuant to an open tender process, be declared null and void. The party also filed an injunction to restrain the Administrator of RHT from proceeding with the sale. Both the claim and the injunction were dismissed by the High Court with costs. The party has filed an appeal and no date has been fixed for hearing.
- (b) At the time of takeover of RHT on 22 November 2004, the following legal suits were pending against RHT:
  - (i) On 22 August 2002, a Summons in Chambers (ex-parte) was served on RHT and 3 others by a party ("the Plaintiff") whose proposal to acquire the mining lease and related assets of RHT was rejected by RHT on 30 April 2002, claiming amongst others, for leave of Court to apply for a certiorari order in respect of the decision by RHT in rejecting the Plaintiff's offer, leave of court to apply for a mandamus order that RHT reconsider the offer and an order to allow the Plaintiff to file an application for Judicial Review for consideration and decision by the Court. The application for Judicial Review was filed in Court by the Plaintiff but was dismissed by the Court with cost. The Plaintiff has filed a Notice of Appeal, however the appeal has yet to be heard.
  - (ii) On 17 November 2003, a claim by 11 ex-workers for notice pay and retrenchment benefits amounting to RM125,723 was made at the Industrial Court against RHT. RHT has appointed solicitors to represent RHT in this matter. The directors are of the opinion that, based on legal advice, the claimant has no basis for the claim and RHT is defending the suit. The claim has been dismissed by the Industrial Court on 26 September 2005. Subsequently, the case has been appealed by the plaintiff. The hearing of the appeal has been fixed on 24 April 2006.
  - (iii) Two former directors of RHT have made a claim for compensation amounting to approximately RM2.4 million pursuant to service agreements entered on 31 March 2000 between them and RHT. One of the directors has commenced proceedings in the Industrial Court for wrongful dismissal as the managing director of RHT, seeking reinstatement. The claim has been dismissed by the Industrial Court. The said director has appealed against the decision and no date has been fixed for hearing of the appeal.

In accordance to the Sale of Shares Agreement dated 1 October 2004 between the vendor of RHT and the Company (the Purchaser), the vendor shall do the necessary to defend and settle all legal suits against RHT in relation to matters occurred prior to completion date, being 22 November 2004 or shall cause these legal suits to be transferred from RHT to the vendor. Accordingly, the vendor has made an application to substitute itself with RHT. The hearing for the application was heard on 21 February 2006 and to be continued on 18 April 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 29. CONTINGENT LIABILITIES (UNSECURED) (CONT'D)

#### Group

- (c) 43 employees retrenched by the Company under its manpower rationalization scheme have filed a claim to the Industrial Court for a decision. The claimants are seeking reinstatement to their former positions, back wages, bonus, etc or compensation for loss of wages if reinstatement is not in order. The Company maintains that it had acted fairly and had not breached any rules or regulations in the implementation of the retrenchment exercise. The case has been fixed for hearing in March 2007.
- (d) A statement of claim by a third party (Plaintiff) for RM45 million or such amount as the Court deemed fit, plus interest of 8% on judgement sum that remains unpaid, cost of litigation and any other relief that the Court deems appropriate for an alleged breach of the Subscription Agreement entered into by the Company. The Plaintiff alleged that it has suffered a loss as the Company wilfully interfere and prevent the issuance of the renewal of mining lease by the relevant authorities to the Plaintiff. The Company maintains that the breach was committed by the Plaintiff, entitling it to terminate the agreement. The Company had filed its statement of defence. To date, the Plaintiff has not proceeded further on the case.
- (e) On 7 February 2006, the Company received a statement of claim from a party for RM1.28 million with interest at 8% p.a. from the date of summons to the date of settlement plus costs for an alleged cost overrun for the implementation of an Enterprise Resource Planning System. This came after a lapse of more than a year following the completion of the implementation. The Company has accordingly filed its statement of defence and based on legal advice, the Company has a fair chance of resisting the claim.

#### Company

At 31 December 2005 the Company has the following contingent liabilities:

- (a) A bank guarantee of RM 1.6 million given by the Company to the Perak State Authorities on behalf of a subsidiary.
- (b) A claim from a third party against the Company and 3 others, seeking a declaration that the award for the sale of 100% issued shares of Rahman Hydraulic Tin Sdn. Bhd. (RHT) to the Company pursuant to an open tender process be declared null and void. The party also filed an injunction to restrain the Administrator of RHT from proceeding with the sale. Both the claim and the injunction were dismissed by the High Court with costs. The party has filed an appeal and no date has been fixed for hearing.
- (c) 43 employees retrenched by the Company under its manpower rationalization scheme have filed a claim to the Industrial Court for a decision. The claimants are seeking reinstatement to their former positions, back wages, bonus, etc or compensation for loss of wages if reinstatement is not in order. The Company maintains that it had acted fairly and had not breached any rules or regulations in the implementation of the retrenchment exercise. The case has been fixed for hearing in March 2007.
- (d) A statement of claim by a third party (Plaintiff) for RM45 million or such amount as the Court deemed fit, plus interest of 8% on judgement sum that remains unpaid, cost of litigation and any other relief that the Court deems appropriate for an alleged breach of the Subscription Agreement entered into by the Company. The Plaintiff alleged that it has suffered a loss as the Company wilfully interfere and prevent the issuance of the renewal of mining lease by the relevant authorities to the Plaintiff. The Company maintains that the breach was committed by the Plaintiff, entitling it to terminate the agreement. The Company had filed its statement of defence. To date, the Plaintiff has not proceeded further on the case.
- (e) On 7 February 2006, the Company received a statement of claim from a party for RM1.28 million with interest at 8% p.a. from the date of summons to the date of settlement plus costs for an alleged cost overrun for the implementation of an Enterprise Resource Planning System. This came after a lapse of more than a year following the completion of the implementation. The Company has accordingly filed its statement of defence and based on legal advice, the Company has a fair chance of resisting the claim.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 30. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Group	Amount outstanding as at		Amount outstanding as at	
	2005 RM'000	31/12/2005 RM'000	2004 RM'000	31/12/2004 RM'000
(a) Sales to an associate, Redring Solder (M) Sdn. Bhd.	22,239	1,511	20,330	678
(b) Purchases from an associate, Australia Oriental Minerals NL	-	-	11,911	-
<hr/>				
<b>Company</b>				
(a) Sales to an associate, Redring Solder (M) Sdn. Bhd.	22,239	1,511	20,330	678
(b) Purchases from subsidiaries, - PT Koba Tin	631,234	-	443,522	-
- Rahman Hydraulic Tin Sdn Bhd	21,635	281	2,222	-
(c) Purchases from an associate, Australia Oriental Minerals NL	-	-	11,911	-
(d) Loan to a subsidiary - PT MSC Indonesia for its exploration expenditure	7,737	7,737	8,018	8,018
- MSC Properties Sdn. Bhd. for the purchase of properties from the Company	-	-	24,000	23,452
(e) Sale of properties to a subsidiary, MSC Properties Sdn. Bhd.	-	-	24,000	-
(f) Interest charged to subsidiaries - PT Koba Tin	11,232	11,232	1,954	1,954
- PT MSC Indonesia	1,128	1,128	219	219
- Bemban Corporation Ltd	1,618	1,618	1,695	1,695
- MSC Properties Sdn Bhd	696	696	146	146

The above transactions other than loans to subsidiaries have been entered in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 31. FINANCIAL INSTRUMENTS

The Group's principal financial instruments, other than derivative financial instruments, comprise bank loans and overdraft and cash and short term deposits. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations.

The Group also enters into derivative transactions, including mainly forward currency and cross currency swap contracts. The purpose is to manage the currency and interest rate risks arising from the Group's operations and its sources of financing.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

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's policy is not to engage in speculative transactions.

The policies for managing each of these risks are summarised below. The Group's accounting policies for derivative instruments are set out in Note 2 (o).

#### (a) Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash deposits and long-term debt obligations.

The Group's policy is to manage its exposure to interest rate risk using floating rate which can be swapped to fixed interest rate to mitigate its exposure where appropriate. The Group seeks to obtain the most favourable interest rates available without increasing its foreign currency exposure. The Group also enters into cross currency swap contract to mitigate its exposure to interest rate risk for foreign currency long-term debts where appropriate.

The Group places its cash deposits with reputable 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 and the Company have exposure to fluctuations in foreign exchange rates in both the investment in foreign entities and business transactions. The Group has foreign exchange rate risk exposure mainly in United States Dollar, Australian Dollar and Indonesian Rupiah. The Group's policy is to manage its exposure to foreign exchange risk on investment in foreign entities by using term loan with the same foreign currency to hedge such investments.

Due to concentration of its purchases and sales in United States Dollar, there is a natural hedge and the exposure to United States Dollar foreign currency risk is minimised. The Company also uses forward foreign exchange contracts to hedge its exposure to foreign exchange risk.

The net unhedged financial assets and liabilities of the Group and of the Company as at 31 December 2005 that are not denominated in their functional currencies are as follows:

Group	2005		2004	
	Ringgit Malaysia RM'000	United States Dollar RM'000	Ringgit Malaysia RM'000	United States Dollar RM'000
<b>Trade receivables</b>				
United States Dollar	2,427	-	6,186	-
<b>Other receivables</b>				
Indonesian Rupiah	-	29,541	-	17,087
Australian Dollar	-	76	-	-

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 31. FINANCIAL INSTRUMENTS (CONT'D)

### (b) Foreign Exchange Risk (Cont'd)

Group	2005		2004	
	Ringgit Malaysia RM'000	United States Dollar RM'000	Ringgit Malaysia RM'000	United States Dollar RM'000
<b>Functional currency</b>				
<b>Cash and bank balances</b>				
United States Dollar	29,270	-	1,174	-
Indonesian Rupiah	-	16,734	-	7,771
<b>Trade payables</b>				
United States Dollar	612	-	1,686	-
Indonesian Rupiah	-	1,074	-	8,445
Singapore Dollar	-	786	-	-
Australian Dollar	-	261	-	-
Euro Dollar	-	703	-	-
Great Britain Pound	-	163	-	-
<b>Other payables</b>				
United States Dollar	2,402	-	1,770	-
Australian Dollar	87	-	130	-
Indonesian Rupiah	-	10,996	-	41,422
<b>Trade financing</b>				
United States Dollar	83,340	-	170,360	-
<b>Revolving credit</b>				
United States Dollar	49,109	-	32,296	-
<b>Term loans</b>				
United States Dollar	9,444	-	19,000	-
Australian Dollar	5,890	-	9,524	-
<b>Provision for liabilities</b>				
Indonesian Rupiah	-	18,736	-	30,598
<b>Taxation</b>				
Indonesian Rupiah	-	1,064	-	-

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

## 31. FINANCIAL INSTRUMENTS (CONT'D)

### (b) Foreign Exchange Risk (Cont'd)

Company	2005 Ringgit Malaysia RM'000	2004 Ringgit Malaysia RM'000
<b>Functional currency</b>		
<b>Trade receivables</b>		
United States Dollar	2,427	6,186
<b>Other receivables</b>		
United States Dollar	307	-
<b>Cash and bank balances</b>		
United States Dollar	29,270	1,174
<b>Trade payables</b>		
United States Dollar	612	1,686
<b>Other payables</b>		
United States Dollar	2,402	1,770
Australian Dollar	87	130
<b>Trade financing</b>		
United States Dollar	83,340	170,360
<b>Revolving credit</b>		
United States Dollar	49,109	32,296
<b>Term loans</b>		
United States Dollar	9,444	19,000
Australian Dollar	5,890	9,524

As at balance sheet date, the Group and the Company have entered into foreign exchange contracts with the following notional amounts and maturities:

	Currency	Maturities			Total notional amount RM'000
		Within 1 year RM'000	1 year up to 5 years RM'000	5 years or more RM'000	
<b>At 31 December 2005</b>					
Forwards used to hedge anticipated purchases	Indonesian Rupiah	121,716	13,986	-	135,702
<b>At 31 December 2004</b>					
Forwards used to hedge anticipated sales	United States Dollar	189,879	-	-	189,879
Forwards used to hedge anticipated purchases	Indonesian Rupiah	170,050	-	-	170,050
		359,929	-	-	359,929

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### 31. FINANCIAL INSTRUMENTS (CONT'D)

#### (b) Foreign Exchange Risk (Cont'd)

There was no unrecognised gains/(losses) as at 31 December 2005 (2004: Unrecognised gain of RM0.2 million) on forward contracts used to hedge anticipated sales of the Group and of the Company. There was an unrecognised loss of RM0.4 million as at 31 December 2005 (2004: Unrecognised gain of RM1.62 million) on forward contracts used to hedge anticipated purchases of the Group and of the Company using the exchange rate at balance sheet date.

#### (c) Credit Risk

The carrying amount of trade and other receivables, amount due from associates, 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.

Credit risks, or the risk of counterparties defaulting are controlled by the application of credit approvals, limit and monitoring procedures. Credit risks are minimised and monitored by limiting the Group's associations to business partners with high credit-worthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures. The Group places its cash deposits with reputable banks and financial institutions.

The Group does not have any significant exposure to any individual customer or group of customers.

#### (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 financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 31. FINANCIAL INSTRUMENTS (CONT'D)

#### (e) Fair Values

The carrying amounts of financial assets and liabilities of the Group and of the Company at the balance sheet date approximate their fair values except for the following:

	Note	Group		Company	
		Carrying amount RM	Fair Value RM	Carrying amount RM	Fair Value RM
<b>Financial assets</b>					
<b>At 31 December 2005</b>					
Quoted shares	12	520	520	520	520
<b>At 31 December 2004</b>					
Quoted shares	12	1,108	732	1,108	732

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

#### 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. Amounts due from/to Subsidiaries and Associates

The amounts due from/to subsidiaries and associates approximate fair value because they are payable on demand or on normal credit terms.

### 32. SEGMENTAL INFORMATION

The Company and its principal subsidiaries operate principally within one industry. The Group operates mainly 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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Malaysia	1,706,811	1,616,462	621,872	510,807	54,907	52,723
Indonesia	641,253	692,731	427,111	285,418	32,139	120,735
Others	58,393	80,337	62,328	5,804	57,180	78,579
	<b>2,406,457</b>	2,389,530	<b>1,111,311</b>	802,029	<b>144,226</b>	252,037
Consolidation adjustment related to intra group transactions	<b>(713,627)</b>	(527,000)	<b>(354,180)</b>	(131,588)	<b>(58,293)</b>	(124,665)
	<b>1,692,830</b>	1,862,530	<b>757,131</b>	670,441	<b>85,933</b>	127,372

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 DECEMBER 2005

### 33. SIGNIFICANT EVENTS

The following were other significant events during the financial year:

- (a) A wholly-owned subsidiary, PT MSC Indonesia incorporated a wholly-owned subsidiary, PT Bangka Resources which intends to carry on tin exploration and mining operations in Indonesia. PT Bangka Resources has remained dormant since its incorporation.
- (b) The Company increased its shareholding in its associate, Australia Oriental Minerals NL from 35% to 40% through the conversion of debts and convertible notes together with additional acquisitions of shares.
- (c) The Company entered into a sale and purchase agreement with Juru Heights Sdn Bhd for the sale of two parcels of land Lot 1202 and Lot 1439, Mukim 12, Daerah Seberang Perai Tengah totalling 81.2547 acres for a total consideration of RM23.9 million.
- (d) On 2 March 2005, a subsidiary company entered into agreements with three separate parties namely, PT Mutiara Prima Sejahtera, PT Permata Mustika Rajawali and PT Prima Stania Nusantara to explore and mine certain alluvial tin deposits in the area covered by the Mining licenses held by them.

Under each agreement, the joint venture company will be owned 75% by the said subsidiary and 25% by the joint venture partner.

### 34. SUBSEQUENT EVENT

The Company's application for a further extension of time from 31 December 2005 to comply with the public shareholding spread requirements was rejected by Bursa Malaysia on 20 January 2006. The Company's shares have been suspended from trading since 31 May 2005 pursuant to paragraph 8.15(4) of the Listing Requirements of Bursa Malaysia. The substantial shareholders are still in discussion for a viable solution to address the Company's shortfall in its public shareholding spread.

# LIST OF PROPERTIES OF THE GROUP

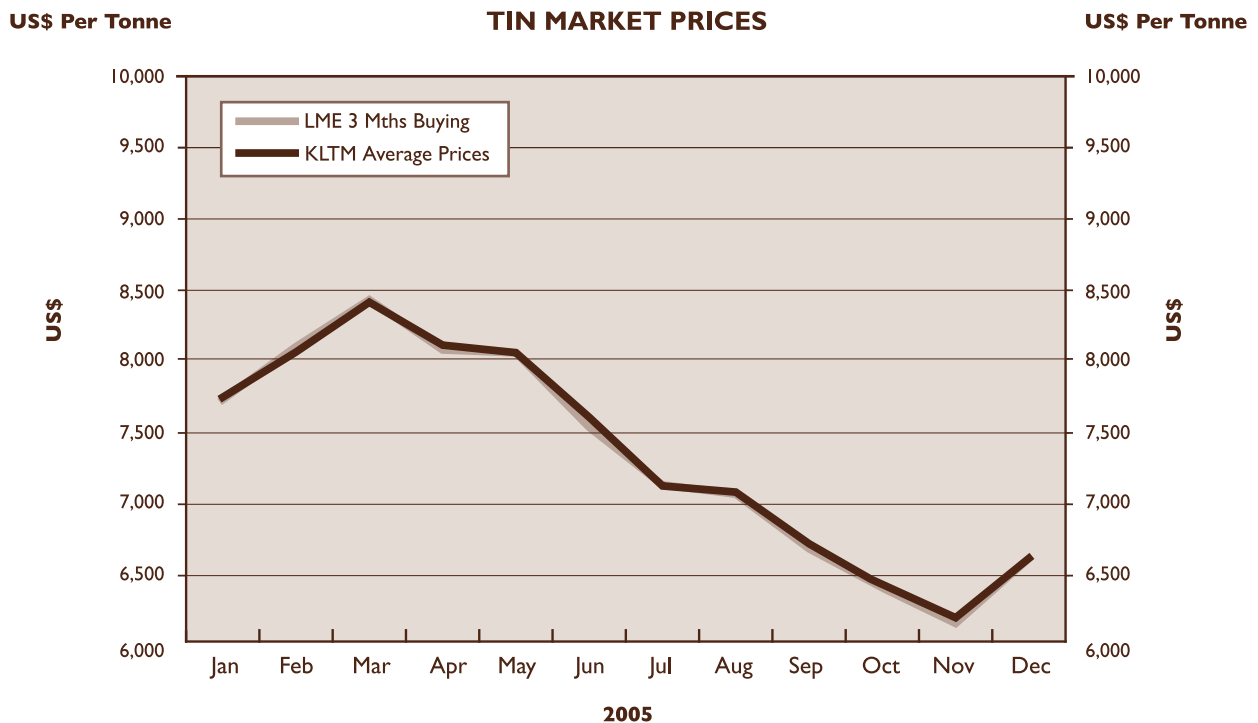
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Location	Description	Approximate area	Tenure	Year of expiry	Approximate age of buildings	Net book value at 31.12.05 RM'000	Date of last revaluation / acquisition
<b>Malaysia</b>							
<b>1. 27 Jalan Pantai 12000 Butterworth</b>							
a) Lot 142-187 and 362	Land with offices and factory buildings	12.5 acres	Freehold	–	1 - 52 years	22,460	2003
b) Lot 268	Land with car park shed	45,575 sq. ft.	Leasehold	2028	18 years	686	2003
c) Lot 263	Seabed leases with main wharf	15,000 sq. ft.	Leasehold	2006	NA	40	2003
<b>2. Lot 1199, Mukim 12, Daerah Seberang Perai Tengah</b>							
<b>3. Unit No. B-15-11 Megan Avenue II 12, Jln Yap Kwan Seng 50450 Kuala Lumpur</b>							
<b>4. Taman Desa Palma, Alma 14000 Bukit Mertajam</b>							
<b>5. Lot 1202, 1203 &amp; 1439, Mukim 12 Daerah Seberang Perai Tengah</b>							
<b>6. Mukim Belukar Semang and Mukim Pengkalan Hulu Daerah Hulu Perak</b>							
a) Lot 344 & 348	Land with buildings	3.78 hectares	Freehold	–	over 40 years	164	2004
b) Lot 1886	Vacant Land	0.78 hectares	Freehold	–	–	7	2004
c) Lot 1868, 2071, 2163, 879, 880, PT3375	Land with buildings	10.29 hectares	Leasehold	2007-2011	24 - 65 years	526	2004
<b>Indonesia</b>							
<b>7. PT Koba Tin Bangka Island</b>							
<b>8. PT MSC Indonesia Bangka Island</b>							
	Offices, factory buildings and houses on mining lease	41,680.3 hectares	Mining lease	2013	8 - 33 years	4,123	2005
	Land & Buildings	17,094 sq. ft.	Leasehold ( Land Rights )	2034	11 - 16 years	1,256	2004

# TIN STATISTICS

	KLTM Prices			KLTM Turnover Tonnes	LME 3 Mths Buying Average US\$ Per Tonne
	Highest	Lowest	Average		
<b>2001</b>	5,205	3,510	4,424	21,584	4,519
<b>2002</b>	4,500	3,647	4,064	17,176	4,086
<b>2003</b>	6,610	4,251	4,890	12,426	4,900
<b>2004</b>	9,890	6,420	8,493	19,323	8,347
<b>2005</b>	8,580	6,050	7,355	19,427	7,337

<b>2005</b>		Highest	Lowest	Average	KLTM Turnover Tonnes	LME 3 Mths Buying Average US\$ Per Tonne
January		8,000	7,240	7,714	1,261	7,704
February		8,380	7,865	8,053	1,481	8,084
March		8,580	8,045	8,389	2,108	8,365
April		8,240	8,020	8,109	1,561	8,080
May		8,130	8,015	8,051	1,777	8,048
June		7,990	7,245	7,619	1,767	7,553
July		7,390	6,900	7,140	1,229	7,134
August		7,330	6,955	7,105	2,447	7,099
September		7,040	6,470	6,792	1,345	6,745
October		6,630	6,130	6,455	1,397	6,429
November		6,370	6,050	6,179	1,150	6,151
December		6,900	6,110	6,653	1,904	6,656



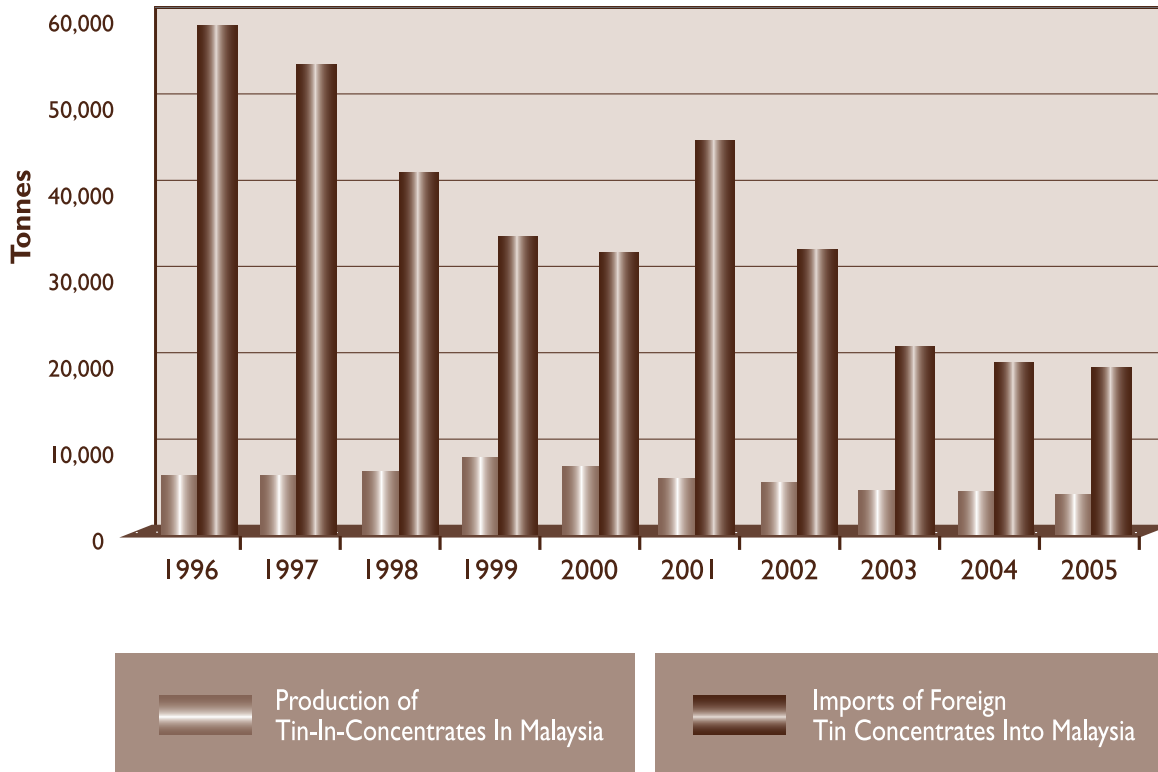
# TIN STATISTICS (CONT'D)

PRODUCTION OF TIN-IN-CONCENTRATES IN MALAYSIA	
Year	Tonnes
1996	5,176
1997	5,060
1998	5,764
1999	7,340
2000	6,307
2001	4,972
2002	4,215
2003	3,358
2004	2,746
2005	3,013

IMPORTS OF FOREIGN TIN CONCENTRATES INTO MALAYSIA	
Year	Tonnes
1996	57,762
1997	52,954
1998	40,547 *
1999	32,955
2000	31,297
2001	44,410
2002	31,788
2003	20,183
2004	18,916
2005	17,708

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

## MALAYSIA PRODUCTION AND IMPORT OF TIN CONCENTRATES



## TIN STATISTICS (CONT'D)

### Deliveries of Refined Tin From Penang

(Tonnes Refined Tin by reported destination)

Destination	2001	2002	2003	2004	2005
Africa	1,508	1,362	1,031	1,313	1,257
Australia & New Zealand	539	1,558	1,757	1,223	127
China	20	60	140	40	40
EEC (incl. UK)	10,751	1,487	1,165	1,431	2,669
India, Pakistan & Bangladesh	3,275	1,073	352	825	794
Japan	1,499	1,735	1,723	3,381	2,063
Middle East	1,139	845	805	705	812
Taiwan	1,060	709	680	1,690	1,524
Korea	3,499	7,303	4,466	7,560	8,480
Rest of Asia Pacific	62	76	11	105	56
Singapore	3,612	10,749	2,664	9,421	14,645
South America	6	8	—	—	—
USA	482	125	263	1,235	480
	<b>27,452</b>	<b>27,091</b>	<b>15,057</b>	<b>28,929</b>	<b>32,947</b>
<b>Malaysia</b> (for domestic consumption)	3,518	3,339	3,444	3,815	3,437
<b>Total</b>	<b>30,970</b>	<b>30,430</b>	<b>18,501</b>	<b>32,744</b>	<b>36,384</b>

LME AND U.S DLA'S STOCKS & DISPOSALS (IN TONNES)			
PERIOD END	LME STOCKS *	DLA STOCKS #	
<b>2005</b>			
1st Quarter	5,220	Opening stock at 1.1.05	24,962
2nd Quarter	3,975	Disposals during the year	8,371
3rd Quarter	8,530	Closing stock at 31.12.05	16,591
4th Quarter	16,725		

Sources: \* Metal Bulletin

# US Geological Survey - uncommitted stock

## SHAREHOLDINGS STATISTICS

AS AT 6 MARCH 2006

### Analysis of Shareholdings

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Capital
less than 100	3	0.22	133	0.00
100 to 1,000	812	60.69	778,467	1.04
1,001 to 10,000	459	34.31	1,703,300	2.27
10,001 to 100,000	53	3.96	1,728,700	2.30
100,001 to less than 5% of issued shares	7	0.52	2,824,900	3.77
5% and above of issued shares	4	0.30	67,964,500	90.62
<b>TOTAL</b>	<b>1,338</b>	<b>100.00</b>	<b>75,000,000</b>	<b>100.00</b>

### THIRTY LARGEST SHAREHOLDERS

Names	No. of Shares held	% of Issued Capital
1. Mayban Nominees (Asing) Sdn Bhd For The Straits Trading Company Limited	28,090,000	37.45
2. MMC Corporation Berhad	22,500,000	30.00
3. Straits Trading Amalgamated Resources Sdn Bhd	10,073,900	13.43
4. CIMSEC Nominees (Tempatan) Sdn Bhd For Straits Trading Amalgamated Resources Sdn Bhd	7,300,600	9.74
5. Mayban Nominees (Asing) Sdn Bhd For Baxterley Holdings Private Limited	1,258,300	1.68
6. Mayban Nominees (Asing) Sdn Bhd For Sword Investments Private Limited	760,000	1.01
7. Gan Ah Kow	212,000	0.28
8. Redring Solder (Malaysia) Sdn Bhd	200,000	0.27
9. Mayban Nominees (Tempatan) Sdn Bhd For Md Ajib Bin Hj Anuar	150,000	0.20
10. Winnie Hamzah Sendut	135,000	0.18
11. Gan Ah Kow	109,600	0.15
12. Mayban Nominees (Tempatan) Sdn Bhd For Hidden Treasures Fund	100,000	0.13

## SHAREHOLDINGS STATISTICS (CONT'D)

AS AT 6 MARCH 2006

### THIRTY LARGEST SHAREHOLDERS (cont'd)

	<b>Names</b>	<b>No. of Shares held</b>	<b>% of Issued Capital</b>
13.	Citigroup Nominees (Asing) Sdn Bhd For Royston Holmes	100,000	0.13
14.	Hdm Nominees (Asing) Sdn Bhd For Norman Ka Cheung Ip	100,000	0.13
15.	Abdul Malik Bin Abdul Kadir	100,000	0.13
16.	Mayban Securities Nominees (Tempatan) Sdn Bhd For Md. Ajib Bin Hj. Anuar	100,000	0.13
17.	Yeo Khee Huat	85,000	0.11
18.	Cheam Heng Ming	80,000	0.11
19.	TA Nominees (Tempatan) Sdn Bhd For Lim Siew Leng	50,400	0.07
20.	Mayban Securities Nominees (Tempatan) Sdn Bhd For Ab. Sukor Bin Shahar	50,000	0.07
21.	Mayban Nominees (Asing) Sdn Bhd For Boughton Developments Limited	46,500	0.06
22.	Huamas Enterprise Sdn Bhd	43,800	0.06
23.	Citigroup Nominees (Asing) Sdn Bhd For Briarwood Management Limited	42,200	0.06
24.	Chu Wing Chuen	40,000	0.05
25.	Menteri Kewangan Malaysia Section 29 (SICDA)	36,000	0.05
26.	Chin Lean Keat	33,000	0.04
27.	Choi Siew Hong	30,000	0.04
28.	Yap Shing @ Yap Sue Kim	29,900	0.04
29.	HSBC Nominees (Tempatan) Sdn Bhd For Amdividend Income	28,200	0.04
30.	Khew Yit Len	27,500	0.04
	<b>TOTAL</b>	<b>71,911,900</b>	<b>95.88</b>

## SHAREHOLDINGS STATISTICS (CONT'D)

AS AT 6 MARCH 2006

### LIST OF SUBSTANTIAL SHAREHOLDERS

<b>Names</b>	<b>Direct (No. Of Shares)</b>	<b>Percentage (%)</b>	<b>Deemed Interest (No. Of Shares)</b>	<b>Percentage (%)</b>
THE STRAITS TRADING COMPANY LIMITED	28,090,000	37.45	19,392,800	25.86
MMC CORPORATION BERHAD	22,500,000	30.00	–	–
STRAITS TRADING AMALGAMATED RESOURCES SDN BHD	17,374,500	23.17	–	–

**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 BERHAD 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 Thursday 20 April 2006 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 of the Directors and the Audited Financial Statements		
2	Re-election of Director – Tuan Haji Ahmad Kamal bin Abdullah Al-Yafii		
3	Re-election of Director – Encik Razman bin Ariffin		
4	Reappointment of Directors :- a. YBhg. Jen. (B) Tun Ibrahim bin Datuk Ismail		
	b. Mr Choi Siew Hong		
5	Approval of Directors' Fees		
6	Reappointment of Auditors		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2006.

Total Number of shares	
------------------------	--

\_\_\_\_\_  
Signature(s) of Member(s)/ Common Seal

**IMPORTANT : PLEASE READ NOTES BELOW**

Note :

- A p
- 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 of the holding of 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**

27 Jalan Pantai

12000 Butterworth,

Penang, Malaysia.

(Co. No. 43072-A)

*Fold along this line*