



Company Announcements

General Announcement

Reference No **MM-070816-55892**

Submitting Merchant Bank : **AMINVESTMENT BANK BERHAD**
Company Name : **MALAYSIA SMELTING CORPORATION BERHAD**
Stock Name : **MSC**
Date Announced : **16/08/2007**

Type : **Announcement**
Subject : **MALAYSIA SMELTING CORPORATION BERHAD ("MSC" OR "COMPANY")**

HEADS OF AGREEMENT IN RELATION TO THE PROPOSED STRATEGIC ALLIANCE ("HOA") INVOLVING THE FOLLOWING :-

(I) PROPOSED TRANSFER BY MSC OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF BEMBAN CORPORATION LIMITED ("BCL") TO A COMPANY TO BE INCORPORATED IN SINGAPORE BY MSC WHICH WILL BE ITS WHOLLY-OWNED SUBSIDIARY ("NEWCO") TO BE SATISFIED VIA THE ISSUANCE OF NEW ORDINARY SHARES IN NEWCO ("MSC TRANSACTION"); AND

(II) PROPOSED TRANSFER BY METAL RESOURCES CAPITAL LIMITED ("MERC") OF EXCLUSIVE RIGHTS IN RESPECT OF SEVERAL PROPOSED TIN EXPLORATION CONCESSIONS IN INDONESIA TO A FOREIGN CAPITAL INVESTMENT COMPANY TO BE INCORPORATED IN INDONESIA BY MERC WHICH WILL BE ITS WHOLLY-OWNED SUBSIDIARY ("PMA COMPANY") WHICH WILL IN TURN BE INJECTED INTO NEWCO TO BE SATISFIED VIA THE ISSUANCE OF NEW ORDINARY SHARES IN NEWCO ("MERC TRANSFER")

(TO BE COLLECTIVELY REFERRED TO AS "STRATEGIC ALLIANCE")

Contents :

1. INTRODUCTION

On behalf of the Company, AmInvestment Bank Berhad (*formerly known as AmMerchant Bank Berhad*) (a member of AmInvestment Bank Group) ("**AmInvestment Bank**") would like to announce that the Company has today entered into a heads of agreement with MERC ("**HOA**") in relation to the intentions of MSC and MERC to collaborate in the development of tin and other mineral resources in Indonesia ("**Strategic Alliance**"), the details of which are further set out in Section 3 of this Announcement.

Pursuant to the HOA, the Parties have agreed to use their best efforts to conclude negotiations leading to the consummation of the Strategic Alliance upon the terms and conditions set out in the HOA and such other terms which the Parties may agree in the course of negotiations.

The Parties agree that the Strategic Alliance will result in more definitive written agreements, including, but not limited to the following :-

- (i) an agreement between MSC, MERC and Newco, setting out the terms and conditions of the Strategic Alliance ("**Strategic Alliance Agreement**");
- (ii) an agreement between MSC, MERC and Newco, setting out the terms and conditions of the joint venture between MSC, MERC and Newco in relation to the shareholding arrangements and operations of Newco ("**Joint Venture Agreement**"); and
- (iii) various agreements between PMA COMPANY and each of the following parties, namely PT Artha Prima Nusa Jaya, PT Megantara Artadwima #1, PT Megantara Artadwima #2, PT Wahana Daya Karyatama, PT Sentrabina Prima Sejahtera #1 and PT Sentrabina Prima Sejahtera #2 (collectively to be referred to as "**Proposed Concession Owners**"), setting out the terms and conditions of the grant of the rights, interests and benefits of each Proposed Concession by each Proposed Concession Owner to the PMA Company ("**Co-operation Agreements**")

(The Strategic Alliance Agreement, Joint Venture Agreement and Co-Operation Agreements to be collectively referred to as "**Agreements**")

(MSC and MERC to be referred to as "**Parties**" and individually as "**Party**")

The salient terms of the HOA as set out in Section 3 of this Announcement, save for items 3.1.6, 3.1.7 and 3.1.8, are not legally binding on the Parties.

2. INFORMATION ON BCL AND MERC

2.1 Background Information On BCL

BCL was incorporated on 12 March 2002 in the British Virgin Islands as a private limited company. As at 15 August 2007, the authorised share capital of BCL is USD50,000 comprising 50,000 ordinary shares of USD1 each, of which 1 ordinary share of USD1 each ("**BCL Share**") has been issued and credited as fully paid-up.

BCL is principally involved in investment holding. Its sole wholly-owned subsidiary, Kajuara Mining Corporation Pty Ltd is also an investment holding company with its sole investment being its 75% equity interest in PT Koba Tin ("**PT Koba**").

PT Koba is a Party to the Contract of Work ("**CoW**") agreement with the Government of the Republic of Indonesia dated 16 October 1971 ("**Original CoW**") and the agreement with the Government of the Republic of Indonesia on the modification and extension of the Original CoW from 1 April 2003 for a period of ten (10) years dated 6 September 2000. The CoW grants PT Koba the sole rights to search and explore for, develop, exploit, process, refine, store, transport and market or dispose outside and inside Indonesia of the tin and associated

minerals located in, on or beneath the surface of the contract area, covering predominantly 41,680.30 hectares over Bangka Island, Indonesia. Subject to the provisions under the CoW, the Government of the Republic of Indonesia also assigns all rights, powers, authorizations, permits, approvals and privileges necessary or convenient to PT Koba in order to enable PT Koba to carry out the operations under the CoW.

2.2 Background Information On MERC

MERC was incorporated on 10 August 2007 in the British Virgin Islands as a private limited company. As at 15 August 2007, the authorised share capital of MERC is USD50,000 comprising 50,000 ordinary shares of USD1 each, of which 2 ordinary shares of USD1 each have been issued and credited as fully paid-up.

MERC is owned by an Indonesian based group principally involved in mineral and resource development.

MERC has interests in the Proposed Concession Owners who, subject to regulatory approvals, will have exclusive rights, benefits and interests in various tin exploration concessions in Indonesia, as follows :-

- (i) Exclusive rights, benefits and interests in tin concessions in Pangkalbuluh, Kecamatan Simpang Rimba, Kabupaten Bangka Selatan, Provinsi Bangka Belitung, spanning an area of 2,000 hectares to which PT Artha Prima Nusa Jaya will be entitled;
- (ii) Exclusive rights, benefits and interests in tin concessions in Sg. Nibung Offshore, Kecamatan Koba, Kabupaten Bangka Tengah, Provinsi Bangka Belitung, spanning an area of 2,500 hectares to which PT Megantara Artadwima #1 will be entitled;
- (iii) Exclusive rights, benefits and interests in tin concessions in Sg. Selan Offshore, Kecamatan Sungai Selan, Kabupaten Bangka Tengah, Provinsi Bangka Belitung, spanning an area of 2,500 hectares to which PT Megantara Artadwima #2 will be entitled;
- (iv) Exclusive rights, benefits and interests in tin concessions in Laut Bubus, Kecamatan Belinyu, Kabupaten Bangka Induk, Provinsi Bangka Belitung, spanning an area of 400 hectares to which PT Wahana Daya Karyatama will be entitled;
- (v) Exclusive rights, benefits and interests in tin concessions in Kukuru Offshore, Kecamatan Koba, Kabupaten Bangka Tengah, Provinsi Bangka Belitung, spanning an area of 2,500 hectares to which PT SentrabinaPrima Sejahtera #1 will be entitled; and
- (vi) Exclusive rights, benefits and interests in tin concessions in Sg. Selan Onshore, Kecamatan Sungai Selan, Kabupaten Bangka Tengah, Provinsi Bangka Belitung, spanning an area of 10,000 hectares to which PT SentrabinaPrima Sejahtera #2 will be entitled.

(items (i) to (vi) to be collectively referred to as “**Identified Concessions**”)

3. SALIENT TERMS OF THE HOA

The salient terms of the HOA are as follows :-

3.1.1 Cut-Off Date

The Parties intend that the definitive Strategic Alliance Agreement will be executed on or before the date falling three (3) months from the date of the HOA (“**Cut-Off Date**”).

3.1.2. Strategic Alliance

The Strategic Alliance shall comprise the MSC Transaction and the MERC Transfer, as follows :-

3.1.2.1 MSC Transaction

The basic terms of the MSC Transaction shall be as follows :-

- (a) MSC shall transfer, as legal and beneficial owner, and Newco shall acquire, the BCL Shares, free from any charge, mortgage, lien, hypothecation, judgment, encumbrance, easement, right of pre-emption, security, title retention, preferential right, trust arrangement or other security interest or any other agreement or arrangement having a commercial effect analogous to the conferring of security or a similar right in favour of any person (collectively to be referred to as “**Encumbrances**”) and together with all rights and advantages now and thereafter attaching thereto;
- (b) In consideration of the transfer of the BCL Share as stipulated above, Newco shall allot and issue, and MSC shall subscribe for such number of ordinary shares in Newco to be determined based on the valuation of the BCL Share to be undertaken by an independent valuer to be mutually agreed by the Parties (“**Independent Valuer**”) as at a date to be determined on the following bases :-
 - (i) the price of tin to be applied for the valuation of the BCL Share shall be the same as that used to determined the value of the Identified Concessions; and
 - (ii) the valuation of the BCL Share shall exclude the aggregate unappropriated retained earnings of PT Koba as at a date to be determined (“**Retained Earnings**”) and any potential profit from the sale of tin stock (subsequent to refinement) of PT Koba as at the date of the Strategic Alliance Agreement (“**Potential Profits**”) whereby such profit shall accrue only to the ultimate shareholders of PT Koba as at the date of the Strategic Alliance Agreement, namely MSC and PT Timah Tbk, and such number of new ordinary shares in Newco shall constitute, approximately 80% of the enlarged share

capital of Newco upon completion of item 3.1.2.2.(i) of this Announcement (“**Completion**”).

Any dividend declared by PT Koba above the Retained Earnings and the Potential Profits paid to MSC before the completion of the MSC Transaction shall be deducted from the valuation of the BCL Share.

- (c) Completion of the MSC Transaction shall take place immediately following Completion; and
- (d) The new ordinary shares in Newco to be issued to MSC for the MSC Transaction shall be issued, credited as fully paid and free from all Encumbrances whatsoever. The new ordinary shares in Newco shall rank pari passu in all respects with the then existing ordinary shares of Newco.

3.1.2.2 MERC Transfer

The basic terms of the MERC Transfer shall be as follows :-

(i) The Concession A Transaction

- (a) MERC shall procure PMA Company and the relevant Concession Owner to execute Co-Operation Agreement(s) with PMA Company with respect to the relevant Concession(s) to be mutually agreed between the Parties within six (6) months from the date of the Strategic Alliance Agreement (or such later date to be mutually agreed between the Parties), where the value of such Concession(s) is to be equivalent to approximately 20% of the enlarged share capital of Newco upon Completion;
- (b) PMA Company shall within two (2) Business Days of the execution of such Co-operation Agreement, notify Newco of such fact; and
- (c) Newco shall within five (5) Business Days from the said notification, allot and issue, and MERC shall subscribe for such number of new ordinary shares in Newco to be determined based on the valuation of PMA Company’s rights, to and interests in Concession A as determined by the Independent Valuer;
- (d) The Joint Venture Agreement shall be executed upon Completion; and
- (e) MERC shall transfer, as legal and beneficial owner, and Newco shall acquire, the shares in PMA Company held by MERC, upon Completion on terms to be mutually agreed between the Parties.

(ii) The Concession B Transaction

- (a) Newco shall procure PMA Company, and MERC shall procure the relevant Concession Owner to execute Co-Operation Agreement(s) with PMA Company with respect to the relevant Concession(s) to be mutually agreed between the Parties within nine (9) months from the date of the Strategic Alliance Agreement (or such later date to be mutually agreed between the Parties) where the value of such Concession(s) is to be equivalent to approximately 10% of the enlarged share capital of Newco subsequent to Completion;
- (b) PMA Company shall within two (2) Business Days of the execution of such Co-operation Agreement, notify Newco of such fact; and
- (c) Newco shall within five (5) Business Days from the said notification, allot and issue, and MERC shall subscribe for such number of new ordinary shares in Newco in accordance with item 3.1.2.2(v) of this Announcement.

(iii) The Concession C Transaction

- (a) Newco shall procure PMA Company, and MERC shall procure the relevant Concession Owner to execute Co-Operation Agreement(s) with PMA Company with respect to the relevant Concession(s) to be mutually agreed between the Parties within twelve (12) months from the date of the Strategic Alliance Agreement (or such later date to be mutually agreed between the Parties) where the value of Concession C is to be equivalent to approximately 10% of the enlarged share capital of Newco subsequent to Completion;
- (b) PMA Company shall within two (2) Business Days of the execution of such Co-operation Agreement, notify Newco of such fact; and
- (c) Newco shall within five (5) Business Days from the said notification, allot and issue, and MERC shall subscribe for such number of new ordinary shares in Newco in accordance with item 3.1.2.2(v) of this Announcement.

(iv) Other Concessions

MERC may grant rights, benefits and interests in additional concessions to the PMA Company within twelve (12) months from the date of the Strategic Alliance Agreement (or within such other period as the Parties may agree) for a consideration of such number of new ordinary shares in Newco, which terms and conditions shall be subject to item 3.1.2.2(v) of this Announcement and to the mutual agreement of MERC and MSC.

(v) Valuation Of The New Ordinary Shares In Newco

The number of new ordinary shares in Newco to be allotted and issued to MERC pursuant to items 3.1.2.2(i), 3.1.2.2(ii), 3.1.2.2(iii) and 3.1.2.2(iv) (if applicable) shall be based on the total value of PMA Company's rights under each Co-Operation Agreement, to be determined by the Independent Valuer, provided always that the aggregate number of new ordinary shares in Newco to be issued to MERC pursuant to items 3.1.2.2(i), 3.1.2.2(ii), 3.1.2.2(iii) and 3.1.2.2(iv) (if applicable) shall not exceed 40% of the enlarged share capital of Newco after the completion of the MSC Transaction and the MERC Transfer.

(vi) Ranking Of The New Ordinary Shares In Newco

The new ordinary shares in Newco to be issued to MERC for the MERC Transfer shall be issued, credited as fully paid and free from all Encumbrances whatsoever. The new ordinary shares in Newco to be issued to MERC shall rank *pari passu* in all respects with the then existing ordinary shares of Newco.

3.1.3 Responsibilities Of The Parties

In relation to Newco, MSC and MERC shall have the following duties :-

- (a) MSC shall provide management, mining, technical and global marketing expertise in tin mining operations; and
- (b) MERC shall do the following :-
 - (i) assist PT Koba to secure the extension of its existing CoW with the Government of the Republic of Indonesia for not less than ten (10) years from the current date of expiration, being 31 March 2013;
 - (ii) function as a liaison with all relevant authorities of the Government of the Republic of Indonesia, including the Ministry of Energy and Mineral Resources, to secure all approvals required for PT Koba to carry out its operations including forestry activities and/or strategic alliance projects between MSC and MERC; and

- (iii) securing additional tin concession areas for strategic alliance projects between MSC and MERC and/or new tin concession areas in exchange for mined-out areas within the CoW of PT Koba.

3.1.4 Listing Of Newco

It is the intention of the Parties to seek a listing of Newco on a recognised stock exchange, at an appropriate time subsequent to the entry into the Strategic Alliance Agreement, to be mutually agreed between the Parties.

3.1.5 Conditions Precedent

The Strategic Alliance shall be conditional upon the fulfilment of, *inter alia*, the following conditions :-

- (a) the allotment, issue and subscription of the new ordinary shares in Newco not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the HOA by any legislative, executive or regulatory body or authority which is applicable to Newco;
- (b) the Strategic Alliance Agreement, and all transactions contemplated therein having been approved by the shareholders of MSC and MERC, where required under the Memorandum and Articles of Association or similar constitutive documents of MSC and MERC or any statute, order, rule, regulation or directive currently in force for the time being;
- (c) the execution of the various Co-operation Agreements and the execution of the Joint Venture Agreement;
- (d) prior to the completion of the MERC Transfer, all necessary regulatory approvals having been obtained, and not withdrawn, revoked or suspended, by MSC, MERC and Newco, as the case may be, for the transactions contemplated therein;
- (e) customary representations and warranties to be given by MSC and MERC to each other and to Newco in the Strategic Alliance Agreement;
- (f) there being no introduction of or any change in any statute, regulation, order, policy or directive (whether or not having the force of law and including, without limitation, any directive or request issued by any legislative, executive or regulatory body or authority which is applicable to the Parties) or in the interpretation or application thereof by any court or other competent authority which renders it unlawful for, or would materially and adversely affect the ability of MSC, MERC and/or Newco to perform their respective obligations pursuant to the Strategic Alliance;
- (g) no event of default or any event or circumstance which with the giving of notice, the lapse of time or both would become an event of default of either Party under any agreement, commitment, arrangement, transaction, contract or engagement to which it is a Party or will become a Party, which has occurred, which will cause or could result in its insolvency or bankruptcy and/or which will materially and adversely affect the ability of

MSC, MERC and/or Newco to perform their respective obligations pursuant to the Strategic Alliance; and

- (h) no current or pending legal proceeding, suits (whether criminal or civil), arbitration, or actions of any kind whatsoever or administrative proceeding or claims before any court or other competent authority, that are threatened against or relating to MSC, MERC and/or Newco or which may have a material adverse effect on the rights, revenues or assets of MSC, MERC and/or Newco which could restrain, limit, delay, prohibit or otherwise make illegal the performance by MSC, MERC and/or Newco of their obligations pursuant to the Strategic Alliance.

3.1.6 Exclusivity Period

Both Parties agree that during the period from the date of the HOA to the Cut-Off Date, both Parties will not do the following :-

- (a) solicit any approach, expression of interest, offer or proposal from;
- (b) enter into discussions or negotiations with;
- (c) enter into any agreement, arrangement or understanding with; or
- (d) announce or communicate any intention to do any of the foregoing with,

any other party in connection with any initial, further or continuing approach, expression of interest, offer or proposal to or by or on behalf of such other person involving a transaction taking place with the intention to preclude or restrict or prejudice the Strategic Alliance.

3.1.7 Expiry Date

The HOA will automatically expire on the Cut-Off Date unless the Agreements have been executed by the Parties or the HOA has been extended or renewed in writing by the Parties.

3.1.8 Governing Law

The HOA shall be governed by the laws of Singapore.

4. RATIONALE FOR THE STRATEGIC ALLIANCE

The MSC group of companies (“**MSC Group**” or “**Group**”) is continuously identifying opportunities to strengthen its global position in tin mining, smelting and marketing so as to sustain as well as increase its production of tin metal. Its indirect subsidiary, PT Koba has a CoW encompassing an area of 41,680.30 hectares which will expire on 31 March 2013. The Company recognises that the Strategic Alliance represents an opportunity for the Group to significantly increase the potential of discovering new tin reserves in the Identified Concessions with a total area of approximately 19,900 hectares within a span of twelve (12) months from the date of the Strategic Alliance Agreement.

Pursuant to the Strategic Alliance, MSC will be in-charge of the management of mining, smelting and marketing operations of all new mining projects of Newco based on life-of-mine approach as well as continuing to provide management, technical and marketing

services to PT Koba. This will allow the Group to improve its financial performance as it derives benefits from Newco's expected enlarged tin mining reserves via the PMA Company, especially since the tin mining areas under the Identified Concessions are located in Bangka Island, Indonesia where the Group has already established its presence via PT Koba.

Pursuant to the Strategic Alliance, it is anticipated that Newco will become a larger and stronger investment holding company for tin mining operations with higher sustainable earnings base. Thus, should Newco be listed in the future, MSC will be able to unlock as well as realise part of its investment in Newco and indirectly, PT Koba.

The Board of Directors of MSC also expects that the Strategic Alliance will enable the Group to safeguard its interest and presence in Indonesia via its alliance with MERC in view that MERC will play a significant role in procuring the extension of PT Koba's existing CoW for a period of not less than ten (10) years upon its expiry. The Strategic Alliance will also allow the Group to forge better ties with the relevant authorities in Indonesia as well as enhance the Group's leveraging position to pursue other opportunities in the future, capitalising on MERC's local knowledge.

5. DOCUMENT AVAILABLE FOR INSPECTION

The HOA will be available for inspection at the registered office at 27, Jalan Pantai, 12000 Butterworth, Penang during normal business hours from Monday to Friday (except public holidays) for three (3) months from the date of this Announcement.

A detailed announcement on the Strategic Alliance will be made upon execution of the Agreements.

This announcement is dated 16 August 2007.