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General Announcement

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* Non-Mesdaq Market Company
* New Announcement

Submitting Merchant Bank (if applicable) : CIMB INVESTMENT BANK BERHAD (FORMERLY KNOWN AS COMMERCE INTERNATIONAL MERCHANT BANKERS BERHAD)

* Company name : MALAYSIA SMELTING CORPORATION BERHAD

* Stock name : MSC

* Stock code : 5916

* Contact person : CHAN WAN HONG/ELAINE LAM

* Designation : MANAGER/EXECUTIVE

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* Type : Announcement

* Subject :

MALAYSIA SMELTING CORPORATION BERHAD (“MSC” OR “COMPANY”)

PROPOSED CORPORATE EXERCISES TO INCREASE MSC’S PUBLIC SPREAD TO AT LEAST 25%

* Contents :-

1. INTRODUCTION

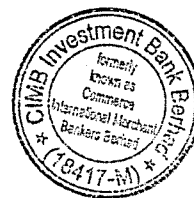
1.1 On behalf of the Board of Directors (“Board”) of MSC, we are pleased to announce that MSC has today entered into an agreement with The Straits Trading Company Limited (“Straits”) and 3 wholly-owned subsidiaries of Straits, namely Straits Trading Amalgamated Resources Sdn Bhd (“STAR”), Sword Investments Private Limited (“SI”) and Baxterley Holdings Private Limited (“BH”) (collectively, “Selected Shareholders”), to facilitate the rectification of MSC’s public spread shortfall (“Agreement”).

As at 19 September 2006, the Selected Shareholders collectively hold 93.31% equity interest in MSC.

1.2 The salient terms of the Agreement are, amongst others, as follows:

(i) MSC agrees to implement the following corporate proposals to enable MSC to achieve a minimum public spread of at least 25% to comply with the provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities LR”):

(a) a bonus issue of up to 131,250,000 new ordinary shares of RM1.00 each in MSC (“MSC Shares”), to be credited as fully paid-up, on the basis of up to 1.75 new MSC Shares for every 1 existing MSC Share held (“Proposed Bonus Issue”);



- (b) a selective capital repayment exercise under Section 64 of the Companies Act, 1965 ("Act") ("**Proposed SCR**") involving the MSC Shares held by the Selected Shareholders after the Proposed Bonus Issue;
- (c) the issuance of irredeemable convertible preference shares of RM1.00 each in MSC ("**ICPS**") to the Selected Shareholders ("**Proposed ICPS Issuance**");
- (d) an increase in the authorised share capital of MSC from RM100,000,000 comprising 100,000,000 MSC Shares to RM400,000,000 comprising 250,000,000 MSC Shares and 150,000,000 ICPS ("**Proposed IASC**"); and
- (e) amendments to the M&A of MSC ("**Proposed M&A Amendments**")

(collectively, "**Proposals**");

- (ii) Concurrent with the implementation of the Proposals, the Selected Shareholders will place out at least 839,346 MSC Shares, representing 1.12% equity interest in MSC, to public investors by 30 November 2006 to facilitate the implementation of the Proposals ("**Straits Placement**");
- (iii) If the Selected Shareholders successfully place out between 839,347 and 14,134,800 MSC Shares to public investors by 30 November 2006, the size and basis of the Proposed Bonus Issue, and the size of the Proposed SCR and Proposed ICPS Issuance may, subject to mutual agreement between MSC and the Selected Shareholders be reduced; and
- (iv) If the Selected Shareholders place out more than 14,134,800 MSC Shares to public investors by 30 November 2006 and thereby allowing MSC to meet the public spread requirement, MSC will abort the Proposals and the Agreement will be terminated.

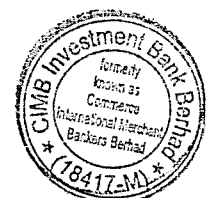
1.3 Upon completion of the Proposals, MSC will comply with the public spread requirement under the Bursa Securities LR and accordingly, MSC can be requested on Bursa Malaysia Securities Berhad ("**Bursa Securities**").

2. DETAILS OF THE PROPOSALS

2.1 Proposed Bonus Issue

- 2.1.1 MSC proposes to issue up to 131,250,000 new MSC Shares, to be credited as fully paid-up, on the basis of up to 1.75 new MSC Shares for every 1 existing MSC Share held by the shareholders of MSC, whose names appear in the Record of Depositors at the close of business on a date to be determined and announced later.
- 2.1.2 MSC will effect the Proposed Bonus Issue through the capitalisation of up to RM131.25 million from the retained profits of the Company.

Based on the latest audited accounts of MSC as at 31 December 2005, the retained profits of the Company amount to RM139.15 million. Therefore, MSC has adequate retained profits to be capitalised for the Proposed Bonus Issue.



2.1.3 The MSC Shares arising from the Proposed Bonus Issue shall, upon allotment and issue, rank pari passu in all respects with the existing MSC Shares, save and except that they shall not be entitled to participate in any rights, allotments, dividends and/or other distributions, the entitlement date of which is before the date of allotment of the MSC Shares.

2.1.4 MSC will apply to Bursa Securities for the listing of and quotation for the new MSC Shares arising from the Proposed Bonus Issue on the Main Board of Bursa Securities.

2.2 Proposed SCR

The Proposed SCR involves a share capital repayment under Section 64 of the Act of up to 146,250,000 MSC Shares held by the Selected Shareholders after the Proposed Bonus Issue.

2.3 Proposed ICPS Issuance

2.3.1 MSC proposes to issue to the Selected Shareholders up to 146,250,000 ICPS, to be credited as fully paid-up by virtue of applying the credit of up to RM146,250,000 arising from the cancellation of the MSC Shares held by the Selected Shareholders under the Proposed SCR.

2.3.2 The issue price of the ICPS is set at the par value of ICPS, being RM1.00, after taking into account the par value of RM1.00 for the MSC Shares into which the ICPS may be converted.

The conversion price of the ICPS is set at the par value of MSC Share, being RM1.00. The basis of setting the issue price and conversion price at the par value of MSC Shares ensures that the share of capital belonging to the Selected Shareholders in MSC remain the same on a fully converted basis. Up to 146,250,000 MSC Shares will be issued upon full conversion of the ICPS.

2.3.3 The indicative terms of the ICPS are set out in **Table 1**.

2.3.4 MSC will apply to Bursa Securities for the listing of and quotation for the new MSC Shares to be issued arising from the conversion of the ICPS on the Main Board of Bursa Securities.

2.4 Proposed IASC

MSC proposes to increase its authorised share capital from RM100,000,000 comprising 100,000,000 MSC Shares to RM400,000,000 comprising 250,000,000 MSC Shares and 150,000,000 ICPS to facilitate the Proposed Bonus Issue and the Proposed ICPS Issuance.

2.5 Proposed M&A Amendments

MSC proposes to amend its M&A to:

- (i) increase the authorised share capital of MSC; and
- (ii) facilitate the Proposed Bonus Issue and Proposed ICPS Issuance.



2.6 Conditionality

The Proposals are inter-conditional upon one another.

In terms of implementation,

- (i) the Proposed IASC and Proposed M&A Amendments must be completed before the Proposed Bonus Issue;
- (ii) the Proposed Bonus Issue must be completed before the Proposed SCR; and
- (iii) the Proposed SCR must be completed before the Proposed ICPS Issuance.

3. RATIONALE FOR THE PROPOSALS

3.1 Proposed IASC and Proposed M&A Amendments

The Proposed IASC and Proposed M&A Amendments are required to facilitate the Proposed Bonus Issue and the Proposed ICPS Issuance.

3.2 Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance

The Proposed Bonus Issue will increase the number of MSC Shares from 75 million MSC Shares to up to 206.25 million MSC Shares, in anticipation of a subsequent decrease in the number of MSC Shares to 60 million MSC Shares as a result of the Proposed SCR.

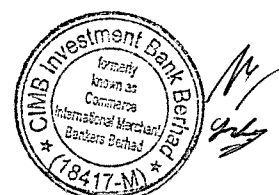
As a Main Board company needs to have a minimum issued and paid-up capital of RM60 million, the Proposed Bonus Issue will allow MSC to continue to comply with the minimum issued and paid-up capital requirement under the Bursa Securities LR, despite the decrease in the number of MSC Shares under the Proposed SCR.

The Proposed SCR will enable the Company to meet the minimum public spread requirement of 25% under the Bursa Securities LR.

The Proposed ICPS Issuance will enable MSC to fully satisfy the credit due to the Selected Shareholders, without any cash outflow from MSC, arising from their participation in the Proposed SCR.

Given that the Proposals are intended to increase MSC's public spread to at least 25% as required under the Bursa Securities LR, the actual size and basis of the Proposed Bonus Issue, and the size of the Proposed SCR and Proposed ICPS Issuance may be reduced as disclosed in Section 1.2(iii) of this announcement. An announcement will be made on the final basis and the size of the Proposed Bonus Issue, the Proposed SCR and the Proposed ICPS Issuance.

Further, the Proposals will be aborted if MSC can meet the public spread requirement of 25% before the Proposals are implemented.



4. EFFECTS OF THE PROPOSALS

The Proposed IASC and Proposed M&A Amendments will not have any effect on MSC. The effects of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance are as follows:

4.1 Issued and paid-up share capital

The proforma effects of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance on the issued and paid-up share capital of MSC are set out in **Table 2**.

4.2 Shareholding structure

The proforma effects of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance on the shareholding structure of MSC as at 19 September 2006 are set out in **Table 3**.

4.3 Net assets per MSC Share

The proforma effects of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance on the net assets per MSC Share based on the audited consolidated accounts of MSC as at 31 December 2005 are set out in **Table 4**.

4.4 Earnings per share of MSC

The Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance will not have any effect on the consolidated earnings of MSC. Upon completion of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance, the consolidated earnings per ordinary share of MSC will increase due to the decrease in the number of MSC Shares. Subsequently, the consolidated earnings per ordinary share of MSC will decrease when the ICPS are converted over time into MSC Shares.

4.5 Substantial shareholding structure

The proforma effects of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance on the shareholdings of the substantial shareholders of MSC as at 19 September 2006 are set out in **Table 5**.

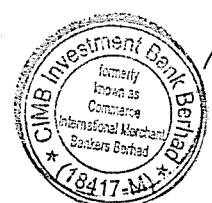
4.6 Dividend rate

Upon completion of the Proposed Bonus Issue, Proposed SCR and Proposed ICPS Issuance, the dividend rate per share of MSC will decrease due to the increase in the number of shares in MSC.

5. CONDITIONS OF THE PROPOSALS

The Proposals are conditional upon the following:

- (i) approval of the Securities Commission ("SC"), for the following:
 - (a) the Proposed ICPS Issuance; and
 - (b) the listing of and quotation for the new MSC Shares to be issued arising from the conversion of the ICPS under the Proposed ICPS Issuance on the Main Board of Bursa Securities;



- (ii) approval of Bursa Securities, for the following:
 - (a) the Proposed Bonus Issue; and
 - (b) the listing of and quotation for the new MSC Shares to be issued arising from the following on the Main Board of Bursa Securities:
 - (aa) the Proposed Bonus Issue; and
 - (bb) the conversion of the ICPS under the Proposed ICPS Issuance;
- (iii) approval and confirmation of the High Court of Malaya, for the Proposed SCR;
- (iv) approval of the shareholders of MSC for the Proposals at an extraordinary general meeting (“EGM”) to be convened;
- (v) approval of the creditors of MSC (if required);
- (vi) completion of the Straits Placement; and
- (vii) approval of any other parties (if required).

6. ESTIMATED TIME FRAME FOR SUBMISSION

Applications to the SC and Bursa Securities in relation to the Proposals are expected to be made within 3 months from the date of this announcement.

7. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTERESTS

Save as disclosed below, none of MSC’s Directors, major shareholders and/or persons connected to them have any interest, direct or indirect, in the Proposals beyond their respective entitlements as shareholders of MSC under the Proposed Bonus Issue, for which all existing shareholders of MSC are also entitled.

Jeneral (B) Tun Ibrahim bin Datuk Ismail and Norman Ip Ka Cheung (“Common Directors”) are both Directors of MSC and Straits. The Common Directors represent Straits on the Board of MSC. Accordingly, the Common Directors have abstained and will continue to abstain from all deliberations and voting on the Proposals at the relevant Board meetings of MSC.

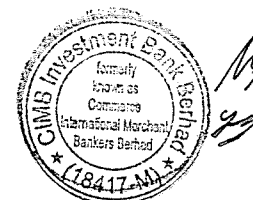
The Selected Shareholders, which comprise the major shareholders of MSC and a person connected to the major shareholders of MSC, are interested in the Proposals.

8. DIRECTORS’ STATEMENT

The Directors of MSC (save for the Common Directors who abstained from expressing an opinion and making a recommendation on the Proposals) having considered all aspects of the Proposals, are of the opinion that the Proposals are in the best interest of the Company.

9. ADVISER

CIMB Investment Bank Berhad (*formerly known as Commerce International Merchant Bankers Berhad*) has been appointed as the Adviser to the Company for the Proposals.



10. DEPARTURE FROM THE Policies and Guidelines on Issue/Offer of Securities ISSUED BY THE SC ("SC GUIDELINES")

The Proposed IASC, Proposed M&A Amendments, Proposed Bonus Issue and Proposed SCR do not depart from the SC Guidelines.

The Proposed ICPS Issuance departs from the SC Guidelines in respect of the issue price and conversion price of the ICPS.

As the ICPS will be issued to the related parties of MSC, the SC Guidelines require the issue price and conversion price of the ICPS to be set at the price of at least the weighted average market price ("WAMP") of MSC Shares for the 5 market days prior to a price fixing date to be set on a date after the SC's approval.

However, setting the issue price and conversion price of the ICPS at the 5-day WAMP will not be fair to the Selected Shareholders as their proportion of total capital of MSC will be altered. Accordingly, MSC will seek a waiver from the SC for this departure.

11. DOCUMENT AVAILABLE FOR INSPECTION

The Agreement is available for inspection at MSC's registered offices at 27, Jalan Pantai, 12000 Butterworth, Penang during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 20 September 2006.

Tables Section - This section is to be used to create and insert tables. Please make the appropriate reference to the table(s) in the Contents of the Announcement:



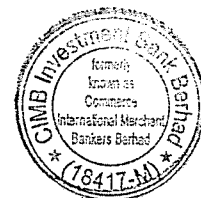
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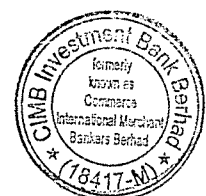


TABLE 1: INDICATIVE TERMS OF THE ICPS

Issue size	:	Up to 146,250,000 ICPS
Issue price	:	RM1.00 per ICPS
Issue amount	:	Up to RM146,250,000
Par value	:	RM1.00 per ICPS
Form and denomination	:	The ICPS will be issued in registered form and in multiples of RM1.00 each
Voting Rights	:	The ICPS shall carry no right to vote at any general meeting of MSC except with regard to any proposal to wind-up MSC, during the winding-up of MSC and on any proposal that affects the rights of the ICPS holders. In any such case, the ICPS holders shall be entitled to vote together with the holders of ordinary shares and to 1 vote for each ICPS held
Ranking	:	Save for the Voting Rights (as highlighted above), the ICPS shall rank equal in all respects amongst all ICPS and the existing MSC Shares
Tenure	:	10 years commencing from and inclusive of the date of issuance
Maturity Date	:	Market Day immediately before the tenth anniversary of the date of issue. "Market Day" means a day on which the stock market of Bursa Securities is open for trading in securities
Dividend Rate	:	Dividend shall be payable only if MSC declares and pays dividend on the existing MSC Shares. The dividend shall be payable in the following manner: Dividends declared and paid by MSC per MSC Share x A/B where A = Par value of ICPS B = Par value of MSC Share
Dividend Date	:	Dividends on the ICPS shall be payable on the date dividends are paid on the MSC Shares
Conversion Price	:	The conversion price is fixed at the par value of MSC Share. The Conversion Price shall be satisfied by surrendering 1 ICPS for 1 new MSC Share
Conversion Rights	:	The ICPS holders will have the right to convert the ICPS at the Conversion Price into new MSC Shares at any time during the tenure of the ICPS. Unless previously converted, all ICPS will be mandatorily converted by MSC into new MSC Shares at the Conversion Price on the Maturity Date of the ICPS
Redeemability	:	Not redeemable
Listing	:	The ICPS will not be listed on Bursa Securities



- Status : In the event of a winding-up/liquidation of MSC, unless previously converted, all ICPS will be converted by MSC into new MSC shares at the Conversion Price
- Adjustment to Conversion Price and Right of Conversion : The Conversion Price and/or number of MSC Shares to be issued arising from conversion of the ICPS will be adjusted, at the determination of MSC, in all or any of the following cases:
- (a) an alternation of the par value of MSC Share by reason of consolidation or subdivision;
 - (b) a bonus issue of fully paid-up MSC Shares by MSC;
 - (c) a capital distribution to shareholders made by MSC whether on a reduction of capital or otherwise, but excluding any cancellation of capital which is lost or unrepresented by assets;
 - (d) a rights issue of MSC Shares by MSC;
 - (e) capitalisation of the reserves of MSC; or
 - (f) any other circumstances that are deemed necessary.
- Under no circumstances will any adjustment result in the Conversion Price falling below the par value of MSC Shares for the time being. No adjustment to the Conversion Price and/or number of MSC Shares to be issued arising from conversion of the ICPS shall be made unless it has been certified by a merchant bank, universal broker or an auditor
- Ranking of new MSC Shares from conversion : The new MSC Shares to be issued arising from conversion of the ICPS shall, upon allotment and issue, rank equal in all respects with the existing MSC Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the date of allotment of the new MSC Shares
- Governing Law : Malaysian Law



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TABLE 2: EFFECTS ON THE ISSUED AND PAID-UP SHARE CAPITAL

	----- No. of shares-----	
	MSC Shares 000	ICPS 000
Issued and paid-up share capital as at 19 September 2006	75,000	-
To be issued under the Proposed Bonus Issue	131,250	-
	206,250	-
Proposed SCR	(146,250)	-
	60,000	-
To be issued under the Proposed ICPS Issuance	-	146,250
	60,000	146,250
Upon full conversion of the ICPS	146,250	(146,250)
Enlarged issued and paid-up share capital	206,250	-



TABLE 3: EFFECTS ON THE SHAREHOLDING STRUCTURE

Category of shareholder	As at 19.09.2006		(I) After the Straits Placement		(II) After (I) and the Proposed Bonus Issue		(III) After (II) and the Proposed SCR		(IV) After (III) and the Proposed ICPS Issuance		After (IV) and the full conversion of the ICPS	
	No. of MSC Shares held 000	%	No. of MSC Shares held 000	%	No. of MSC Shares held 000	%	No. of MSC Shares held 000	%	No. of MSC Shares held 000	%	No. of MSC Shares held 000	%
Selected Shareholders	69,983	93.31	69,143	92.19	190,144	92.19	43,894	73.16	43,894	73.16	190,144	92.19
Other non-public	402	0.54	402	0.54	1,106	0.54	1,106	1.84	1,106	1.84	1,106	0.54
Public	4,615	6.15	5,455	7.27	15,000	7.27	15,000	25.00	15,000	25.00	15,000	7.27
Total	75,000	100.00	75,000	100.00	206,250	100.00	60,000	100.00	60,000	100.00	206,250	100.00

Note:

^a The Selected Shareholders will hold 146,250,000 ICPS after the Proposed ICPS Issuance.

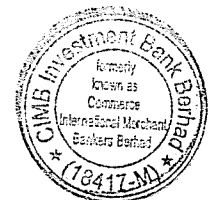


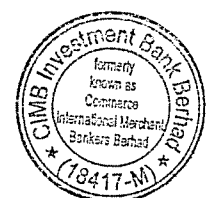
TABLE 4: EFFECTS ON NET ASSETS PER MSC SHARE

	As at 31.12.2005 RM 000	(I) After the Proposed Bonus Issue RM 000	(II) After (I) and the Proposed SCR RM 000	(III) After (II) and the Proposed ICPS Issuance RM 000	After (III) and the full conversion of the ICPS RM 000
Ordinary shares of RM1.00 each in MSC	75,000	206,250	60,000	60,000	206,250
ICPS	-	-	-	146,250	-
Reserves	27,421	27,421	27,421	27,421	27,421
Retained profits	181,673	50,423 ^{*1}	50,423	50,423	50,423
Net assets	284,094	284,094	137,844	284,094	284,094
No. of ordinary shares of RM1.00 each in MSC in issue (000)	75,000	206,250	60,000	60,000	206,250
Net assets per share attributable to ordinary holders of the parent (RM)	3.79	1.38	2.30	2.30 ^{*2}	1.38

Notes:

*1 After capitalising RM131.25 million from MSC's retained profits.

*2 Based on net assets (excluding ICPS) over the number of ordinary shares of RM1.00 each in MSC in issue.



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TABLE 5: EFFECTS ON THE SUBSTANTIAL SHAREHOLDING STRUCTURE

	(i) As at 19.09.2006			(ii) After (i) and the Proposed Bonus			(iii) After (ii) and the Proposed SCR ¹			(iv) After (iii) and the Proposed ICPS			After (iv) and the full conversion of the ICPS		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held	% of MSC Shares held	No. of MSC Shares held
Straits	28,090	37.45	41,893 ¹	28,090	37.45	41,053 ¹	17,832	29.72	17,832	29.72	26,062 ¹	43.44	77,248	37.45	112,897 ¹
STAR	17,375	23.17	-	17,375	23.17	-	11,030	18.38	-	-	47,780	23.17	-	-	-
SI	20,818	27.76	-	19,979	26.64	-	12,683	21.14	-	-	54,942	26.64	-	-	-
Great Eastern Life Assurance (Malaysia) Berhad	-	-	69,983 ²	-	-	69,143 ²	-	-	190,144 ²	92.19	-	-	43,894 ²	73.16	190,144 ²
Great Eastern Capital (Malaysia) Berhad	-	-	69,983 ²	-	-	69,143 ²	-	-	190,144 ²	92.19	-	-	43,894 ²	73.16	190,144 ²
The Great Eastern Life Assurance Company Limited	-	-	69,983 ³	-	-	69,143 ³	-	-	190,144 ³	92.19	-	-	43,894 ³	73.16	190,144 ³
Great Eastern Holdings Limited	-	-	69,983 ⁴	-	-	69,143 ⁴	-	-	190,144 ⁴	92.19	-	-	43,894 ⁴	73.16	190,144 ⁴
Oversea-Chinese Banking Corporation Limited	-	-	69,983 ⁵	-	-	69,143 ⁵	-	-	190,144 ⁵	92.19	-	-	43,894 ⁵	73.16	190,144 ⁵

Notes:

- ¹ Deemed interest by virtue of its interests in STAR, BH and SI under Section 6A of the Act.
- ² Deemed interest by virtue of its interest in Straits under Section 6A of the Act.
- ³ Deemed interest by virtue of its interest in Great Eastern Life Assurance (Malaysia) Berhad under Section 6A of the Act.
- ⁴ Deemed interest by virtue of its interest in The Great Eastern Life Assurance (Malaysia) Berhad, The Great Eastern Life Assurance Company Limited under Section 6A of the Act.
- ⁵ Deemed interest by virtue of its interests in Great Eastern Life Assurance (Malaysia) Berhad, The Great Eastern Life Assurance Company Limited under Section 6A of the Act.
- ⁶ Assuming SI places out 839,346 MSC Shares under the Straits Placement.
- [#] Under the selective capital repayment agreement between MSC and the Selected Shareholders dated 20 September 2006, Straits has until 30 November 2006 to determine the actual number of MSC Shares held by each of the Selected Shareholders which will be subject to the Proposed Bonus Issue and Proposed SCR.

For illustrative purposes, we have assumed the following:

- (a) 59,415,100 MSC Shares held by Straits will be cancelled under the Proposed SCR and 59,415,100 ICPS will be issued to Straits under the Proposed ICPS Issuance;
- (b) 36,750,000 MSC Shares held by STAR will be cancelled under the Proposed SCR and 36,750,000 ICPS will be issued to STAR under the Proposed ICPS Issuance;
- (c) 42,258,800 MSC Shares held by SI will be cancelled under the Proposed SCR and 42,258,800 ICPS will be issued to SI under the Proposed ICPS Issuance; and
- (d) 7,826,100 MSC Shares held by BH will be cancelled under the Proposed SCR and 7,826,100 ICPS will be issued to BH under the Proposed ICPS Issuance.

