Malaysia Smelting Corporation Berhad
(43072-A)

MALAYSIA SMELTING CORPORATION BERHAD

INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

MALAYSIA SMELTING CORPORATION BERHAD (43072-A)

10 August 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	As at 30.06.2018 Unaudited RM'000	As at 31.12.2017 Audited RM'000
Assets			
Non-current assets			
Property, plant and equipment		157,088	159,309
Prepaid land lease payments		724	740
Intangible assets		5,490	5,942
Investments in associates and joint ventures		34,675	34,568
Investment securities		18,208	21,205
Other non-current assets		14,050	14,445
Deferred tax assets		11,012	7,227
		241,247	243,436
Current assets			
Inventories		496,547	469,677
Trade receivables	**B5**	25,833	11,436
Other receivables		9,907	9,345
Trade prepayments		38,717	49,694
Other prepayments		3,658	2,465
Tax recoverable		20,686	19,312
Derivative financial instruments		-	375
Cash, bank balances and deposits		30,630	68,678
		625,978	630,982
Total assets		867,225	874,418
Equity and liabilities			
Current liabilities			
Provisions		12,315	12,315
Borrowings	**B6**	413,699	452,781
Trade and other payables	**A15**	110,649	86,517
Dividend payable	**B13**	4,000	-
Current tax payable		63	51
Derivative financial instruments		5,500	2,458
		546,226	554,122
Net current assets		79,752	76,860
Non-current liabilities			
Provisions		28,401	27,904
Deferred tax liabilities		1,343	1,343
		29,744	29,247
Total liabilities		575,970	583,369
Net assets		291,255	291,049
Equity attributable to owners of the Company			
Share capital		174,666	174,666
Other reserves		40,814	43,651
Retained earnings		75,482	72,439
		290,962	290,756
Non-controlling interest		293	293
Total Equity		291,255	291,049
Total equity and liabilities		867,225	874,418
Net assets per share attributable to owners of the Company (RM)		**2.91**	**2.91**

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the Interim Financial Report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 30 JUNE 2018

		2 nd Quarter		Year to Date	
		3 months ended		6 months ended	
	Note	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Revenue	**A8**	326,816	307,879	683,770	714,493
Operating profit		10,915	15,146	22,352	35,840
Finance costs		(4,507)	(3,542)	(9,184)	(6,783)
Share of results of associates and joint ventures		(82)	278	222	525
Profit before tax	**B2**	6,326	11,882	13,390	29,582
Income tax expense	**B3**	(3,867)	(2,867)	(6,347)	(7,944)
Profit net of tax		2,459	9,015	7,043	21,638
Attributable to:					
Owners of the Company		2,459	9,015	7,043	21,638
Non-controlling interest		-	-	-	-
		2,459	9,015	7,043	21,638
Earnings per share attributable to owners of the Company (sen):					
Basic and diluted	**B12**	2.5	9.0	7.0	21.6

The unaudited condensed consolidated statement of profit or loss should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the Interim Financial Report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

	2 nd Quarter 3 months ended		Year to Date 6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Profit net of tax	2,459	9,015	7,043	21,638
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Net fair value changes in quoted investments at Fair Value through Other Comprehensive Income ("FVOCI")	(988)	1,940	(1,897)	2,258
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	(2)	1	-	1
Realisation of foreign currency translation reserves to profit or loss upon write off of the investment in an associate	-	-	(825)	-
Net fair value changes on cash flow hedges	-	-	-	1,720
Share of foreign currency translation of an associate and a joint venture	730	(443)	(115)	(637)
	728	(442)	(940)	1,084
Other comprehensive income for the period, net of tax	(260)	1,498	(2,837)	3,342
Total comprehensive income for the period	2,199	10,513	4,206	24,980
Total comprehensive income attributable to:				
Owners of the Company	2,199	10,513	4,206	24,980
Non-controlling interest	-	-	-	-
	2,199	10,513	4,206	24,980

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the Interim Financial Report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2018

		Attributable to owners of the Company										
		Non - Distributable							Distributable			
RM'000	Note	Share capital	Share premium	Revaluation reserves	Foreign currency translation reserves	FVOCI reserves	Hedging reserves	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2018		174,666	-	37,186	1,273	3,486	-	1,706	72,439	290,756	293	291,049
Profit for the period		-	-	-	-	-	-	-	7,043	7,043	-	7,043
Other comprehensive income		-	-	-	(940)	(1,897)	-	-	-	(2,837)	-	(2,837)
Total comprehensive income		-	-	-	(940)	(1,897)	-	-	7,043	4,206	-	4,206
Transactions with owners of the Company:												
Dividend payable	**B13**	-	-	-	-	-	-	-	(4,000)	(4,000)	-	(4,000)
At 30 June 2018		**174,666**	**-**	**37,186**	**333**	**1,589**	**-**	**1,706**	**75,482**	**290,962**	**293**	**291,255**
At 1 January 2017		100,000	76,372	31,726	3,206	5,171	(1,720)	-	64,334	279,089	294	279,383
Transfer in accordance with Section 618(2) of the Companies Act 2016		74,666	(74,666)	-	-	-	-	-	-	-	-	-
Reclassification		-	(1,706)	-	-	-	-	1,706	-	-	-	-
Profit for the period		-	-	-	-	-	-	-	21,638	21,638	-	21,638
Other comprehensive income		-	-	-	(636)	2,258	1,720	-	-	3,342	-	3,342
Total comprehensive income		-	-	-	(636)	2,258	1,720	-	21,638	24,980	-	24,980
Transactions with owners of the Company:												
Dividend payable	**B13**	-	-	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
At 30 June 2017		**174,666**	**-**	**31,726**	**2,570**	**7,429**	**-**	**1,706**	**77,972**	**296,069**	**294**	**296,363**

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the Interim Financial Report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2018

	6 months ended 30.06.2018 RM'000	6 months ended 30.06.2017 RM'000
Operating activities		
Operating cash flows before changes in working capital	32,080	40,686
Increase in inventories	(26,870)	(9,026)
(Increase)/Decrease in trade and other receivables	(17,481)	16,141
Decrease/(Increase) in trade prepayments	10,977	(3,078)
Increase in other prepayments	(1,087)	(808)
Increase/(Decrease) in payables	8,572	(20,443)
Increase/(Decrease) in amount due to holding company	47	(600)
Decrease/(Increase) in amount due from associates and joint ventures	2,890	(5,818)
Cash generated from operations	9,128	17,054
Income tax paid	(10,393)	(9,098)
Interest paid	(8,726)	(6,115)
Net cash (used in)/generated from operating activities	(9,991)	1,841
Investing activities		
Interest received	598	793
Payment for deferred mine exploration and evaluation expenditures and mine properties	(113)	(277)
Payment for intangible assets	-	(65)
Proceeds from disposal of property, plant and equipment	48	187
Purchase of property, plant and equipment	(5,779)	(4,743)
Withdrawal of deposits of more than three months maturity with licensed banks	2,157	-
Net cash used in investing activities	(3,089)	(4,105)
Financing activities		
Repayment of short term trade financing and other borrowings	(37,836)	(24,401)
Loan from immediate holding company	15,000	-
Net cash used in financing activities	(22,836)	(24,401)
Net decrease in cash and cash equivalents	(35,916)	(26,665)
Effect of changes in foreign exchange rates	(5)	558
Cash and cash equivalents as at 1 January	64,943	76,873
Cash and cash equivalents as at 30 June	29,022	50,766

Cash and bank balances comprise the following at 30 June:	2018 RM'000	2017 RM'000
Cash and short term deposits	29,022	50,766
Deposits of more than three months maturity with licensed banks	1,608	3,518
	30,630	54,284

Reconciliation of liabilities arising from financing activities:

	Carrying amount as at 1 January 2018 RM'000	Cash flows RM'000	Non-cash changes Foreign exchange movement RM'000	Carrying amount as at 30 June 2018 RM'000
Loan from immediate holding company	-	15,000	-	15,000
Short term trade finance	403,617	(37,836)	-	365,781
Term loan - current	49,164	-	(1,246)	47,918
Term loan - non-current	-	-	-	-
Total liabilities from financing activities	452,781	(22,836)	(1,246)	428,699

	Carrying amount as at 1 January 2017 RM'000	Cash flows RM'000	Non-cash changes Foreign exchange movement RM'000	Carrying amount as at 30 June 2017 RM'000
Loan from immediate holding company	-	-	-	-
Short term trade finance	289,187	(24,401)	(212)	264,574
Term loan - current	-	-	-	-
Term loan - non-current	50,282	-	170	50,452
Total liabilities from financing activities	339,469	(24,401)	(42)	315,026

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the Interim Financial Report.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

This condensed consolidated Interim Financial Report has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

These explanatory notes attached to the Interim Financial Report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2017.

A2. Changes in Accounting Policies

i) Amendments and Annual Improvements adopted by the Group

The significant accounting policies adopted in the preparation of the Interim Financial Report are consistent with those used in the preparation of the Group's audited financial statements for the financial year ended 31 December 2017 except for the adoption of the pronouncements that became effective from 1 January 2018.

Description	***Effective for annual periods beginning on or after***
MFRS 2 Classification and Measurement of Share-based Payment Transactions *(Amendments to MFRS 2)*	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
Clarifications to MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property *(Amendments to MFRS 140)*	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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

<u>MFRS 15 Revenue from Contracts with Customers</u>

This Standard establishes a five-step model that will apply to recognition of revenue arising from contracts with customers, and provide a more structured approach in measuring and recognising revenue. Under this Standard, revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The adoption of this Standard results in changes in accounting policies for revenue recognition, and has no impact other than the disclosures in the Group's financial statements.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A2. Changes in Accounting Policies (cont'd)

ii) Standards, Amendments and Annual Improvements issued but not yet effective

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

Description	***Effective for annual periods beginning on or after***
MFRS 9 Prepayment Features with Negative Compensation *(Amendments to MFRS 9)*	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures *(Amendments to MFRS 128)*	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement *(Amendments to MFRS 119)*	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The adoption of the above pronouncements is not expected to have a material impact on the financial statements in the period of initial application, except as disclosed below:

<u>MFRS 16 Leases</u>

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement Contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A2. Changes in Accounting Policies (cont'd)

ii) Standards, Amendments and Annual Improvements issued but not yet effective (cont'd)

MFRS 16 Leases (cont'd)

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117. MFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16.

A3. Seasonal or Cyclical Factors

There were no significant seasonal or cyclical factors affecting the business operations of the Group.

A4. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the current quarter and financial year-to-date ended 30 June 2018.

A5. Significant Changes in Estimates

There were no significant changes in estimates that have had a material effect during the current quarter and financial year-to-date ended 30 June 2018.

A6. Debt and Equity Securities

There were no issuance and repayment of debts and equity securities during the current quarter and financial year-to-date ended 30 June 2018.

A7. Dividend Paid

There was no dividend paid during the current financial period ended 30 June 2018 and previous corresponding financial period ended 30 June 2017.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A8. Tin Mining and Smelting Revenue

Disaggregation of revenue

The following table illustrate the Group's revenue as disaggregated by major products or services and provides a reconciliation of the disaggregated revenue with the Group's two business segments as disclosed in Note A9. The table also include the timing of revenue recognition.

	Tin Smelting RM'000	Tin Mining RM'000	Sub-total RM'000	(Eliminations)/ Adjustments RM'000	Total RM'000
For 3 months ended 30 June 2018					
Major products or services:					
Sale of tin	311,618	44,965	356,583	(44,965)	311,618
Smelting revenue	8,373	-	8,373	-	8,373
Sale of by-products	5,278	-	5,278	-	5,278
Others	1,547	-	1,547	-	1,547
	326,816	44,965	371,781	(44,965)	326,816
Timing of revenue recognition					
At a point in time	326,816	44,965	371,781	(44,965)	326,816
For 3 months ended 30 June 2017					
Major products or services:					
Sale of tin	296,127	46,587	342,714	(46,587)	296,127
Smelting revenue	7,885	-	7,885	-	7,885
Sale of by-products	2,786	-	2,786	-	2,786
Others	1,081	-	1,081	-	1,081
	307,879	46,587	354,466	(46,587)	307,879
Timing of revenue recognition					
At a point in time	307,879	46,587	354,466	(46,587)	307,879
For 6 months ended 30 June 2018					
Major products or services:					
Sale of tin	654,260	90,671	744,931	(90,671)	654,260
Smelting revenue	14,894	-	14,894	-	14,894
Sale of by-products	11,860	-	11,860	-	11,860
Others	2,756	-	2,756	-	2,756
	683,770	90,671	774,441	(90,671)	683,770
Timing of revenue recognition					
At a point in time	683,770	90,671	774,441	(90,671)	683,770
For 6 months ended 30 June 2017					
Major products or services:					
Sale of tin	692,360	94,898	787,258	(94,898)	692,360
Smelting revenue	14,130	-	14,130	-	14,130
Sale of by-products	5,923	-	5,923	-	5,923
Others	2,080	-	2,080	-	2,080
	714,493	94,898	809,391	(94,898)	714,493
Timing of revenue recognition					
At a point in time	714,493	94,898	809,391	(94,898)	714,493

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A9. Segmental Reporting

The revenue of the Group is derived from tin mining and smelting of tin concentrates and tin bearing materials, the production of various grades of refined tin metal and the sale and delivery of refined tin metal and by-products.

For management purposes, the Group is organised into three reportable operating segments as follows:

(a) Tin Smelting
Tin smelting includes the smelting of tin concentrates and tin bearing materials, the production of various grades of refined tin metal and the sale and delivery of refined tin metal and by-products.

(b) Tin Mining
Tin mining includes activities involving exploration for and mining of tin.

(c) Others
These include investments in other metal and mineral resources to form a reportable operating segment.

The following tables provide an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

	Tin Smelting	Tin Mining	Others	Sub-total	(Eliminations)/ Adjustments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Results for 3 months ended 30 June 2018						
Revenue						
Sales to external customers	326,816	-	-	326,816	-	326,816
Inter-segment sales	-	44,965	-	44,965	(44,965)	-
Total revenue	326,816	44,965	-	371,781	(44,965)	326,816
Results						
Operating profit/(loss)	1,334	9,315	(8)	10,641	274	10,915
Finance costs	(4,089)	(249)	(169)	(4,507)	-	(4,507)
Share of results of associates and joint ventures	-	-	(82)	(82)	-	(82)
(Loss)/Profit before tax	(2,755)	9,066	(259)	6,052	274	6,326
Income tax expense	(1,140)	(2,661)	-	(3,801)	(66)	(3,867)
(Loss)/Profit net of tax	**(3,895)**	**6,405**	**(259)**	**2,251**	**208**	**2,459**

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A9. Segmental Reporting (cont'd)

	Tin Smelting	Tin Mining	Others	Sub-total	(Eliminations)/ Adjustments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	
Results for 3 months ended 30 June 2017						
Revenue						
Sales to external customers	307,879	-	-	307,879	-	307,879
Inter-segment sales	-	46,587	-	46,587	(46,587)	-
Total revenue	307,879	46,587	-	354,466	(46,587)	307,879
Results						
Operating (loss)/profit	(598)	13,408	(23)	12,787	2,359	15,146
Finance costs	(3,055)	(255)	(232)	(3,542)	-	(3,542)
Share of results of associates and joint ventures	-	-	278	278	-	278
(Loss)/Profit before tax	(3,653)	13,153	23	9,523	2,359	11,882
Income tax credit/(expense)	1,462	(3,763)	-	(2,301)	(566)	(2,867)
(Loss)/Profit net of tax	**(2,191)**	**9,390**	**23**	**7,222**	**1,793**	**9,015**

	Tin Smelting	Tin Mining	Others	Sub-total	(Eliminations)/ Adjustments	Total
Results for 6 months ended 30 June 2018						
Revenue						
Sales to external customers	683,770	-	-	683,770	-	683,770
Inter-segment sales	-	90,671	-	90,671	(90,671)	-
Total revenue	683,770	90,671	-	774,441	(90,671)	683,770
Results						
Operating profit/(loss)	3,395	19,435	(26)	22,804	(452)	22,352
Finance costs	(8,316)	(498)	(370)	(9,184)	-	(9,184)
Share of results of associates and joint ventures	-	-	222	222	-	222
Profit before tax	(4,921)	18,937	(174)	13,842	(452)	13,390
Income tax (expense)/credit	(1,061)	(5,394)	-	(6,455)	108	(6,347)
Profit net of tax	**(5,982)**	**13,543**	**(174)**	**7,387**	**(344)**	**7,043**

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A9. Segmental Reporting (cont'd)

	Tin Smelting RM'000	Tin Mining RM'000	Others RM'000	Sub-total RM'000	(Eliminations)/ Adjustments RM'000	Total
Results for 6 months ended 30 June 2017						
Revenue						
Sales to external customers	714,493	-	-	714,493	-	714,493
Inter-segment sales	-	94,898	-	94,898	(94,898)	-
Total revenue	714,493	94,898	-	809,391	(94,898)	714,493
Results						
Operating profit/(loss)	7,586	28,380	(47)	35,919	(79)	35,840
Finance costs	(5,827)	(511)	(445)	(6,783)	-	(6,783)
Share of results of associates and joint ventures	-	-	525	525	-	525
Profit/(Loss) before tax	1,759	27,869	33	29,661	(79)	29,582
Income tax (expense)/credit	(407)	(7,556)	-	(7,963)	19	(7,944)
Profit/(Loss) net of tax	**1,352**	**20,313**	**33**	**21,698**	**(60)**	**21,638**
Assets and Liabilities as at 30 June 2018						
Assets						
Segment assets	748,981	68,572	18,217	835,770	(3,220)	832,550
Investment in associates and joint ventures	-	-	34,675	34,675	-	34,675
Total assets	**748,981**	**68,572**	**52,892**	**870,445**	**(3,220)**	**867,225**
Liabilities						
Segment liabilities	**503,213**	**72,685**	**72**	**575,970**	**-**	**575,970**
Assets and Liabilities as at 31 December 2017						
Assets						
Segment assets	751,967	69,548	21,212	842,727	(2,877)	839,850
Investment in associates and joint ventures	-	-	34,568	34,568	-	34,568
Total assets	**751,967**	**69,548**	**55,780**	**877,295**	**(2,877)**	**874,418**
Liabilities						
Segment liabilities	**526,030**	**57,296**	**43**	**583,369**	**-**	**583,369**

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A10. Property, Plant and Equipment

The same valuation of land and buildings has been brought forward from the previous audited financial statements for the year ended 31 December 2017.

A11. Event After the Reporting Period

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

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter and financial year-to-date ended 30 June 2018.

A13. Changes in Contingent Liabilities and Contingent Assets

There were no changes in contingent liabilities or contingent assets during the current quarter and financial year-to-date ended 30 June 2018 except for the following:

A subsidiary is defending a legal action brought by two companies. The subsidiary, via its lawyer, filed a Defence and Counter Claim Statement on the legal suit and the subsidiary has strong grounds to defend the action based on legal advice. The legal suit is currently pending hearing. In the Directors' opinion, disclosure of additional information about the above matter would be prejudicial to the interests of the Group.

A14. Capital Commitments

Capital commitments of the Group as at 30 June 2018 are as follows:

	30.06.2018 RM'000	31.12.2017 RM'000
Approved and contracted for	15,632	18,438
Approved but not contracted for	3,718	6,420
	19,350	24,858

A15. Related Party Transactions

There were no significant transactions with related party in addition to the related party transactions disclosed in the audited financial statements for the year ended 31 December 2017 except that in 2Q 2018, there was a loan from immediate holding company amounting to RM15.0 million. The loan is denominated in Ringgit Malaysia and repayable in one lump sum at maturity on 31 May 2019. The effective interest rate for the loan is 3.8% per annum.

The loan balance is included in trade and other payables as at 30 June 2018.

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A16. Fair Value of Assets and Liabilities

The Group classified fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Group held the following financial assets and liabilities that are measured at fair value:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 30 June 2018				
Assets measured at fair value:				
Land and buildings	-	-	87,701	87,701
Investment securities	18,208	-	-	18,208
Liabilities measured at fair value:				
Derivative financial instruments	-	5,500	-	5,500
At 31 December 2017				
Assets measured at fair value:				
Land and buildings	-	-	89,528	89,528
Investment securities	21,205	-	-	21,205
Derivative financial instruments	-	375	-	375
Liabilities measured at fair value:				
Derivative financial instruments	-	2,458	-	2,458

There has been no transfer between any levels of the fair value hierarchy and there was no change in the purpose of any financial assets/liabilities that may subsequently result in a different classification of those assets/liabilities during the current quarter and financial year-to-date ended 30 June 2018.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 31 December 2017 was unqualified.

B2. Profit/(Loss) Before Tax

The following items have been included in arriving at the profit/(loss) before tax:

	2nd Quarter ended 30.06.2018 RM'000	2nd Quarter ended 30.06.2017 RM'000	6 months ended 30.06.2018 RM'000	6 months ended 30.06.2017 RM'000
After charging/(crediting):				
Depreciation and amortisation	4,505	3,525	8,977	6,910
Fair value loss/(gain) in derivative financial instruments				
- Forward currency contracts	2,011	1,156	3,417	(498)
Net foreign exchange loss/(gain)	1,423	(3,257)	(1,437)	(123)
(Gain)/Loss on disposal of property, plant and equipment	(48)	(4)	(48)	180
Interest income	(374)	(305)	(612)	(826)
Other income including investment income	(1,908)	(618)	(2,508)	(727)
Unfavourable inventory valuation adjustment	-	387	-	387

There was no material impairment of assets recognised as a loss during the current quarter and financial year-to-date ended 30 June 2018.

B3. Income Tax (Expense)/Credit

Income tax (expense)/credit comprises the following:

	2nd Quarter ended 30.06.2018 RM'000	2nd Quarter ended 30.06.2017 RM'000	6 months ended 30.06.2018 RM'000	6 months ended 30.06.2017 RM'000
Income tax				
- Current provision	(4,943)	(5,012)	(9,031)	(10,904)
Deferred tax				
- Relating to origination and reversal of temporary differences	1,076	2,145	2,684	2,960
Total income tax expense	(3,867)	(2,867)	(6,347)	(7,944)

For the current financial year-to-date, the effective tax rate for the Group was higher than the statutory tax rate in Malaysia mainly due to certain non-tax deductible expenses and the absence of Group tax relief.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B4. Corporate Proposal

The following are the corporate proposals announced but not completed as at 4 August 2018:

The shareholders of the Company have approved the following corporate exercise at the Extraordinary General Meeting of the Company held on 30 May 2018:

(i) Share split involving the subdivision of every 1 existing ordinary share in the Company ("MSC share(s)") into 2 subdivided MSC shares ("split share(s)") held on the above entitlement date ("share split"); and

(ii) Bonus issue of 200,000,000 new split shares ("bonus share(s)") to be credited as fully paid-up on the basis of 1 bonus share for every 1 existing split share held on the same entitlement date as the share split ("bonus issue")

In tandem with the above approval from shareholders, the Board of Directors of the Company has fixed the entitlement date for the share split and bonus issue on 15 August 2018.

B5. Trade Receivables

The age analysis of trade receivable of the Group as at 30 June 2018 is as follows:

		Past due					
	Not past due RM'000	< 30 days RM'000	30 to 60 days RM'000	61 to 90 days RM'000	91 to 120 days RM'000	>120 days RM'000	Total RM'000
Trade receivables as at 30.06.2018	25,821	-	3	2	1	6	25,833
Trade receivables as at 31.12.2017	11,415	-	15	-	-	6	11,436

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

The Group has trade receivables amounting to RM12,000 that are past due at the reporting date but not impaired. Although these balances are unsecured in nature, they are from creditworthy customers.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B6. Loans and Borrowings

Details of the Group's loans and borrowings as at 30 June 2018 are as follows:

	As at 30.06.2018 RM'000	**As at 31.12.2017 RM'000**
Short Term Borrowings (unsecured)		
Bankers' acceptances	365,781	403,617
Term loan	47,918	49,164
	413,699	**452,781**

Amount denominated in foreign currency	**'000**	**'000**
Term loan (Singapore dollars)	16,200	16,200

During the 6 months ended 30 June 2018, the Group reduced its total borrowings by approximately 8.6% from RM452.8 million as at 31 December 2017 to RM413.7 million as at 30 June 2018 due to repayment of short term trade financing. Consequentially, the gearing ratio of the Group reduced to 1.4 times as at 30 June 2018 from 1.6 times as at 31 December 2017.

The weighted average interest rate of short term borrowings excluding for term loan as at 30 June 2018 for the Group was 4.2% (2017: 3.9%) per annum.

Term loan of the Group denominated in Singapore dollar (SGD) was hedged to Ringgit Malaysia (RM) at an average exchange rate of RM/SGD3.2325. The term loan bears a fixed interest rate of 4.0% per annum.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B7. Foreign Currency Exposure and Hedging Policy

The Group has exposure to fluctuations in foreign exchange rates in both the investment in foreign entities and business transactions. The Group's foreign exchange risk exposure is mainly in United States Dollar and Singapore Dollar.

Due to the concentration of its purchases and sales in United States Dollar, there is a natural hedge and the exposure to United States Dollar foreign exchange risk for business transactions is minimised. The Group also uses forward currency contracts to manage foreign exchange risk. Derivative financial instruments entered into by the Group are similar to those disclosed in the annual financial statements as at and for the financial year ended 31 December 2017.

The outstanding forward foreign currency contracts as at 30 June 2018 are as follows:

Derivative Financial Instruments	Contract Value RM'000	Fair Value RM'000	Fair Value – Financial Assets/(Liabilities) RM'000
At 30 June 2018			
Forward Currency Contracts			
- Less than 1 year	163,657	160,941	(5,500)
At 31 December 2017			
Forward Currency Contracts			
- Less than 1 year	99,900	97,066	(2,083)

B8. Material Litigation

There was no material litigation as at 4 August 2018, being the latest practicable date which is not earlier than 7 days from the issuance date of this Interim Financial Report, except as disclosed in Note A13.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B9. Material Change in the Quarterly Results as Compared with the Preceding Quarter

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter 30.06.2018 RM'000	Immediate Preceding Quarter 31.03.2018 RM'000	Changes %
Revenue	326,816	356,954	(8%)
Operating Profit	10,915	11,437	(5%)
Profit Before Interest and Tax	10,833	11,741	(8%)
Profit Before Tax	6,326	7,064	(10%)
Profit After Tax	2,459	4,584	(46%)
Profit Attributable to Owners of the Company	2,459	4,584	(46%)

2Q 2018 vs. 1Q 2018 (QoQ)

Group revenue was RM326.8 million in 2Q 2018 as compared with RM357.0 million in 1Q 2018. This was purely due to lower sales quantity of refined tin in 2Q 2018.

The Group recorded a profit before tax of RM6.3 million in 2Q 2018 as compared with a profit before tax of RM7.1 million in 1Q 2018. This was mainly due to lower sales quantity of refined tin, hence lower revenue earned in 2Q 2018.

The tin smelting segment recorded a loss before tax of RM2.8 million in 2Q 2018 as compared with a loss before tax of RM2.2 million in 1Q 2018. Losses were due to lower sales quantity of refined tin.

The tin mining segment recorded a profit before tax of RM9.1 million in 2Q 2018 as compared with a profit before tax of RM9.9 million in 1Q 2018. This was mainly due to lower average tin prices in RM terms, coupled with higher production costs in 2Q 2018. Rationale for the higher production costs are set out in the section under current year prospects, item B11 below.

The Group’s share of results of associates and joint ventures recorded a net share of loss of RM0.1 million in 2Q 2018 as compared with a net share of profit of RM0.3 million in 1Q 2018.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B10. Review of Performance

Financial review for current quarter and financial year to date

	Cumulative Period (6 months)		Changes %	Individual Period (2^{nd} quarter)		Changes %
	Current Year To-date 30.06.2018 RM'000	Preceding Year Corresponding Period 30.06.2017 RM'000		Current Year Quarter 30.06.2018 RM'000	Preceding Year Corresponding Quarter 30.06.2017 RM'000	
Revenue	683,770	714,493	(4%)	326,816	307,879	6%
Operating Profit	22,352	35,840	(38%)	10,915	15,146	(28%)
Profit Before Interest and Tax	22,574	36,365	(38%)	10,833	15,424	(30%)
Profit Before Tax	13,390	29,582	(55%)	6,326	11,882	(47%)
Profit After Tax	7,043	21,638	(67%)	2,459	9,015	(73%)
Profit Attributable to Owners of the Company	7,043	21,638	(67%)	2,459	9,015	(73%)

1H 2018 vs. 1H 2017 (YoY)

Group revenue was RM683.8 million in the first 6 months of the current financial year (1H 2018) as compared with RM714.5 million in 1H 2017. This was mainly due to lower average tin prices in RM terms in 1H 2018. Average tin prices in 1H 2018 on the KLTM increased, in USD terms. However, this increase in tin price has been offset by the strengthening of the RM vs USD.

Group profit before tax was RM13.4 million in 1H 2018 as compared with RM29.6 million in 1H 2017. The main reasons for the poorer performance in 1H 2018 were the strengthening of the RM vs the USD as mentioned above, lower recovery yield, higher production cost and operating expenses.

The tin smelting segment recorded a loss before tax of RM4.9 million in 1H 2018 as compared with a profit before tax of RM1.8 million in 1H 2017. This was mainly due to lower recovery yield, higher operating expenses and operating inefficiencies in the Butterworth plant.

The 1H2018 performance shows a deterioration from 1H2017, but when compared to the full FY2017 results (PAT of RM16.1m), performance is comparable to the last year. Operationally, the tin smelting segment has churned consistent results, but the operational performance has been bogged down by the operational inefficiencies arising from our aged plant in Butterworth. This will be addressed once our new plant in Pulau Indah, Port Klang takes off.

The tin mining segment recorded a profit before tax of RM18.9 million in 1H 2018 as compared with RM27.9 million in 1H 2017. This was mainly due to lower average tin prices in RM terms and higher production cost in 1H 2018. Average tin prices in 1H 2018 on the KLTM increased, in USD terms. However, this increase in tin price has been offset by the strengthening of the RM vs USD. Production costs have also increased in line with inflation.

The Group's share of results of associates and joint ventures recorded a net share of profit of RM0.2 million in 1H 2018 as compared with RM0.5 million in 1H 2017.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B10. Review of Performance (cont'd)

2Q 2018 vs. 2Q 2017 (QoQ)

Group revenue was RM326.8 million in 2Q 2018 as compared with RM307.9 million in 2Q 2017. This was due to higher sales quantity of refined tin in 2Q 2018. Average tin prices in 2Q 2018 on the KLTM increased, in USD terms. However, this increase in tin price has been offset by the strengthening of the RM vs USD.

Group profit before tax was RM6.3 million in 2Q 2018 as compared with RM11.9 million in 2Q 2017. The main reasons for the poorer performance in 2Q 2018 were the strengthening of the RM vs the USD, lower recovery yield, higher production cost and operating expenses.

The tin smelting segment recorded a loss before tax of RM2.8 million in 2Q 2018 as compared with a loss before tax of RM3.7 million in 2Q 2017. Losses were mainly due to low recovery yield, high operating expenses and operating inefficiencies in the Butterworth plant.

The 2Q2018 performance shows a deterioration from 2Q2017, but when compared to the full FY2017 results (PAT of RM16.1m), performance is comparable to the last year. Operationally, the tin smelting segment has churned consistent results, but the operational performance has been bogged down by the operational inefficiencies arising from our aged plant in Butterworth. This will be addressed once our new plant in Pulau Indah, Port Klang takes off.

The tin mining segment recorded a profit before tax of RM9.1 million in 2Q 2018 as compared with RM13.2 million in 2Q 2017. This was mainly due to lower average tin prices in RM terms and higher production cost in 2Q 2018. Average tin prices in 2Q 2018 on the KLTM increased, in USD terms. However, this increase in tin price has been offset by the strengthening of the RM vs USD.

The Group's share of results of associates and joint ventures recorded a net share of loss of RM0.1 million in 2Q 2018, as compared with a net share of profit of RM0.3 million in 2Q 2017.

B11. Current Year Prospects

Market conditions continue to be challenging as the foreign exchange, global commodity and metal prices including tin continue to fluctuate. However, the Group will continue to focus on operational efficiencies to mitigate these challenges.

The MSC Group is undertaking efforts to improve on all areas of operations, technology, manpower and logistics. Plans to commence full operations in a new plant, using newer and more efficient technology and a more productive work force are under way. We expect this new plant to be operational in the medium term.

As we progressively move our operations to our new plant, we expect overheads to increase as we run two plants, with only one generating revenue. We expect this to impact our financial performance for this and the next financial year.

Once the move is completed, with the new facility with the ISASMELT furnace, we expect to reduce operational and manpower costs, while improving our carbon footprint. In addition, the operational inefficiencies we currently face with our aging plant in Butterworth will be eliminated.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B11. Current Year Prospects (cont'd)

For our tin mining segment, we have undertaken efforts to increase mining productivity. From mid July 2018, we have increased daily mining output. This has contributed to our increased production costs in the mining segment. The impact of this increased productivity will be apparent from 3Q 2018.

We are working towards further increasing this daily mining output.

B12. Earnings Per Share Attributable to Owners of the Company

	2nd Quarter ended 30.06.2018	2nd Quarter ended 30.06.2017	6 months ended 30.06.2018	6 months ended 30.06.2017
Profit net of tax attributable to owners of the Company (RM'000)	2,459	9,015	7,043	21,638
Weighted average number of ordinary shares in issue ('000)	100,000	100,000	100,000	100,000
Basic and diluted earnings per share (sen)	**2.5**	**9.0**	**7.0**	**21.6**

B13. Dividend Payable

	30.06.2018	30.06.2017
Final dividend for financial year ended	31 December 2017	31 December 2016
Dividend payable	RM4,000,000	RM8,000,000
Amount per share	4.0 sen	8.0 sen
Approved and declared on	30 May 2018	17 May 2017
Entitlement to dividends based on record of Depositors as at	12 June 2018	15 June 2017
Date payable	9 July 2018	11 July 2017

By Order of the Board
Soo Han Yee
Company Secretary

Kuala Lumpur
10 August 2018