

Southern Alliance Mining Ltd

(Company Registration No. 201931423D)

Unaudited Financial Statement and Dividend Announcement For the First Half Ended 31 January 2021 (“1H FY2021”)

Background

Southern Alliance Mining Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) is principally involved in the exploration, mining and processing of high-grade iron ore concentrate for subsequent sales. The Group also produces crushed iron ore which is used to coat subsea pipe for the oil and gas industry. Based in Pahang, Malaysia, the Group has been operating the Chaah Mine located at Johor, Malaysia since 2008 and has also been granted the right to carry out exploration and mining operations at three potential iron ore mines located in Johor, Malaysia.

The Company was listed on the Catalist of the SGX-ST on 26 June 2020. The Group was formed pursuant to a restructuring exercise (the “**Restructuring Exercise**”). Please refer to the Company’s Offer Document dated 16 June 2020 for further details on the Restructuring Exercise. Although the Restructuring Exercise was completed on 12 June 2020 and the Company was incorporated on 19 September 2019, for the purpose of comparison of the consolidated financial statements of the Group, the consolidated financial statements for periods prior to the completion of the Restructuring Exercise were prepared as if the Company i.e. the parent of the Group, had been in existence since the Group was under the control of the controlling shareholder.

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PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF HALF YEAR RESULTS

- 1(a)(i) **An income statement and statement of comprehensive income, or a statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year**

	Group		Changes
	Half Year Ended		
	31-Jan-21	31-Jan-20	
	(Unaudited)	(Unaudited)	(%)
	RM'000	RM'000	
Revenue	152,054	141,018	7.8%
Cost of sales	(79,747)	(85,362)	-6.6%
Gross profit	<u>72,307</u>	<u>55,656</u>	29.9%
Other income	2,773	1,327	109.0%
Other operating expenses	(304)	(200)	52.0%
General and administrative expenses	(5,654)	(8,008)	-29.4%
Finance costs	(166)	(127)	30.7%
Profit before tax	<u>68,956</u>	<u>48,648</u>	41.7%
Income tax expense	(17,545)	(13,680)	28.3%
Profit after tax, representing total comprehensive income for the year	<u><u>51,411</u></u>	<u><u>34,968</u></u>	47.0%
Earnings per share (Malaysian cents per share)			
Basic and diluted	<u>10.51</u>	<u>7.20</u>	

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1(a)(ii) Notes to Consolidated Statement of Comprehensive Income

	Group Half Year Ended		Changes (%)
	31-Jan-21 (Unaudited) RM'000	31-Jan-20 (Unaudited) RM'000	
Interest income from fixed deposits	(1,126)	(712)	58.1%
Gain on disposal of property, plant and equipment	(930)	-	100%
Rendering of services	(90)	(363)	-75.2%
Government grant	(627)	-	100%
Sundry income	-	(148)	-100%
Finance costs	166	127	30.7%
Employee benefits expense	6,189	4,604	34.4%
Depreciation of property, plant and equipment	3,891	2,987	30.3%
Amortisation of mine properties	1,721	2,271	-24.2%
Unrealised loss/(gain) on foreign exchange	605	(23)	-2,730.4%
Realised loss/(gain) on foreign exchange	10	(81)	-112.3%
Tributes	18,000	14,000	28.6%
IPO Expenses	-	3,512	-100%
Write-back of impairment on other receivables	-	(40)	-100%

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1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	Half Year Ended		Half Year Ended	
	31-Jan-21 (Unaudited) RM'000	31-Jul-20 (Audited) RM'000	31-Jan-21 (Unaudited) RM'000	31-Jul-20 (Audited) RM'000
Assets				
Non-current assets				
Property, plant and equipment	46,832	37,138	-	-
Exploration and evaluation assets	1,530	440	-	-
Mine properties	24,338	26,059	-	-
Deferred tax assets	-	3,464	-	-
Investment in subsidiary	-	-	174,380	173,380
Investment securities	39	39	-	-
	<u>72,739</u>	<u>67,140</u>	<u>174,380</u>	<u>173,380</u>
Current assets				
Inventory	9,299	8,847	-	-
Trade and other receivables	9,831	21,973	5,363	-
Contract assets	24,366	4,248	-	-
Prepayments	3,129	1,519	24	93
Cash and bank balances	190,078	149,866	29,320	37,072
Income tax recoverable	-	1,548	-	-
	<u>236,703</u>	<u>188,001</u>	<u>34,707</u>	<u>37,165</u>
Total assets	<u><u>309,442</u></u>	<u><u>255,141</u></u>	<u><u>209,087</u></u>	<u><u>210,545</u></u>
Liabilities				
Current liabilities				
Loans and borrowings	3,141	3,307	-	-
Trade and other payables	21,497	20,399	610	1,559
Income tax payable	7,859	-	-	-
	<u>32,497</u>	<u>23,706</u>	<u>610</u>	<u>1,559</u>
Net current assets	<u><u>204,206</u></u>	<u><u>164,295</u></u>	<u><u>34,097</u></u>	<u><u>35,606</u></u>
Non-current liabilities				
Loans and borrowings	2,633	3,922	-	-
Deferred tax liabilities	4,421	-	-	-
	<u>7,054</u>	<u>3,922</u>	<u>-</u>	<u>-</u>
Total liabilities	<u><u>39,551</u></u>	<u><u>27,628</u></u>	<u><u>610</u></u>	<u><u>1,559</u></u>
Net assets	<u><u>269,891</u></u>	<u><u>227,513</u></u>	<u><u>208,477</u></u>	<u><u>208,986</u></u>
Equity attributable to owners of the Company				
Share capital	218,154	218,154	218,154	218,154
Retained earnings / (accumulated losses)	214,384	172,006	(9,677)	(9,168)
Merger reserve	(163,380)	(163,380)	-	-
	<u>269,158</u>	<u>226,780</u>	<u>208,477</u>	<u>208,986</u>
Preference shares	733	733	-	-
Total equity	<u><u>269,891</u></u>	<u><u>227,513</u></u>	<u><u>208,477</u></u>	<u><u>208,986</u></u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities

	Group		Company	
	As at 31-Jan-21 (Unaudited) RM'000	As at 31-Jul-20 Audited RM'000	As at 31-Jan-21 (Unaudited) RM'000	As at 31-Jul-20 (Audited) RM'000
<u>Secured</u>				
Amount repayable in one year or less	3,141	3,307	-	-
Amount repayable after one year	2,633	3,922	-	-
	<u>5,774</u>	<u>7,229</u>	<u>-</u>	<u>-</u>

There are no unsecured borrowings and/or debt securities as at 31 January 2021 and 31 July 2020.

Details of any collateral

The Group's only borrowings are in the form of hire purchase facilities for plant and equipment. As at 31 January 2021, these hire purchase facilities were secured by the equipment purchased and by way of personal guarantee and indemnity by Dato' Sri Pek Kok Sam, the Executive Director and Chief Executive Officer and/or Mr Pek Kok Hing, brother of Dato' Sri Pek Kok Sam.

Moving forward, the Company intends to provide corporate guarantee as security for the borrowing facilities granted by the financiers.

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- 1(c) **A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Consolidated Statement of Cash Flows

	Group	
	Half Year Ended	
	31-Jan-21	31-Jan-20
	(Unaudited)	(Unaudited)
	RM'000	RM'000
Operating activities		
Profit before tax	68,956	48,648
<u>Adjustments for:</u>		
Interest expenses	166	127
Interest income	(1,126)	(712)
Unrealised loss/(gain) on foreign exchange	605	(23)
Depreciation of property, plant and equipment	3,891	2,987
Gain on disposal of property, plant and equipment	(930)	-
Amortisation of mine properties	1,721	2,271
Write-back of allowance on doubtful debts	-	(40)
Total adjustments	<u>4,327</u>	<u>4,610</u>
Operating cash flows before changes in working capital	73,283	53,258
<u>Changes in working capital:</u>		
(Increase)/decrease in inventories	(452)	6,406
(Increase)/decrease in trade and other receivables and contract assets	(7,131)	9,206
(Increase)/decrease in prepayments	(1,610)	163
Decrease in trade and other payables	(550)	(5,883)
Total working capital changes	<u>(9,743)</u>	<u>9,892</u>
Cash flows from operations	63,540	63,150
Income taxes (paid)/refunded	(253)	2
Interest received	1,126	712
Interest paid	(166)	(127)
Net cash flows from operating activities	<u>64,247</u>	<u>63,737</u>

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Consolidated Statement of Cash Flows

	Group	
	Half Year Ended	
	31-Jan-21	31-Jan-20
	(Unaudited)	(Unaudited)
	RM'000	RM'000
Investing activities		
Investment in exploration and evaluation assets	(1,090)	-
Purchase of property, plant and equipment	(11,815)	(5,559)
Proceeds from disposal of property, plant and equipment	167	-
Withdrawal of pledged deposits	-	2,047
Net cash used in investing activities	(12,738)	(3,512)
Financing activities		
Repayment of term loans	-	(698)
Repayment of obligations under leases	(1,701)	(842)
Dividends paid on ordinary and preference shares	(9,033)	(26,290)
Net cash used in financing activities	(10,734)	(27,830)
Net increase in cash and cash equivalents	40,775	32,395
Effect of exchange rate changes on cash and cash equivalents	(563)	3
Cash and cash equivalents at beginning of financial period	149,866	33,123
Cash and cash equivalents at end of financial period	190,078	65,521

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- 1(d)(i) **A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year**

Statement of Changes in Equity

	<u>Attributable to owners of the Company</u>					
	Share capital RM'000	Merger reserve RM'000	Retained earnings RM'000	Total RM'000	Preference shares RM'000	Total equity RM'000
Group						
1H FY2021						
Opening balance as at 1 August 2020	218,154	(163,380)	172,006	226,780	733	227,513
Profit for the year representing total comprehensive income	–	–	51,411	51,411	–	51,411
<u>Transaction with owners</u>						
Dividends on ordinary and preference shares	–	–	(9,033)	(9,033)	–	(9,033)
Closing balance as at 31 January 2021	218,154	(163,380)	214,384	269,158	733	269,891
1H FY2020						
Opening balance as at 1 August 2019	–*	38,725	124,699	163,424	733	164,157
Profit for the year representing total comprehensive income	–	–	34,968	34,968	–	34,968
<u>Transaction with owners</u>						
Dividend in specie of non-mining assets	–	–	(17,215)	(17,215)	–	(17,215)
Dividends on ordinary and preference shares	–	–	(26,290)	(26,290)	–	(26,290)
Total transaction with owners	–	–	(43,505)	(43,505)	–	(43,505)
<u>Changes in ownership interests in a subsidiary company</u>						
Transfer of merger reserve to retained earnings upon strike off of a subsidiary company	–	(28,725)	28,725	–	–	–
Closing balance as at 31 January 2020	–	10,000	144,887	154,887	733	155,620

*Less than RM1,000

- 1(d)(i) **A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year (cont'd)**

Statement of Changes in Equity

	Share capital RM'000	Accumulated losses RM'000	Total equity RM'000
Company			
1H FY2021			
Opening balance as at 1 August 2020	218,154	(9,168)	208,986
Profit for the year representing total comprehensive income	–	8,424	8,424
<u>Transactions with owners</u> Dividends on ordinary and preference shares	–	(8,933)	(8,933)
Closing balance as at 31 January 2021	218,154	(9,677)	208,477
1H FY2020			
At date of incorporation (19 September 2019)	–*	–	–*
Loss for the year representing total comprehensive income	–	–	–
Closing balance as at 31 January 2020	–*	–	–*

*Less than RM1,000

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- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There was no change in the issued and paid-up share capital of the Company from 31 July 2020 up to 31 January 2021. The Company's share capital was RM218,154,000 comprising 489,000,000 shares as at 31 January 2021 and 31 July 2020.

There were no outstanding options, convertible securities, treasury shares or subsidiary holdings as at 31 January 2021 and 31 January 2020.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year**

The Company did not hold any treasury shares as at 31 January 2021 and 31 July 2020.

The Company's total number of issued shares excluding treasury shares as at 31 January 2021 and 31 July 2020 was 489,000,000.

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. The Company did not have any treasury shares during and as at the end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable, as the Company did not have any subsidiary holdings during and as at the end of the current financial period reported on.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice

The figures have not been audited or reviewed by the Company's auditors.

3 Where the figures have been audited or reviewed, the auditors' report (including any modifications or emphasis of a matter)

Not applicable.

3A Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion (this is not required for any audit issue that is a material uncertainty relating to going concern):-

(a) Updates on the efforts taken to resolve each outstanding issue.

Not applicable, as the latest financial statements were not subjected to an adverse opinion, qualified opinion or disclaimer of opinion.

(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

Not applicable.

4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

Except as disclosed in paragraph 5 below, the accounting policies and methods of computation adopted in the financial statements for the current reporting period are consistent with those disclosed in the audited financial statements for the financial year ended 31 July 2020.

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5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The Group has adopted all the applicable new and revised Singapore Financial Reporting Standards (International) (“SFRS(I)”) and SFRS(I) Interpretations that are mandatory for the accounting periods beginning on or after 1 August 2020. The adoptions of these new standards, amendments to standards and interpretations did not result in any significant impact on the financial statements of the Group for the current financial period reported on.

6 Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	Half Year Ended	
	31 January 2021	31 January 2020
Profit attributable to shareholders of the Company (RM'000)	51,411	34,968
Weighted average number of ordinary shares in issue ('000 shares)	489,000	486,000
Basic and fully diluted basis EPS (Malaysian cents)	10.51	7.20
	Half Year Ended	
	31 January 2021	31 January 2020
For illustrative purposes ⁽¹⁾		
Profit attributable to shareholders of the Company (RM'000)	51,411	34,968
Weighted average number of ordinary shares in issue ('000 shares)	489,000	489,000
Basic and fully diluted basis EPS (Malaysian cents)	10.51	7.15

Note:

(1) For comparative and illustrative purposes, the weighted average number of ordinary shares used for the calculation of EPS for 1H FY2020 is based on 489,000,000 shares, assuming that the Restructuring Exercise, grant of equity-settled share-based payment of 3,000,000 shares in relation to IPO expenses and 56,000,000 new shares pursuant to the IPO had been completed as at the end of the respective financial periods.

The basic and diluted EPS are the same as the Company and Group did not have any potentially dilutive instruments for the respective financial periods.

7 **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**

- (a) Current period reported on; and
(b) Immediately preceding financial year.

	Group		Company	
	31 January 2021	31 July 2020	31 January 2021	31 July 2020
NAV attributable to owner (RM'000)	269,158	226,780	208,477	208,986
Number of ordinary shares in issue ('000)	489,000	489,000	489,000	489,000
NAV per ordinary share (Malaysian cents)	55.04	46.38	42.63	42.74

8 **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss: -**

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Review for the performance of the Group for the half year ended 31 January 2021 ("1H FY2021") and the half year ended 31 January 2020 ("1H FY2020") respectively.

Consolidated Statement of Comprehensive Income

Revenue

The selling prices of our iron ore products are guided by the Platts Iron Ore Index.

The Group's revenue increased by 7.8% from RM141.0 million in 1H FY2020 to RM152.1 million in 1H FY2021. The increase in revenue was due to a higher average realised selling price ("**ARSP**") achieved by the Group, despite the lower sales volume reported.

ARSP

The movement of ARSP in 1H FY2021 as compared to 1H FY2020 is set out in the table below.

ARSP per dried metric ton (DMT)/metric ton (MT)	1H FY2021	1H FY2020	Increase/(Decrease) (%)
Iron ore concentrate	RM492.82	RM341.53	44.3%
Crushed iron ore	RM385.49	RM399.75	(3.6)%
Iron ore tailing	RM99.21	RM99.88	(0.7)%

Sales volume

The Group reported a decrease in sales volume of the following products in 1H FY2021 compared to 1H FY2020:

- (i) approximately 21,900 DMT of iron ore concentrate in 1H FY2021, representing a 6.8% decrease from 1H FY2020. The decrease is in line with the Group's Chaah Mine development works whereby the Group has prioritised the removal of overburden rather than mining of iron ore compared to 1H FY2020 resulting in lesser iron ore extracted;
- (ii) approximately 37,600 MT of crushed iron ore, representing a 99.2% decrease from 1H FY2020 due to the decrease in orders from the pipe coating industry; and
- (iii) approximately 115,300 DMT of iron ore tailing, representing a 69.5% decrease from 1H FY2020 due to lesser tailing was removed from the tailing pond as most of the tailings were removed during the FY2020.

Cost of sales

While the Group reported an increase in turnover, cost of sales decreased by 6.6% which was largely attributable to:

- (i) decrease in the sales volume as discussed above which resulted in a decrease in outbound logistic cost by 2.8% to RM11.3 million in 1H FY2021;
- (ii) decrease in port and port related charges by 76.5% to RM1.0 million in 1H FY2021 as a result of a decrease in export of iron ore tailing; and
- (iii) the net effect of inventory movement. During 1H FY2021, the production cost that was inventorised as closing inventory exceeded the cost of opening inventory that was charged out to the cost of sales (positive inventory movement). The effect of the positive inventory movement resulted in lower cost of sales. Whereas during 1H FY2020, the opening inventory cost that was charged out far exceeded the production cost that was inventorised as closing inventory (negative inventory movement) and contributed to higher cost of sales. The net effect of these inventory movements reduced cost of sales by RM6.8 million.

The decrease in cost of sales was partially offset by:

- (i) an increase in depreciation of plant and equipment by 26.0% to approximately RM3.5 million in 1H FY2021. The increase was mainly attributed to an increase in fixed assets purchased from RM5.6 million in 1H FY2020 to RM13.7 million in 1H FY2021; and
- (ii) higher tribute expense which is computed based on the monthly average Platt Iron Ore Index which resulted in total higher monthly average tribute payment by RM4.0 million in 1H FY2021.

Gross profit and gross profit margin

The increase in revenue coupled with the decrease in cost of sales resulted in a 29.9% improvement in the Group's gross profit from RM55.7 million in 1H FY2020 to RM72.3 million in 1H FY2021. This elevated the gross profit margin by 8.1 percentage points, from 39.5% in 1H FY2020 to 47.6% in 1H FY2021.

Other income

Other income has doubled to RM2.8 million in 1H FY2021. This was mainly due to an increase in interest income amounting to RM0.4 million as a result of higher cash and bank balances and deposits placement with licensed banks. In addition, the Company received a one-off government grant from Monetary Authority of Singapore amounting to RM0.6 million in 1H FY2021. The Group also recorded a gain on disposal of equipment in 1H FY2021 amounting to RM0.9 million (1H FY2020: RM Nil). However, the increase was offset by a decrease in hiring income derived from rendering of transportation services and rental of equipment to interested parties of approximately RM0.4 million which had ceased in the third quarter of FY2020.

Other operating expenses

Other operating expenses increased from approximately RM0.2 million in 1H FY2020 to approximately RM0.3 million in 1H FY2021. This was mainly due to an increase in depreciation expense arising from the purchase of fixed assets.

General and administrative expenses

General and administrative expenses decreased by 29.4% to approximately RM5.7 million in 1H FY2021. This was mainly due to (i) lower administrative expenses incurred during the period (1H FY2021: RM2.3 million; 1H FY2020: RM2.4 million); and (ii) the absence of initial public offering ("IPO") expenses incurred in 1H FY2020 (1H FY2020: RM3.5 million). The decrease was partially offset by an increase in Directors' fees and payroll by 34.0% to RM2.8 million and an unrealized loss of RM0.6 million recorded in 1H FY2021.

Finance cost

Increase in finance cost by approximately RM39,000 due to the increase in the hire purchase facilities utilised for the purpose of equipment financing.

Profit before tax

As a result of the foregoing, the Group's profit before tax improved by approximately RM20.3 million or 41.7% to RM69.0 million in 1H FY2021.

Income tax expense

The Group incurred an income tax expense of RM17.5 million, representing an increase of RM3.9 million from 1H FY2020 due to the strong performance of the Group in 1H FY2021. The Group has also fully utilised its prior year tax losses recognised as deferred tax asset in 1H FY2021.

Review for the performance of the Group for the 1H FY2021 and the financial year ended 31 July 2020 ("FY2020") respectively.

Consolidated Statement of Financial Position

Non-current assets

Property, plant and equipment constituted approximately 64.4% of the Group's non-current assets as at 31 January 2021. The increase in property, plant and equipment of RM9.7 million or approximately 26.1% was attributable to the construction of the national grid utility facilities and the purchase of other equipment of approximately RM13.6 million to support the intensified mining activities at the Chaah Mine. This was partially offset by depreciation charges of approximately RM3.9 million.

Mine properties made up approximately one third of non-current assets. Continuation of the amortisation of the mine properties which consist of stripping activity asset (which refers to the capitalisation of cost associated with the initial stripping activity during the stage of mine development in order to obtain access to ore before the commencement of production), and producing mines, mainly made up of exploration cost, had resulted in the decrease of mine properties by RM1.7 million or 6.6%.

As part of the ongoing exploration works conducted by the Group, exploration and evaluation assets has tripled to RM1.5 million as at 31 January 2021 from RM0.4 million as at 31 July 2020. Exploration and evaluation assets comprised solely the exploration cost incurred on prospect sites located at the State of Johor, Malaysia.

The Group has also fully utilised previous years' tax losses during 1H FY2021, resulting in the nil deferred tax assets balance as at 31 January 2021.

Current assets

The Group's healthy financial performance as discussed above has led to an increase of RM40.2 million or 27% in our cash and bank balances to RM190.1 million as at 31 January 2021, short of RM10 million to hit the RM200.0 million milestone.

While the Group reported higher turnover, trade and other receivables decreased by RM12.1 million. It was due to the collection of trade receivables amounting to RM12.9 million, partially offset by the increase in other receivables of RM0.8 million mainly due to the disposal of a drilling equipment.

Contract assets primarily relate to the Group's right to consideration for the sale of iron ores which has been delivered but not billed as at reporting date. Depending on our sales contract, billing will only be raised once we achieved certain milestones, either based on quantity or date as the case maybe. An accrual will be made for the billing of contract assets which was not raised as at reporting cut-off date due to the contractual timing. The Group has witnessed close to a five-fold increase in the contract assets from RM4.2 million as at 31 July 2020 to RM24.4 million as at 31 January 2021 arising from the terms of sales for the sales contracts which commenced supply during the 1H FY2021.

The decrease in sales volume in 1H FY2021 has resulted in a slight increase in closing stock by 5% to RM9.3 million as at 31 January 2021.

The advance payment for the purchase of imported spare parts has doubled the prepayments to RM3.1 million as at 31 January 2021 from RM1.5 million as at 31 July 2020.

Current liabilities

The Group's current liabilities amounted to RM32.5 million as at 31 January 2021, representing 13.7% of Group's current assets as compared to 12.6% as at 31 July 2020.

The increase in total current liabilities from RM23.7 million as at 31 July 2020 to RM32.5 million as at 31 January 2021 was mainly due to the income tax payable of RM7.9 million for 1H FY2021. There is no provision for income tax payable in 1H FY2020 as the Group had a deferred tax assets of RM14.4 million as at 31 January 2020.

Loans and borrowings mainly consisted of hire purchase facilities for mining equipment payable within 12 months and remained relatively consistent compared to the balance as at 31 July 2020.

Non-current liabilities

Non-current liabilities relates to hire purchase facilities that fall due over a period of more than 12 months of RM2.6 million and deferred tax liabilities of RM4.4 million. The 32.9% decrease in loans and borrowings to RM2.6 million as at 31 January 2021 was due to repayment made during the period.

Consolidated Statement of Cash Flow

The Group generated RM64.2 million of cash flows from operating activities in 1H FY2021 compared to RM63.7 million in 1H FY2020 as a result of the Group's profits as elaborated above.

During 1H FY2021, the Group's net cash used in investing activities was RM12.7 million compared to RM3.5 million used in 1H FY2020. The Group invested RM11.8 million in property, plant and equipment in 1H FY2021, an increase of RM6.3 million from 1H FY2020. In addition, the Group also spent RM1.1 million in exploration activities on the Chaah Mine which was capitalised as exploration and evaluation assets in the balance sheet. The effect of net cash used in investing activities was partially offset by the proceeds from disposal of fixed assets amounting to approximately RM0.2 million.

During 1H FY2021, the Group declared and paid a dividend of approximately RM9.0 million to the ordinary and preference shareholders as compared to RM26.3 million in 1H FY2020. The Group has also made repayments of approximately RM1.7 million in 1H FY2021 for its hire purchase facilities as compared to RM0.8 million in 1H FY2020.

Effects of exchange rate changes on cash and cash equivalents amounted to a loss of RM0.6 million in 1H FY2021 as compared to a gain of RM3,000 in 1H FY2020.

The combined effects of the above resulted in a net increase in the Group's cash and cash equivalents by RM40.2 million in 1H FY2021 compared to RM32.4 million in 1H FY2020.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable. No forecast or prospect statement has been previously issued to the shareholders for the current financial period reported on.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group's earnings are sensitive to the fluctuation of the iron ore price and thus, the iron ore price movement is a main criterion in assessing the performance of the Group. As highlighted in paragraph 8, the ARSP for 1H FY2021 was higher than that of 1H FY2020. Iron ore prices have showcased a strong bull-run since May 2020 to break the year-long range of US\$90-100/t, to cross US\$160/t by the end of January 2021. As of 7 March 2021, the spot price closed at US\$173/t¹, setting a new near-decade high, which contributed to the resilient financial performance even during the coronavirus crisis. Furthermore, iron ore demand has accelerated back of a host of market enablers, such as tight supplies and rising steel production in China and an infrastructure-led economic recovery due to a global stimulus worldwide².

China's iron ore imports hit a record high in 2020, jumping 9.5% from the previous year to reach 1.17 billion tonnes³. The constant rally in China's position to replenish steel inventories in early 2021, to support robust demand due to fiscal infrastructure projects, will further increase iron ore demand⁴.

Furthermore, widespread stimulus packages are expected to boost investment and spending in 2021 which will buoy commodity prices⁵. Additionally, investments in infrastructure projects in SEA countries are expected to remain high, backed by government stimulus, hence, increasing iron ore demand.

Therefore, all the above demand factors coupled with a drop in supplies from Brazil will act as stimulus for iron ore prices and hence, paint a cautiously optimistic outlook for the Company.

In addition to the favourable price factor and having considered the uncertainties arising from the evolving COVID-19 pandemic, the Management and Board have assessed that the trade receivables of the Group still remain healthy and there are no indications that the quality of our trade receivables have deteriorated. Furthermore, with the present price of iron ore and the cash reserve of the Group of RM190.1 million as at 31 January 2021, the Group does not foresee the possibility of it breaching its contractual obligations to its customers and/or suppliers. The Group is able to service its financial commitments amounting to RM5.8 million as at 31 January 2021.

In view of the above, the Board of Directors concurred with the Management that there are no indications that would require the impairment of the assets, the breaching of the Group's contractual obligations and failure to honour its financial commitments obligations or having any going concern issues.

¹ Markets Insider: Iron Ore (<https://markets.businessinsider.com/commodities/iron-ore-price>)

² S&P Global: Iron ore could take on role as economic indicator, rivaling copper: panel (<https://www.spglobal.com/platts/en/market-insights/latest-news/metals/120420-iron-ore-could-take-on-role-as-economic-indicator-rivaling-copper-panel>)

³ Reuters: UPDATE 2-China 2020 iron ore imports hit record on robust post-virus demand (<https://www.reuters.com/article/china-economy-trade-ironore-idUSL1N2JP06L>)

⁴ The Edge Malaysia: Commodities: The party doesn't stop for commodities in 2021 (<https://www.theedgemarkets.com/article/commodities-party-doesnt-stop-commodities-2021>)

⁵ The Business Times: Volatile commodity markets end 2020 strong with vaccines, stimulus in sight (<https://www.businesstimes.com.sg/energy-commodities/volatile-commodity-markets-end-2020-strong-with-vaccines-stimulus-in-sight>)

11 Dividend

(a) Current Financial Period Reported On

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

None.

(c) Date payable

Not applicable

(d) Book closure date:

Not applicable.

12 If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.

No dividend has been declared or recommended for the period ended 31 January 2021 as the dividend shall be guided by the results of the full financial year.

13 If the group has obtained a general mandate from shareholders for interested person transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has obtained approval from the Shareholders for the renewal of the general mandate, pursuant to Rule 920(2), during the Company's annual general meeting held on 27 November 2020. Save as disclosed in the table below, there were no other interested person transactions on or above S\$100,000 entered into during the financial period under review.

Name of interested person	Nature of relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Multiline Trading Sdn Bhd	Related party Entity of executive director and Chief Executive Officer, Dato' Sri Pek Kok Sam	RM'000 -	RM'000 11,397
Hchem Marketing (M) Sdn Bhd	Related party Entity of executive director and Chief Executive Officer, Dato' Sri Pek Kok Sam	-	600

The Group intends to seek for a renewal of the Shareholders' Mandate at the next annual general meeting of the Company to facilitate transactions in the ordinary course of our business which are transacted from time to time with the specified classes of Mandated Interested Persons, provided that they are carried out on normal commercial terms and are not prejudicial to the interests of our Company and our minority Shareholders.

14 Use of IPO proceeds

The Company refers to the net proceeds amounting to S\$13.6 million, net of placement commission of S\$0.4 million (before deducting listing expenses of approximately S\$1.7 million) raised from the IPO on the Catalist of the SGX-ST on 26 June 2020 (“**IPO Net Proceeds**”).

As at the date of this announcement, the status on the utilisation of the IPO Net Proceeds is as follows:

Use of IPO Net Proceeds	Amount Allocated	Amount Re-allocated	Amount Utilised	Balance
	(S\$'000)	(S\$'000)	(S\$'000)	(S\$'000)
Further exploration activities	4,000	-	(417)	3,583
Investment into mining equipment and infrastructure	2,000	1,000	(3,000)	-
Acquisition, joint ventures, strategic alliances and/or development of new mines	2,000	(1,000)	Nil	1,000
General working capital	3,937	-	(680)	3,257
TOTAL	11,937	-	(4,097)	7,840

The above utilisation is in accordance with the intended use of proceeds of IPO as stated in the Offer Document dated 16 June 2020, and re-allocated in accordance with an announcement dated 22 January 2021.

Amount utilised for general working capital up to the date of this announcement is approximately S\$680,000 with the details as follows:

Nature of Working Capital	Amount Utilised
	S\$'000
Professional fees	458
Administrative expenses	186
Directors' insurances and training	35
Bank charges	1
	<u>680</u>

The Company will continue to make periodic announcements via SGXNET on the utilisation of the balance of the IPO Net Proceeds as and when such proceeds are materially disbursed.

15 Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7H) under Rule 720(1) of the Catalist Listing Manual

The Company confirms that it has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7H) under Rule 720(1) of the Catalist Listing Manual.

16 Additional information required pursuant to Rule 706A

The Company had on 15 October 2020 acquired South Atlantic Minerals Sdn Bhd (“SAMSB”) from its controlling shareholder, Dato’ Sri Pek Kok Sam, at a cash consideration of RM1.00. Please refer to paragraph 21 of this announcement for details.

PART II - ADDITIONAL DISCLOSURE REQUIRED FOR MINERAL, OIL AND GAS COMPANIES

17 Use of funds/cash by mineral, oil and gas companies pursuant to Rule 705(6)(a)

For the purpose of this section, the Group's disclosure is on exploration cost (exclude depreciation) and the ex-mining cost (costs that are directly attributable to the mining activities excluding amortisation and depreciation as well as sales and related cost and cost related to the land)

(i) Use of funds/cash for 2Q FY2021

Activities	Q1 FY 2021			Q2 FY 2021		
	Projected RM'000	Actual RM'000	Variance RM'000	Projected RM'000	Actual RM'000	Variance RM'000
Mine exploration and evaluation	2,000	-	(2,000)	2,000	1,090	(910)
Mining related expenditure (excluding capital expenditure)	20,870	20,376	(494)	20,000	23,452	3,452
Total	22,870	20,376	(2,494)	22,000	24,542	2,542

During 1Q FY2021, no exploration activities were undertaken as the Group was evaluating the outcomes of the exploration activities of FY2020. In addition, our Group was also assessing the quote by an independent contractor to undertake the exploration activities in order to accelerate the exploration excise.

During 1Q FY2021, the Group has managed to carry out the mining activities as planned without much variation.

During 2Q FY2021, the Group has incurred RM1.1 million for the exploration of Chaah Mine and this amount is reported in our balance sheet as "exploration and evaluation assets". Please refer to paragraph 19 of this announcement for details.

During 2Q FY2021, the Group has reported a variance of RM3.5 million in respect of the mining activities due to the intensive overburden removal jobs which was in line with the increase in the Group additional machinery capacities despite the earlier forecast for the potential setback due to the weather factor.

(ii) Projection on the use of funds/cash for the next immediate quarter, including material assumptions: -

Item	Projection for Q3 FY2021 RM'000
a. Mine exploration and evaluation	3,000
b. Mining related expenditure (excluding capital expenditure)	25,000
Total	28,000

The projection is based on the assumptions that there are no material changes to the cost structure and the intensity of the mining work for the next quarter.

18 Negative confirmation by the Board pursuant to Rule 705(6)(b)

The Directors hereby confirm that to the best of their knowledge nothing has come to their attention which may render such information provided false, misleading in any material aspect.

19 Pursuant to Rule 705(7) – Details of exploration (including geophysical surveys), development and/or production activities undertaken by the issuer and a summary of the expenditure incurred on those activities, including explanations for any material variances with previous projections, for the period under review. If there has been no exploration, development and/or production activity respectively, that fact must be stated.

Exploration activities

The Group continues with our planned drilling programs during 1H FY2021. It involves focusing on the exploration activities at Chaah and Ma'okil. At Chaah, exploration mainly focused on extensions of hematite mineralisation north of the open pit.

(i) Chaah mine

In addition to the previously reported drilling activities, the Group continues to explore a possible strike extension of the main ore zone which trends in a generally north west direction fault bound to the north east, with a potential shallow extension zone forming a currently inferred north west limb off the main ore zone. In order to improve the efficiency of our drilling program, the Group has adopted a reverse circulation ("RC") pre-collar approach, i.e. we will use the RC drilling machine to drill a hole up to a depth of about 100 – 150 meters before continuing with diamond drilling tail. The drilling program for two targeted areas for further investigation commenced in mid-November 2020 which included a combination of exploration holes and 16 pre-collar holes from 4 drilling positions situated on the modelled strike extension of the known ore body. Logging of the RC pre-collars and the first 4 diamond tails has been completed and assays pending.

A total of 712.8m of diamond drilling (tails) off RC pre-collared holes have been completed since December 2020. In addition, 4 RC holes totalling 387m have been drilled to explore a shallow zone of massive hematite mineralisation developed directly west of the main resource. These holes were a follow up to earlier RC drilling which encountered mineralisation.

Our Group will make a separate announcement on the SGXNet once the new estimate of Mineral Resource is available.

(ii) ML 1/2018 (Ma'okil prospect)

In our FY2020 results announcement, our Group reported that we have completed a nine-hole drilling program totalling 1,597m with the aim of the program to test surface expressions of iron ore mineralization below surface. All holes intersected horizons of massive magnetic mineralization. Logging and analysis are still ongoing.

During this reporting period, a total of 5 holes were drilled totalling 790m to define the extension of the mineralisation of ore. The results are still being analysed.

Our Group will make a separate announcement on the SGXNet once the new estimate of Mineral Resource is available.

(iii) ML 1/2019 (Chaah Baru prospect)

No drilling activities were undertaken during this period as the Group is focusing on the exploration of our Chaah and Ma'okil mines during the period.

Mining activities

The Chaah mine is a mature site that has been in continuous operation since 2008. The Company has experienced both high and low commodity prices throughout the operation's history and has reacted to the changing economic conditions by varying production rates and product specifications to match demand. Since the commencement of our mining activity at the Chaah mine in 2008, we have mined approximately 5.3 million tonnes of ore as of 31 July 2020.

Mining activities include mine production and development which involves construction of access road, removal of overburden and extraction of ore. During 1H FY2021, our production records documented that mining operations excavated approximately 0.46 million tonnes of ore from our Chaah mine and 1.28 million tonnes of waste. Processing during the period totalled approximately 0.52 million tonnes of ore. Sales for the period comprised over 348,900 tonnes of produce which included nearly 298,100 DMT of concentrate (both 62% Fe and 65% Fe), 300 MT of pipe coating product and 50,500 DMT of tailings.

20 Negative confirmation by the Board pursuant to Rule 705(5)

The Board of Directors hereby confirm that to the best of their knowledge, nothing has come to their attention which may render the unaudited financial results of the Group and the Company for 1H FY2021 to be false or misleading in any material aspect.

PART III – ADDITIONAL INFORMATION REQUIRED PURSUANT TO CATALIST RULE 706A

21 Incorporation of South Atlantic Minerals Sdn Bhd (“SAMSB”)

On 15 October 2020, the Company acquired SAMSB from its controlling shareholder, Dato' Sri Pek Kok Sam at a cash consideration of RM1.00. SAMSB was incorporated on 5 October 2020 and remains dormant since its date of incorporation. Consequent to the completion of the acquisition, SAMSB became a wholly-owned subsidiary of the Company. The objective of SAMSB is to carry out future mining activities of the Group. The Company had further increased its investment in SAMSB to RM1 million on 3 November 2020.

BY ORDER OF THE BOARD

Dato' Sri Pek Kok Sam
Chief Executive Officer

13 March 2021

Southern Alliance Mining Ltd. (the “Company”) was listed on Catalist of the Singapore Exchange Securities Trading Limited (the “Exchange”) on 26 June 2020. The initial public offering of the Company was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the “Sponsor”).

This announcement has been reviewed by the Company's Sponsor. It has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document. The Sponsor has also not drawn on any specific technical expertise in its review of this announcement.

The contact person for the Sponsor is Ms. Ng Shi Qing, 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, sponsorship@ppcf.com.sg.