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Bay Area Gold Group Limited
灣區黃金集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 1194)

INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 JUNE 2021

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Bay Area Gold Group Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”), together with the unaudited comparative figures for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

(Expressed in Hong Kong dollars)

	<i>Notes</i>	Six months ended 30 June	
		2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>
Revenue	4(a)	493,590	628,637
Cost of sales	6(b)	<u>(471,381)</u>	<u>(551,517)</u>
Gross profit		22,209	77,120
Other income	5	2,676	1,694
Other gains/(losses), net	5	(1,268)	(2,247)
Selling and distribution costs		(5,093)	(5,001)
Administrative expenses		<u>(53,526)</u>	<u>(52,032)</u>
(Loss)/profit from operations		(35,002)	19,534
Finance costs	6(a)	(169,127)	(134,684)
Share of profit of an associate		<u>1,125</u>	<u>951</u>
Loss before tax	6	(203,004)	(114,199)
Income tax (expense)/credit	7	<u>(1,045)</u>	<u>2,832</u>
Loss for the period attributable to owners of the Company		<u>(204,049)</u>	<u>(111,367)</u>
		<i>HK cents</i>	<i>HK cents</i> (restated)
Loss per share	9		
Basic		<u>(68.52)</u>	<u>(37.49)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	<u>(204,049)</u>	<u>(111,367)</u>
Other comprehensive income/(expense)		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	46,019	(96,261)
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	<u>(21,287)</u>	<u>53,200</u>
Other comprehensive income/(expense) for the period, net of tax	<u>24,732</u>	<u>(43,061)</u>
Total comprehensive expense for the period attributable to owners of the Company	<u><u>(179,317)</u></u>	<u><u>(154,428)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

(Expressed in Hong Kong dollars)

	At	At
	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Intangible assets	4,537,941	4,551,032
Fixed assets	4,410,702	4,387,667
Right-of-use assets	37,079	35,266
Investment in an associate	16,392	15,067
Investments in equity instruments at fair value through other comprehensive income	308,877	329,183
Deposits paid for acquisition of fixed assets	56,630	55,971
Other deposits	1,067	1,056
	9,368,688	9,375,242
Total non-current assets		
Current assets		
Inventories	247,569	231,753
Trade, loans and other receivables, deposits and prepayments	10 450,850	267,210
Financial assets at fair value through profit or loss	—	43,949
Pledged bank deposits	14 78,195	77,207
Client trust bank balances	4,112	2,916
Cash and bank balances	40,082	89,048
	820,808	712,083
Total current assets		

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 30 June 2021

(Expressed in Hong Kong dollars)

		At 30 June 2021 (Unaudited) <i>HK\$'000</i>	At 31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Current liabilities			
Trade and other payables	<i>11</i>	1,822,188	1,491,895
Contract liabilities	<i>11</i>	61,429	46,950
Bank and other borrowings		3,164,023	1,276,968
Derivative financial instruments	<i>12</i>	—	26,612
Convertible bonds	<i>12</i>	312,420	289,982
Lease liabilities		2,595	1,556
Income tax payable		6,301	12,967
		<u>5,368,956</u>	<u>3,146,930</u>
Total current liabilities		<u>5,368,956</u>	<u>3,146,930</u>
Net current liabilities		<u>(4,548,148)</u>	<u>(2,434,847)</u>
Total assets less current liabilities		<u>4,820,540</u>	<u>6,940,395</u>
Non-current liabilities			
Bank and other borrowings		1,203	1,947,327
Lease liabilities		2,029	813
Deferred tax liabilities		593,463	590,840
		<u>596,695</u>	<u>2,538,980</u>
Total non-current liabilities		<u>596,695</u>	<u>2,538,980</u>
NET ASSETS		<u>4,223,845</u>	<u>4,401,415</u>
Capital and Reserves			
Share capital	<i>13</i>	298	297
Reserves		4,223,547	4,401,118
		<u>4,223,845</u>	<u>4,401,118</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>4,223,845</u>	<u>4,401,415</u>

NOTES

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and continued in Bermuda with limited liability. The address of its registered office and principal place of business are disclosed in the corporate information section of the interim report. The Group is principally engaged in mining and processing of gold ores and sale of gold products in The People's Republic of China (the "PRC"), trading of metals and minerals in the PRC, and provision of financial services business in Hong Kong and the PRC, including asset management, securities brokerage, financing and advisory services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Company have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

In preparing the interim condensed consolidated financial statements, the Directors have considered the future liquidity of the Group. The Group incurred a loss attributable to owners of the Company of HK\$204,049,000 for the six months ended 30 June 2021 and, as at 30 June 2021, the Group had net current liabilities of HK\$4,548,148,000. Also, the Group has been served a petition for winding up and several other claims commenced by different parties, details of which are set out in Note 15 below. These conditions indicate the existence of a material uncertainty which may cast a doubt on the Group's ability to continue as a going concern. In view of the above circumstances, the Directors have given careful consideration to the future liquidity and financial position of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including but not limited to, the following:

- (a) The Group has been arranging for ongoing communication with its creditors and lenders of various borrowings, and monitored closely any settlement requests to discharge the litigations as disclosed in Note 15.
- (b) Management of the Group has been implementing various measures and actions in order to improve the Group's revenue to adequately serve its operating expenses and finance costs.
- (c) The Group will consider various alternatives, including but not limited to, disposal of equity interest of group entities engaging in mining operations or disposal of the Group's mining rights and/or mining structures, to obtain additional funds to support the Group's working capital needs.
- (d) The Group will solicit for further financing arrangements which include new potential borrowings from various lenders.

Accordingly, the Directors are satisfied that, although the Group faces severe challenges, it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Should the Group fail to achieve the above, it might not be able to continue to operate as a going concern, and adjustments would have to be made to re-classify the Group's non-current assets and non-current liabilities as current assets and current liabilities respectively, to write down the carrying values of the Group's assets to their net realisable amounts and to provide for any provision for any contractual commitments that have become onerous. The effects of these adjustments have not been reflected in the interim condensed consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s interim condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to HKFRSs in respect of the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents (i) sales value of gold products and other by-products to customers (net of value added tax, returns and discounts) under the Gold Mining Operation (as defined below); (ii) sales value of metals and minerals under the Trading of Metals and Minerals operation (as defined below); and (iii) management and performance fees, securities commission and brokerage fee income under the Financial Services Operation (as defined below). An analysis of the Group’s revenue is set out below:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Revenue from contracts with customers arising from Gold Mining Operation		
Sale of		
– Gold products	479,870	321,646
– Other by-products	13,638	17,169
	<u>493,508</u>	<u>338,815</u>
Revenue from contracts with customers arising from Trading of Metals and Minerals		
– Sales of metal and minerals	—	288,788
Revenue from contracts with customers arising from Financial Services Operation		
– Income for management service and brokerage service rendered	82	1,034
Total revenue from contracts with customers	<u><u>493,590</u></u>	<u><u>628,637</u></u>
Timing of revenue recognition:		
At point in time	493,508	627,603
Over time	82	1,034
	<u><u>493,590</u></u>	<u><u>628,637</u></u>

(a) **Revenue (continued)**

Performance obligation

Information about the Group's performance obligations is summarised below:

Sales of gold products and other by-products

The performance obligation is satisfied upon delivery of goods.

Sales of metals and minerals

The performance obligation is satisfied upon delivery of goods.

Management services

The performance obligation is satisfied upon services are rendered.

Brokerage services

The performance obligation is satisfied upon services are rendered.

(b) **Segment Information**

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (i) mining and processing of gold ores and sales of gold products and other by-products (the “**Gold Mining Operation**”);
- (ii) purchase and sales of metals and minerals (the “**Trading of Metals and Minerals**”); and
- (iii) provision of financial services including asset management, securities brokerage, financing and advisory services (the “**Financial Services Operation**”).

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that interest income and finance costs are excluded from such measurement.

Segment liabilities exclude bank and other borrowings, convertible bonds and related derivative financial instruments and other unallocated corporate liabilities as these liabilities are managed on a group basis.

More than 90% of the Group's revenue was derived from activities in the PRC and its principal assets were located in the PRC during the Reporting Period. Accordingly, no analysis by geographical information is provided.

The following is an analysis of the Group's revenue and results by reportable segments:

	Six months ended 30 June 2021				Six months ended 30 June 2020			
	(Unaudited)				(Unaudited)			
	Gold Mining Operation	Trading of Metals and Minerals	Financial Services Operation	Total	Gold Mining Operation	Trading of Metals and Minerals	Financial Services Operation	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue								
— External sales	<u>493,508</u>	<u>—</u>	<u>82</u>	<u>493,590</u>	<u>338,815</u>	<u>288,788</u>	<u>1,034</u>	<u>628,637</u>
Segment (loss)/profit	<u>(36,486)</u>	<u>—</u>	<u>2,533</u>	<u>(33,953)</u>	<u>30,926</u>	<u>308</u>	<u>(11,240)</u>	<u>19,994</u>
Reconciliation:								
Interest income				76				491
Finance costs				<u>(169,127)</u>				<u>(134,684)</u>
Loss before tax				<u>(203,004)</u>				<u>(114,199)</u>
Other segment information								
Capital expenditure	<u>57,534</u>	<u>—</u>	<u>—</u>	<u>57,534</u>	<u>76,739</u>	<u>—</u>	<u>—</u>	<u>76,739</u>
Depreciation and amortisation	<u>137,069</u>	<u>—</u>	<u>13</u>	<u>137,082</u>	<u>87,963</u>	<u>—</u>	<u>21</u>	<u>87,984</u>
Share of profit of an associate	<u>—</u>	<u>—</u>	<u>1,125</u>	<u>1,125</u>	<u>—</u>	<u>—</u>	<u>951</u>	<u>951</u>

The following is an analysis of the Group's assets and liabilities by reportable segments:

	At 30 June 2021				At 31 December 2020			
	(Unaudited)				(Audited)			
	Gold Mining Operation	Trading of Metals and Minerals	Financial Services Operation	Total	Gold Mining Operation	Trading of Metals and Minerals	Financial Services Operation	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<u>9,842,547</u>	<u>—</u>	<u>346,949</u>	<u>10,189,496</u>	<u>9,722,562</u>	<u>—</u>	<u>364,763</u>	<u>10,087,325</u>
Corporate and other unallocated assets				<u>—</u>				<u>—</u>
Total assets				<u>10,189,496</u>				<u>10,087,325</u>
Segment liabilities	<u>2,438,075</u>	<u>—</u>	<u>49,930</u>	<u>2,488,005</u>	<u>2,102,060</u>	<u>—</u>	<u>42,962</u>	<u>2,145,022</u>
Corporate and other unallocated liabilities				<u>3,477,646</u>				<u>3,540,888</u>
Total liabilities				<u>5,965,651</u>				<u>5,685,910</u>

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Customer A	<i>(i)</i>	93,727	118,179
Customer B	<i>(i)</i>	121,170	N/A*
Customer C	<i>(i)</i>	51,917	N/A*
Customer D	<i>(ii)</i>	N/A*	108,394
Customer E	<i>(iii)</i>	N/A*	130,672
Customer F	<i>(iii)</i>	N/A*	106,171

* The transactions with these customers did not contribute 10% or more of total revenue of the Group for the six months ended 30 June 2021 or 2020.

Notes:

- (i) Revenue from Gold Mining Operation.
- (ii) Revenue from Gold Mining Operation and Trading of Metals and Minerals.
- (iii) Revenue from Trading of Metals and Minerals.

5. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Bank interest income	76	491
Sundry income	2,600	1,203
	2,676	1,694
Other gains/(losses), net		
Exchange loss, net	(1,268)	(2,740)
Gain on termination of lease	—	55
Gain on disposal of fixed assets	—	438
	(1,268)	(2,247)

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting) the following items:

	Six months ended 30 June	
	2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank and other borrowings	172,517	151,211
Interest on convertible bonds (<i>note 12</i>)	<u>24,042</u>	<u>22,567</u>
Total interest expenses on financial liabilities	196,559	173,778
Less: Interest capitalised into construction in progress	<u>(1,043)</u>	<u>(1,086)</u>
	195,516	172,692
Interest on lease liabilities	80	139
Fair value gain on derivative financial instruments (<i>note 12</i>)	<u>(26,469)</u>	<u>(38,147)</u>
	<u>169,127</u>	<u>134,684</u>
(b) Other items:		
Cost of inventories sold under Gold Mining Operation (<i>note</i>)	471,381	263,037
Cost of inventories sold under Trading of Metals and Minerals	<u>—</u>	<u>288,480</u>
Total cost of sales	471,381	551,517
Amortisation of intangible assets	44,562	44,210
Depreciation and amortisation of fixed assets	90,555	41,710
Depreciation of right-of-use assets	1,965	2,064
Lease payments for short term leases	<u>11,084</u>	<u>1,834</u>

Note: Cost of inventories sold under the Gold Mining Operation includes depreciation and amortisation expenses, totalled HK\$134,180,000 (six months ended 30 June 2020: HK\$86,094,000), which are included in each of these types of expenses separately disclosed above.

7. INCOME TAX (EXPENSE)/CREDIT

(a) Tax in the condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax		
— PRC Enterprise Income Tax	(1,248)	—
Under-provision in prior years		
— PRC Enterprise Income Tax	(1,501)	(589)
	(2,749)	(589)
Deferred tax credit	1,704	3,421
Total income tax (expense)/credit	(1,045)	2,832

- (b) (i) The provision for PRC income tax is calculated based on 25% of the assessable profits of the Group's subsidiaries for the six months ended 30 June 2021 and 2020.
- (ii) No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the six months ended 30 June 2021 and 2020.
- (iii) Pursuant to the rules and regulations of Bermuda, the Cayman Islands and the British Virgin Islands, the Group is exempted from any income tax in Bermuda, the Cayman Islands and the British Virgin Islands.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 and 2020.

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$204,049,000 (six months ended 30 June 2020: HK\$111,367,000) and on the weighted average of approximately 297,780,000 ordinary shares in issue during the current period (six months ended 30 June 2020: 297,071,000 ordinary shares).

The weighted average of approximately 297,071,000 ordinary shares used for the calculation of the basic loss per share for the six months ended 30 June 2020 has been adjusted to take into account the effect of the share consolidation of twenty ordinary shares of the Company into one new share implemented by the Group with effect from 10 August 2020.

(b) Diluted loss per share

The calculation of diluted loss per share does not assume the exercise of the Company's outstanding share options or conversion of outstanding convertible bonds which had anti-dilutive effect and would result in a reduction in loss per share for the six months ended 30 June 2021 and 2020.

No diluted loss per share is presented as there were no other potential ordinary shares in issue for each of the six months ended 30 June 2021 and 2020.

10. TRADE, LOANS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

		At 30 June 2021 (Unaudited) <i>HK\$'000</i>	At 31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Trade and loans receivables	<i>(a)-(c)</i>	195,122	163,095
Other receivables		280,261	169,708
		<hr/>	<hr/>
Total trade, loans and other receivables		475,383	332,803
Less: Impairment losses recognised		(169,079)	(174,289)
		<hr/>	<hr/>
Trade, loans and other receivables, net		306,304	158,514
Deposits and prepayments		144,546	108,696
		<hr/>	<hr/>
		450,850	267,210
		<hr/> <hr/>	<hr/> <hr/>

At the end of the Reporting Period, all of the trade, loans and other receivables, deposits and prepayments are expected to be recovered or recognised as expenses within one year.

(a) Trade and loans receivables

		At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Trade receivables under the Gold Mining Operation			
Gross amount		71,354	43,864
Less: impairment loss recognised		<u>(1,221)</u>	<u>(1,205)</u>
Net receivables	(b)	<u>70,133</u>	<u>42,659</u>
Trade and loans receivables under the Financial Services Operation			
Gross amount		123,768	119,231
Less: impairment loss recognised		<u>(120,300)</u>	<u>(118,780)</u>
Net receivables	(c)	<u>3,468</u>	<u>451</u>
Trade and loans receivables, net		<u><u>73,601</u></u>	<u><u>43,110</u></u>

(b) Trade receivables under the Gold Mining Operation

An aged analysis of the trade receivables under the Gold Mining Operation (net of allowance for doubtful debts) based on invoice date at end of the Reporting Period is as follows:

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Less than two months	17,199	34,346
More than two months but less than four months	7,186	526
More than four months but less than six months	40,669	—
More than six months but less than one year	654	2,353
More than one year	<u>4,425</u>	<u>5,434</u>
	<u><u>70,133</u></u>	<u><u>42,659</u></u>

The Group generally requires the customers to make payment on the date of delivery of products or within 7 days after delivery of products. Credit term within several months which is determined by per-transaction basis with reference to the product is granted to the customers with high credibility.

Impairment under HKFRS 9

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (“ECL”). The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

At the end of the Reporting Period, trade receivables under the Gold Mining Operation that were neither past due nor impaired relate to certain independent customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to certain independent customers that have a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances.

(c) Trade and loans receivables under the Financial Services Operation

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Trade receivables from management service and securities brokerage business, net of impairment losses recognised:		
– Cash clients (<i>note (i)</i>)	48	44
– Hong Kong Securities Clearing Company Limited (“HKSCC”), net (<i>note (i)</i>)	175	258
– Accounts receivable arising from other services (<i>note (ii)</i>)	3,245	149
	<u>3,468</u>	<u>451</u>

Notes:

- (i) The settlement terms of the receivables arising from cash clients and HKSCC are one or two trade days after the trade execution date. These receivables are not past due at the end of the Reporting Period.
- (ii) Accounts receivable arising from the other services are receivable in accordance with the contract terms.
- (iii) Aged analysis of receivables arising from securities brokerage business is not presented as management of the Company considered that the aged analysis does not give additional value in view of the nature of this business.

Impairment under HKFRS 9

The Group applies general approach to measuring ECL for the trade and loan receivables from other financial services business as these business contained a significant financing component. ECLs are recognised in two stages. For credit exposures which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

At the end of the Reporting Period, trade and loans receivables of HK\$120,300,000 (31 December 2020: HK\$118,780,000) under the Financial Services Operation of the Group were past due more than one year. Having considered the financial position of the borrowers, management of the Group is of the view that the recoverability of these loans receivable is remote, accordingly, impairment loss on the loans receivable was fully recognised in profit or loss. Receivables that were past due but not impaired included cash clients from securities brokerage business amounted to HK\$3,468,000 (31 December 2020: HK\$451,000). The Group held the securities of these cash clients of securities brokerage business as collateral over their individual balance. The management believed that no impairment allowance was necessary in respect of these receivables.

11. TRADE AND OTHER PAYABLES, AND CONTRACT LIABILITIES

		At 30 June 2021 (Unaudited) <i>HK\$'000</i>	At 31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Trade payables	<i>(a)</i>	236,088	193,694
Accrued charges and other payables		1,288,734	1,123,109
Deposits received on disposal of subsidiaries	<i>(d)</i>	17,633	17,633
Deposits received on capital injection of a subsidiary	<i>(e)</i>	240,600	118,780
Receipts in advance	<i>(f)</i>	39,133	38,679
		<hr/> 1,822,188 <hr/>	<hr/> 1,491,895 <hr/>
Trade and other payables			
Contract liabilities			
Receipts in advance from customers	<i>(g)</i>	61,429	46,950
		<hr/> 61,429 <hr/>	<hr/> 46,950 <hr/>

(a) Trade payables

		At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Trade payables under the Gold Mining Operation	(b)	231,809	190,495
Trade payables under the Financial Services Operation	(c)	<u>4,279</u>	<u>3,199</u>
		<u>236,088</u>	<u>193,694</u>

(b) Trade payables under the Gold Mining Operation

An aged analysis of trade payables under the Gold Mining Operation based on invoice date at the end of the Reporting Period is as follows:

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Less than three months	79,972	36,446
More than three months but less than one year	20,425	48,813
More than one year	<u>131,412</u>	<u>105,236</u>
	<u>231,809</u>	<u>190,495</u>

(c) Trade payables under the Financial Services Operation

	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
Trade payables under securities brokerage business:		
– Cash clients (note (i))	2,636	2,678
– Margin clients (note (ii))	<u>1,643</u>	<u>521</u>
	<u>4,279</u>	<u>3,199</u>

Notes:

- (i) The settlement terms of trade payables under securities brokerage business are two days after the trade date. Trade payables to cash clients also include those payables which arose from clients' cash deposits (client trust bank balances) for securities brokerage transactions.
- (ii) Payables to margin clients are repayable on demand.
- (iii) No aged analysis of trade payables to cash clients and margin clients is presented as management of the Group considers that the aged analysis does not give additional value in view of the nature of these trade payables.

(d) Deposits received on disposal of subsidiaries

In January 2020, the Group and a third party entered into an agreement, under which the Group has agreed to dispose of and the third party has agreed to acquire 100% equity interests in certain subsidiaries for an aggregate consideration amounted to a maximum of HK\$23,100,000, of which deposits of approximately HK\$17,633,000 were received by the Group. Completion of the disposal of these subsidiaries has not taken place up to the end of the Reporting Period and the date of approval of these interim condensed consolidated financial statements.

(e) Deposits received on capital injection of a subsidiary

In February 2021, the Group and a third party entered into an agreement, under which the third party has agreed to make a capital injection of RMB240,000,000 to a subsidiary of the Company. Up to the end of the Reporting Period, total cash of RMB200,000,000 (equivalent to approximately HK\$240,600,000) (31 December 2020: RMB100,000,000 equivalent to HK\$118,780,000) for the proposed capital injection was received by the Group from the third party. Subsequent to the end of the Reporting Period, the proposed capital injection lapsed on 24 August 2021 and related agreement became invalid.

(f) Receipts in advance

As at 30 June 2021 and 31 December 2020, the receipts in advance represents mainly government grants received in advance.

(g) Contract liabilities

The contract liabilities (receipts in advance from customers) amounted to approximately HK\$61,429,000 (31 December 2020: HK\$46,950,000) are expected to be recognised as revenue within the coming year.

12. CONVERTIBLE BONDS

	Liability component <i>HK\$'000</i>	Derivatives <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020 (audited)	272,391	55,802	328,193
Conversion into shares	(488)	(100)	(588)
Interest paid	(28,048)	—	(28,048)
Interest expense charged to consolidated statement of profit or loss	46,127	—	46,127
Fair value gain	—	(29,090)	(29,090)
	<hr/>	<hr/>	<hr/>
At 31 December 2020 and 1 January 2021 (audited)	289,982	26,612	316,594
Conversion into shares	(1,604)	(143)	(1,747)
Interest expense charged to condensed consolidated statement of profit or loss (<i>note 6(a)</i>)	24,042	—	24,042
Fair value gain (<i>note 6(a)</i>)	—	(26,469)	(26,469)
	<hr/>	<hr/>	<hr/>
At 30 June 2021 (unaudited)	<u>312,420</u>	<u>—</u>	<u>312,420</u>

13. SHARE CAPITAL

	Number of shares <i>'000</i>	<i>HK\$'000</i>
<i>Notes</i>		
Authorised:		
Ordinary shares of HK\$0.001 each at 1 January 2020	50,000,000	50,000
Share consolidation and change of par value arising from Capital Reorganisation	<i>(ii)</i> (47,500,000)	(47,500)
	<hr/>	<hr/>
At 31 December 2020, 1 January 2021 and 30 June 2021	<u>2,500,000</u>	<u>2,500</u>
Issued and fully paid:		
Ordinary shares of HK\$0.001 each at 1 January 2020 (audited)	5,935,722	5,936
Ordinary shares of HK\$0.001 each issued upon conversion of convertible bonds	<i>(i)</i> 6,176	6
	<hr/>	<hr/>
Ordinary shares of HK\$0.001 each before Capital Reorganisation	5,941,898	5,942
Share consolidation and change of share par value arising from Capital Reorganisation	<i>(ii)</i> (5,644,803)	(5,645)
	<hr/>	<hr/>
Ordinary shares of HK\$0.001 each at 31 December 2020 and 1 January 2021 (audited)	297,095	297
Ordinary shares of HK\$0.001 each issued upon conversion of convertible bonds	<i>(iii)</i> 1,148	1
	<hr/>	<hr/>
Ordinary shares of HK\$0.001 each at 30 June 2021 (unaudited)	<u>298,243</u>	<u>298</u>

Notes:

- (i) During the year ended 31 December 2020, convertible bonds with an aggregate principal amount of HK\$543,408 were converted into 6,175,088 new ordinary shares of the Company of HK\$0.001 each (note 12).
- (ii) On 29 June 2020, the Company proposed to implement the capital reorganisation (the “**Capital Reorganisation**”) which comprised the following:
- (a) the share consolidation on the basis of every twenty (20) issued and unissued existing shares of par value HK\$0.001 each into one (1) consolidated share of par value HK\$0.02 each;
- (b) the capital reduction by way of a reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.019 on each of the issued consolidated shares so that the nominal value of each issued consolidated share will be reduced from HK\$0.02 to HK\$0.001; and
- (c) the share subdivision of each authorised but unissued consolidated share of HK\$0.02 (including those arising from the Capital Reduction) into twenty (20) adjusted shares of HK\$0.001 each.

The proposed Capital Reorganisation was approved in the special general meeting held on 6 August 2020. The Capital Reorganisation became effective on 10 August 2020. The number of issued ordinary shares was reduced from 5,941,898,079 to 297,094,903 upon the completion of the share consolidation. The consolidated shares rank pari passu in all respects with each other. A credit of approximately HK\$5,644,803 arisen from the capital reduction was transferred from the share capital account to the contributed surplus account of the Company. Details of the Capital Reorganisation are set out in the Company’s circular dated 21 July 2020 and the Company’s announcements dated 29 June 2020, 14 July 2020, 21 July 2020, 6 August 2020 and 10 August 2020.

- (iii) During the six months ended 30 June 2021, convertible bonds with an aggregate principal amount of HK\$1,630,223 were converted into 1,148,044 new ordinary shares of the Company of HK\$0.001 each (note 12).

14. PLEDGE OF ASSETS

The Group’s assets which have been pledged to secure bank and other borrowings are as follows:

	At 30 June 2021 (Unaudited) HK\$’000	At 31 December 2020 (Audited) HK\$’000
Intangible assets — mining rights	3,098,706	3,102,669
Fixed assets	753,144	751,139
Investments in equity instruments at FVTOCI	308,877	329,183
Pledged bank deposits	78,195	77,207
	<u>4,238,922</u>	<u>4,260,198</u>

Except as disclosed above, as at 30 June 2021, all issued shares of two (31 December 2020: two) and 49% issued shares of two (31 December 2020: two) subsidiaries of the Company were pledged as security for the Group's bank and other borrowings.

15. LITIGATIONS

At the end of the Reporting Period, there are the following material litigations pending against the Group:

(a) Writ issued by Chance Talent Management Limited against the Company in Hong Kong

Chance Talent Management Limited ("**Chance Talent**", a third party) alleges that, inter alia, the Company has knowingly received the funds from Chance Talent and dishonestly assisted Tai Ning Investment Holdings Limited ("**Tai Ning**", a third party) in breaching its fiduciary owed by Tai Ning to Chance Talent and as such Chance Talent claims against the Company, inter alia, a sum of HK\$247,337,000 and its corresponding interest. Details of the background and the development of this litigation are set out in the Company's published consolidated financial statements for the year ended 31 December 2020 ("**The Company's 2020 consolidated financial statements**").

During the current period, on 21 April 2021, Chance Talent filed a reply to the Company's Amended Defense and not admitting the Company's claims contained therein.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing.

(b) Writ issued by Yan Nan against the Company in Hong Kong

A legal claim was lodged by Yan Nan (a third party) against the Company for immediate repayment of the bond issued by the Company and held by Yan Nan with the principal amount of HK\$5,000,000 together with interest therein on the ground that an event of default was triggered by the Company on the purported basis that the Company is unable to repay its debts. This bond was included in other borrowings of the Group at 30 June 2021. Details of the background and the development of this litigation are set out in the Company's published 2020 consolidated financial statements.

Yan Nan has filed a reply to the Company's Defense, reiterating her allegations in the Statement of Claim.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing.

(c) Pingan Bank Co., Ltd. Kunming Branch against the Company and certain subsidiaries

During the current period, a legal claim was lodged by Pingan Bank Co., Ltd., Kunming Branch ("**Pingan Bank**") against the Company and certain of its wholly-owned subsidiaries who failed to perform their obligations to repay RMB192,922,176.37 and interest accrued thereon to Pingan Bank within the specified time. Details of the background and the development of this litigation are set out in the Company's announcement dated 28 May 2021.

On 22 June 2021, Pingan Bank applied for enforcement at Yunnan Kunming Intermediate People's Court. On 29 July 2021, the court ordered for the Company and the related subsidiaries, as defendants, to comply with the requirements of the issued legal documents.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing and certain of the Group's investments in equity instruments at fair value through other comprehensive income (with a carrying amount of approximately HK\$296,683,000 at 30 June 2021) and mining rights (with a carrying amount of approximately HK\$2,331,318,000 at 30 June 2021) were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The court has not yet commenced any auction or realization of the above assets and the Group will try to reach a settlement with Pingan Bank.

(d) Koo Yuen Kim against the Company and others

During the current period, a legal claim was lodged by Koo Yuen Kim ("Koo", a third party) against certain parties, including the Company, on the failure for repayment of the loans made by Koo to these parties. Details of the background and the development of this litigation are set out in the Company's announcements dated 18 June 2021, 14 July 2021 and 6 August 2021.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing and certain of the Group's mining rights and exploration rights (with a carrying amount of approximately HK\$2,102,492,000 at 30 June 2021) and bank deposits of approximately RMB26,000 at 30 June 2021 were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The Court has not yet commenced any auction or realization of the above assets and the Group will try to reach a settlement with Koo.

(e) Minsheng Financial Leasing Co., Ltd against the Company, certain subsidiaries and two Executive Directors

A legal claim was lodged by Minsheng Financial Leasing Co., Ltd. ("Minsheng Financial") against the Company, certain of its wholly-owned subsidiaries and two executive directors for the failure to perform the obligation to repay RMB83,994,189, the interest thereon and the related expenses to Minsheng Financial within the specified time. Details of the background and the development of this litigation are set out in the Company's announcement dated 2 July 2021. On 19 July 2021, Tianjin No. 3 Intermediate People's Court of the PRC ordered a hearing to be scheduled at 6 September 2021.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing. Certain of the Group's shareholdings in subsidiaries, mining rights (with a carrying amount of approximately HK\$1,527,656,000 at 30 June 2021) and bank accounts with deposits of approximately RMB5,104,000 at 30 June 2021 (of which approximately RMB5,092,000 are deposits applied for payment of environmental governance and are included as restricted deposits in the condensed consolidated statement of financial position at 30 June 2021) were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The court has not yet commenced any auction or realization of the above assets. The Group will try to reach a settlement with Minsheng Financial.

(f) Great Wall Guoxing Financial Leasing Co., Ltd against the Company, certain subsidiaries and an Executive Director

A legal claim was lodged by Great Wall Guoxing Financial Leasing Co., Ltd. (“**Great Wall Guoxing**”, a third party) against the Company, certain of its wholly-owned subsidiaries and an executive director of the Company for the failure to perform the obligation to repay RMB142,939,360.61, the interest thereon and the related expenses to Great Wall Guoxing within the specified time. Details of the background and the development of this litigation are set out in the Company’s announcement dated 2 July 2021.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing. Certain mining rights (with a carrying amount of approximately HK\$1,527,656,000) and bank accounts with deposits of approximately RMB85,000 were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The court has not yet commenced any auction or realization of the above assets. The Group will try to reach a settlement with Great Wall Guoxing.

(g) Henan Jiangsai Mine Engineering Company Limited against subsidiary

A legal claim was lodged by Henan Jiangsai Mine Engineering Company Limited (“**Henan Jiangsai Mine**”, a third party) in relation to a dispute on labour construction contract entered between Henan Jiangsai Mine and a wholly-owned subsidiary of the Company. Details of this background and the development of this litigation are set out in the Company’s announcement dated 2 July 2021.

Since the Company’s announcement dated 2 July 2021, on 19 July 2021, Yunnan Pu’er Intermediate People’s Court held a hearing on 26 August 2021, but the Group has not yet received any orders from the court.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing. Certain of the Group’s shareholdings in subsidiaries were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The court has not yet commenced any auction or realization of the above assets. The Group will try to reach a settlement with Henan Jiangsai Mine.

(h) Yan Pengpeng against certain subsidiaries

A legal claim was lodged by Yan Pengpeng (a third party) against a subsidiary of the Company in relation to the failure of that subsidiary and certain other wholly-owned subsidiaries as the guarantors, to perform the obligation to repay RMB17,667,000, the interest thereon and the related expenses to Yan Pengpeng within the specified time. In addition, the court accepted the application of Yan Pengpeng to freeze the bank deposit of the enforcees in the amount of RMB17,666,000, or to seize and distraint other property of the enforcees in equivalent value.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation case is still ongoing. Certain of the Group’s shareholdings in subsidiaries were seized and frozen by the court. During the period of seizure, the Group shall be prohibited from making any mortgage, transfer or alteration of the above assets. The court has not yet commenced any auction or realization of the above assets. The Group will try to reach a settlement with Yan Pengpeng.

(i) Writ issued by Liang Yanfang against the Company in Hong Kong

A legal claim was lodged by Liang Yanfang (a third party) against the Company demand for, inter alia, to immediate repayment of the bond issued by the Company and held by Liang Yanfang with a principal amount of HK\$10,000,000 and outstanding interest thereon. This bond was included in other borrowings of the Group at 30 June 2021. Details of the background and the development of this litigation are set out in the Company's announcement dated 26 August 2021.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation is ongoing and the Company is currently seeking legal advice in this regard.

(j) Winding Up Petition by Lu Xi against the Company in Hong Kong

A winding up petition was lodged by Lu Xi (a third party) against the Company on the ground that the Company is indebted to the Petitioner in the sum of HK\$5,650,000 (which the Petitioner amended to HK\$5,975,000), being the aggregate sum of the principal amount of HK\$5,000,000 of the bond together with interest thereon of HK\$650,000 (which the Petitioner amended to HK\$975,000) accrued for the bond issued by the Company and held by Lu Xi. This bond was included in other borrowings of the Group at 30 June 2021. Details of the background and the development of this litigation are set out in the Company's announcements dated 20 August 2021 and 24 August 2021.

Up to the date of approval of these interim condensed consolidated financial statements, this litigation is ongoing and the Company is actively dealing with the Petition and is in the course of seeking legal advice in respect of the Petition. The Company is currently assessing the implications of the Petition including but not limited to the triggering of the cross-default provisions of the other bonds and convertible bonds issued by the Group and other borrowings or debts owed by the Group.

Certain assets of the Group were seized and frozen by the respective courts for more than one litigation case. In summary, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, mining rights (with an aggregate carrying amount of approximately HK\$4,155,499,000 at 30 June 2021) and bank accounts with deposits of approximately RMB6,109,000 at 30 June 2021 (of which approximately RMB5,092,000 and RMB917,000 are deposits applied for payment of environmental governance and payment of land reclamation, and these deposits are included as restricted deposits in the Group's condensed consolidated statement of financial position at 30 June 2021) were seized and frozen by the court.

Save as the case as disclosed in Note (a), all other material litigations were in relation to alleged failure to perform the obligation of the related liabilities already recognised in these condensed consolidated interim financial statements. In the opinion of the Directors, no provisions for these litigations are considered necessary. As for the case as disclosed in Note (a), the Directors have obtained legal opinion and considered that the Group has meritorious defence and will continue to contest the proceedings in court. Accordingly, no provision for this litigation is considered necessary to be made.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Key highlights

- Loss from operations of HK\$35 million (2020: profit from operations of HK\$20 million)
- Net loss increased by 84% to HK\$204 million (2020: HK\$111 million)
- Loss per share increased by 83% to HK68.52 cents (2020: HK37.49 cents)
- Total comprehensive expenses increased by 16% to HK\$179 million (2020: HK\$154 million)
- Revenue decreased by 21% to HK\$494 million (2020: HK\$629 million)
- Gold production increased by 21% to 35 thousand ounces (2020: 29 thousand ounces)
- Gearing ratio increased to 44% at 30 June 2021 (31 December 2020: 43%)

Revenue and Results

During the Reporting Period, the Group recorded loss from operations of HK\$35 million as compared with profit from operations of HK\$20 million last reporting period. The turnaround to the loss from operations is mainly due to the decrease in gross profit mentioned in following paragraph in this section. Accordingly, the Group's loss after tax increased to HK\$204 million during the Reporting Period as compared to HK\$111 million in the last reporting period.

During the Reporting Period, the Group's revenue decreased by 21% to HK\$494 million (2020: HK\$629 million). The decrease in revenue is mainly arisen from the decrease in trading of metals and minerals during the Reporting Period. The gross profit margin of the Group decreased to 4% during the Reporting Period (2020 full year of 17% and 2020 first-half of 12%) which is attributable to the increase in the Group's production costs per unit. In addition, increased mining depth and complicated geologic structure in the mining site currently under production pushed production cost higher.

The Group's total comprehensive expenses increased by 16% to HK\$179 million during the Reporting Period as compared to HK\$154 million in the last reporting period. The increased in total comprehensive expenses is mainly attributable to the increase in loss after tax as mentioned above. However, the increase of total comprehensive expenses is eroded by an exchange gain (arisen from appreciation of exchange rate of RMB against HK\$) on translation of financial statements of PRC subsidiaries and associate to HK\$46 million during the Reporting Period (2020: exchange loss of HK\$96 million).

Details of the segment information of the Group's revenue and results from its gold mining business, trading of metals and minerals and financial services business are set out in note 4 in the interim condensed consolidated financial statements.

During the Reporting Period, the loss per share of the Company was HK68.52 cents (2020: HK37.49 cents).

Other Income and Other Losses

During the Reporting Period, the Group's other income were HK\$3 million (2020: HK\$2 million), which were approximate with last reporting period.

The Group's other losses were HK\$1 million (2020: HK\$2 million) which were approximate with last reporting period.

Selling and Distribution Costs

During the Reporting Period, the Group's selling and distribution costs was approximate to that of the last reporting period of HK\$5 million.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses increased to HK\$54 million (2020: HK\$52 million), representing an increase by 4% as compared with last reporting period.

Finance Costs

During the Reporting Period, the Group's finance costs were HK\$169 million (2020: HK\$135 million), representing an increase by 25% as compared to last reporting period. The increase in finance costs is mainly due to the increase in total interest expenses on financial liabilities to HK\$197 million (2020: HK\$174 million) and the decrease in non-cash fair value gain on derivative financial instruments relating to the convertible bonds from HK\$38 million in the last reporting period to HK\$26 million during the Reporting Period.

Deferred Tax

As at 30 June 2021, the Group's deferred tax liabilities amounted to HK\$593 million (31 December 2020: HK\$591 million), which represented mainly the estimated tax effects of the temporary differences arising from acquisitions of gold mines by the Group in previous years and was calculated at PRC income tax rate of 25% on the increase in fair value of mining rights. The deferred tax liability balance will be subsequently reversed and the majority of which credited to the consolidated statement of profit or loss as a result of tax effect of the amortisation of the mining rights. Such liabilities were accounted for in accordance with the accounting principle and therefore no repayment is required.

Liquidity and Financial Resources

At 30 June 2021, the Group's cash and bank balances (including pledged deposits) and net current liabilities were HK\$118 million (31 December 2020: HK\$166 million) and HK\$4,548 million (31 December 2020: HK\$2,435 million) respectively. The increase in the Group's net current liabilities is mainly attributable to the increase in bank and other borrowings under current liabilities of HK\$1,887 million at 30 June 2021 which was arisen from a classification of bank and other borrowings under non-current liabilities at 31 December 2020 to current liabilities at 30 June 2021. The Group's net assets decreased to HK\$4,224 million (31 December 2020: HK\$4,401 million).

As at 30 June 2021, the Group's bank and other borrowings were repayable within one to three years and its fixed rate borrowings over total borrowings was 92%. There is no significant seasonality of the borrowings demand of the Group. Further details of the Group's bank and other borrowings are set out in the interim report.

The Group's cash and bank balances and bank and other borrowings are mainly denominated in Hong Kong Dollars and Renminbi.

CAPITAL STRUCTURE

As at 30 June 2021, the total number of issued ordinary shares of the Company was 298,242,947 at par value of HK\$0.001 each.

During the Reporting Period, some bondholders have converted their bonds into 1,148,044 new ordinary shares of the Company.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher returns to the owners of the Company that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. There were no changes in the Group's approach to capital management during the Reporting Period.

At 30 June 2021, the Group's gearing ratio increased to 44% (31 December 2020: 43%). The Group monitors capital using a gearing ratio, which is calculated as the net debts divided by total equity plus net debts. The Group's net debts include bank and other borrowings and convertible bonds, less cash and cash equivalents and pledged deposits. The Group's total equity comprises total share capital and reserves of the Group.

PLEDGE OF ASSETS

Details of the pledge of the Group's assets are set out in note 14 in this announcement.

CONTINGENT LIABILITIES AND LITIGATIONS

The Group has been served a petition for winding up and several other claims commenced by different parties. No material provision was made against these claims because the Directors, having obtained legal advice, believe that the Group has meritorious defense against the plaintiffs of such claims, or the related claims are already reflected in these condensed consolidated interim financial statements as liabilities. For details of the litigations which the Group is involved, please refer to Note 15 to this announcement.

Save as the above, the Group did not have other material contingent liabilities as at 30 June 2021.

FOREIGN EXCHANGE RISK

The Group's principal assets and liabilities are located in the PRC and are denominated in RMB which is the functional currency of the Group's subsidiaries in the PRC. The Group did not enter into any forward foreign exchange contracts to manage its foreign currency risk during the Reporting Period as the Directors considered that the Group's exposure to exchange rate risk can be managed.

BUSINESS RISK

The Group is exposed to price risks arising from the market price fluctuations on gold products. To protect the Group from the impact of price fluctuations in gold products, the management closely monitors gold product price exposure and will consider to use derivative contracts should the need arises.

SIGNIFICANT INVESTMENTS

At 30 June 2021, the Group had investments in equity instruments at fair value through other comprehensive income of HK\$309 million, representing 3% of the Group's total assets, which include mainly investment in an unlisted company in the PRC of approximately HK\$297 million and investment in a private equity fund in the PRC of HK\$12 million.

Save as disclosed above, the Group did not have any other significant investments at 30 June 2021.

EMPLOYEES

As at 30 June 2021, the Group employed approximately 680 employees in the PRC and Hong Kong. All employees are remunerated according to their performance, experience and prevailing industry practices. Both on-the-job and professional training are provided as well. The Group provides retirement benefits in the form of Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Scheme Ordinance to its employees in Hong Kong. The Group provides defined contribution retirement benefit schemes organised by the relevant local government authorities in the PRC to its employees in the PRC.

EVENTS AFTER THE REPORTING PERIOD

Details of the Group's events after the Reporting Period are set out in the interim report.

GOLD MARKET OUTLOOK

In the second quarter of 2021, the gold demand remained in line with that of 2020 at 955.1 tonnes. In the first half of 2021, the overall gold demand decreased by 10% to about 1,833.1 tonnes according to the research of World Gold Council.

In the second quarter, consumer demand in jewellery rebounded by 60% to 390.7 tonnes but remained well below typical pre-pandemic levels. Gold-backed exchange-traded funds (“ETFs”) saw modest inflows of 40.7 tonnes in the second quarter but merely partly offset the huge outflows from the first quarter. While demand for bar and coin investment saw sizable growth of 56% to 243.8 tonnes. Central bank buying in the second quarter increased by 214% at 199.9 tonnes driven by a continued focus on diversification and risk management. Gold used in technology sector continued to recover by 18% at 80 tonnes in the second quarter.

The lower interest rate, continued fear of inflation and US dollar weakness helped to improve investors sentiment and lift gold prices by 4.3% averaging US\$1,816.5/oz in the second quarter. Gold price mainly gained support from recovery of ETF investment which were concentrated in western markets with huge inflows from US, Germany and France as well as a strong central bank buying with large scale purchases by Thailand, Hungary and Brazil.

The total supply of gold, rose by 13% to 1,171.7 tonnes in the second quarter, led by a 16% surge in mine production, mainly owing to less disruption caused by the pandemic.

Gold price enjoyed only a small rise in the first half of 2021. Looking forward in the second half of the 2021, elements such as the increased efforts from governments to aid global economic recovery, relative low interest rates environment, the success of vaccination campaigns, possible inflation concerns as well as the continued geopolitical uncertainties are likely to boost consumer and investment demands for gold. This would be supportive for further upward trend of gold price in the second half of the 2021.

BUSINESS REVIEW

Gold Mining Business

During the period under review, the Group continued to focus on the mine development and reserving converted exploration. Total gold production was 35 thousand ounces during the Reporting Period, a 21% increase as compared to the last reporting period.

Nevertheless, the Group has from time to time sought to enhance its exploration and mining activities by identifying suitable exploration and mining methods. During the first half of 2020, the Group continued with its efforts on exploration, organic expansion as well as cost control in an environmental friendly manner. We remain dedicated to the local communities, as “Operating in a Safe and Environmental friendly Manner” is our philosophy.

The installation of Xingxingyin No. 1 Shaft of Henan Jinxing Gold Mine and shaft and derrick of Houmusi No.2 Shaft was completed, and such shafts are planned to put into operation before June 2022. The mining licence of the Kangshan Mine* (康山金礦) will expire in September 2021. It is planned to renew the exploration license and start drilling operations thereafter. The production exploration project of Kangshan Mine completed certain geological and topographic surveys and geological operations including drilling in the first half of 2021, and it is planned that the drill construction and geochemical surveys and other geological operations be stated in the second half of 2021. Henan Jinxing Gold Mine actively promoted the construction of green mines, and implemented land reclamation and restoration projects.

Henan Luanling Gold Mine started construction at the mouth of prospecting through veins for prospecting in the northern blank area. The construction is expected to continue in the second half of 2021. Henan Luanling Mine has invited No.2 Geological Institution of Henan Provincial Bureau of Geo-exploration and Mineral Development to issue a detailed exploration plan for Luanling Company and is currently negotiating contracts with geological prospecting units. It is expected to carry out deep detailed survey prospecting projects within 2021. In April 2021, in accordance with the requirements of Luanchuan County’s “Comprehensive Ecological Restoration and Quality Improvement”, Luanling Company restored and improved the ecology quality of the mining area and entrusted the Greening Brigade of the County Forestry Bureau to replant white bark pine, fragrant locust, oriental arborvitae, creeper and other plants in the environmental restoration area. The development and utilization plan of the new shaft exploration project has been reviewed and filed. It is currently waiting for preliminary design, compilation and review of safety facilities involved. It is expected that the construction will start after the procedures are completed.

Yunnan Mojiang Mine has completed the geological section surveys, high-precision structural alteration mapping, drilled core cataloging and sampling of 389 drilling cores in some mining areas, and determined two key areas for prospecting and reserves increase and delineated the planned expansion of the mineral rights to the north of the mining area.

Inner Mongolia Yongfeng Gold Mine has completed the renovation of the major inclined shaft in the No.6 mining area of the Lianhuashan mining area in the first half of 2021. In order to ascertain the reserves in the deep north of the No.6 mining area, a drilling project is planned to be implemented along the surface in the north of the No.6 mining area, and the actual proven ore body extends to the middle section of the No.6 mining area. The drilling project is continuing, and will bring new resources to the development of Yongfeng Kuangye as expected upon its completion.

Financial Services Business

During the period under review, the Group has maintained one investment fund under its management in the PRC.

In the first half of 2021, there is no new funds have been raised and registered due to regulatory factors. We will continue to follow up on changes in regulatory policies and seek to raise and register new funds in the second half of 2021.

Trading of Metals and Minerals

The Group was involved in trading of metals and minerals in PRC and the revenue of this segment was approximately HK\$288,788,000 for the six months ended 30 June 2020. There are no revenue from trading of metals and minerals in 2021.

MERGERS AND ACQUISITIONS AND DISPOSAL

- (a) On 23 January 2020, the Company and another Independent Third Party (“**Purchaser**”) entered into a share purchase agreement pursuant to which the Company has agreed to sell and the Purchaser has agreed to purchase 100% of the issued shares of the Targets at the consideration equivalent to the NAV plus the Premium in cash, subject to a maximum amount of HK\$23.1 million.

After completion of the share purchase agreement, the Company will cease to have any interest in the Targets which will cease to be subsidiaries of the Company and their financial results and position will not be consolidated into the financial statements of the Company.

Details of the above disposal are set out in the Company’s announcements dated 23 January 2020, 14 February 2020 and 22 January 2021. As at the date of this announcement, the said disposal has not completed.

- (b) On 24 February 2021, Shanghai Junzhou Trading Co., Ltd. (“**Shanghai Junzhou**”) has entered into the Capital Injection Agreement (“**CIA**”) with Kong Chun Hong Kong Limited (“**Kong Chun**”), Zhuhai Munsun Asset Management Co., Ltd. (“**Zhuhai Munsun**”) and Luanchuan County Luanling Gold Mine Co., Ltd., (“**Luanling Gold Mine**”) pursuant to which Shanghai Junzhou has conditionally agreed to make the capital injection of RMB240,000,000 (equivalent to approximately HK\$288,048,000) into Luanling Gold Mine (“**Capital Injection**”).

Following the Capital Injection, the total registered capital of Luanling Gold Mine will be increased from RMB102,050,000 to RMB342,050,000. Shanghai Junzhou and the Company (through Kong Chun and Zhuhai Munsun) will hold the equity interest in Luanling Gold Mine in such proportion as to be further determined among all abovementioned parties based on a valuation on the equity interest of Luanling Gold Mine to be conducted by an independent valuer and to be agreed by all abovementioned parties. Luanling Gold Mine will remain as an indirect non-wholly owned subsidiary of the Company following the Capital Injection.

Pursuant to the Capital Injection Agreement, if the Parties fail to agree on the equity interest in the Target Company to be acquired by the Investor or if the conditions precedent is otherwise not satisfied within 6 months after the Effective Date of the Capital Injection Agreement (i.e. 24 August 2021), the Capital Injection shall terminate automatically. As the conditions precedent have not been fulfilled by and the Parties have not agreed on any further extension of the deadline for fulfilment of the conditions precedent, the Capital Injection Agreement and the Capital Injection have lapsed on 24 August 2021.

According to the Capital Injection Agreement, the amount paid to the Target Company under the Capital Injection Agreement by the Investor shall become a term loan of 3 years to the Target Company, with details to be further agreed between the Parties. The total amount paid to the Target Company by the Investor is RMB200,000,000. The Parties are currently discussing the terms of such term loan, and the Company will make further announcement(s) in this respect as and when appropriate. Details of the Capital Injection is set out in the Company’s announcements dated 24 February 2021, 23 April 2021, 25 June 2021 and 24 August 2021.

Save as disclosed above, there was no significant major merger, acquisition or disposal by the Group during the period under review.

CONNECTED TRANSACTION

There was no non-exempted connected transaction entered into by the Company during the period under review. The related party transactions as disclosed in the interim report are fully exempted connected transactions under chapter 14A of the Listing Rules.

CORPORATE STRATEGY AND CORPORATE PROSPECTS

Looking forward to the second half of 2021, low interest rate environment, robustness of global economic recovery, the fear of inflation and continued geopolitical uncertainty, will remain the main driving forces for gold market. In strategy, the Group as one of the largest privately owned China-based gold mining companies, commits to realize its potential mining processing capacity as well as to further enhance its production processes and technology improvements for achieving cost efficiency. More effort will be paid to: (i) expand production capacity at our existing mines, (ii) speed up construction work of the capacity expansion and improve the exploration efficiency, and (iii) continue to conduct further exploration projects in order to increase resources and upgrade reserves.

The Group will also seek new investment opportunities for broadening the income streams in a world of fast-changing threats and opportunities. As always, the Group will remain vigilant on costs and adopt a prudent approach in its growth strategies.

AUDIT COMMITTEE

The Audit Committee has, together with the Directors and external independent auditor, reviewed the interim condensed consolidated financial statements, accounting principles and practices adopted by the Group for the six months ended 30 June 2021.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information on Director is as follow:

Experience including other directorships held in the last three years and major appointments

Mr. Huang Zhiwei, an Executive Director of the Company, has been appointed as the general manager of Hengqin Life Insurance Co., Ltd. in April 2021.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2021 except for certain deviations which are summarized below:

Code Provision A.2.1

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Furthermore, the division of responsibilities between the chairman and chief executive officer should be clearly established.

Mr. Yi Shuhao is currently the Chairman of the Board and the Chief Executive Officer of the Company. The Board considers that vesting both of the roles of Chairman and Chief Executive Officer in Mr. Yi is beneficial to the business prospects and management of the Group as Mr. Yi has in-depth experience in business management and development and can lead the Group to have continuous growth in the future. The Company had considered the governance issue of balance of power and authority on the Board and believed that the structure of the Company (including strong independent elements in the Board and delegation of authorities to management) was sufficient to address this potential issue.

Code Provision A.6.7

In accordance with the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagements, an Independent Non-Executive Director could not attend the annual general meeting of the Company held on 18 June 2021. However, at the annual general meeting of the Company, Mr. Huang Zhiwei, an Executive Director and some Independent Non-Executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company (the “Shareholders”).

EXTRACT OF INDEPENDENT AUDITOR’S REVIEW REPORT

The Company’s auditor have issued a disclaimer of conclusion on the interim condensed consolidated financial statement, an extract of auditor’s review report is as follows:

Basis for Disclaimer of Conclusion

As disclosed in note 2 to the interim condensed consolidated financial statements, the current liabilities of the Group at 30 June 2021 exceed the Group’s current assets at that date by approximately HK\$4,548,148,000 and the Group incurred net loss of approximately HK\$204,049,000 for the six months ended 30 June 2021. In addition, the Group has been served a petition for winding up and several claims commenced by different parties, details of which are set out in note 22 to the interim condensed consolidated financial statements.

Notwithstanding the aforementioned circumstances, the interim condensed consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group as set out in note 2 to the interim condensed consolidated financial statements. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group’s ability to continue as a going concern, we are unable to form a conclusion as to whether it is appropriate for the preparation of the interim condensed consolidated financial statement on a going concern basis.

Should the going concern assumption be inappropriate, adjustments would have to be made to the interim condensed consolidated financial statements to write down the value of assets to their net realisable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the interim condensed consolidated financial statements.

Disclaimer of Conclusion

Because of the significance of the matters described in the above section headed “Basis for Disclaimer of Conclusion”, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the interim condensed consolidated financial statements. Accordingly, we do not express a conclusion on the interim condensed consolidated financial statements.

THE REMEDIAL ACTIONS TO BE UNDERTAKEN RELATED TO DISCLAIMER OF CONCLUSION ON GOING CONCERN

The management has drawn attention to note 2 to this announcement with respect to the Group’s ability to continue as a going concern. The Group incurred a loss attributable to owners of the Company of HK\$204,049,000 for the six months ended 30 June 2021 and, as at 30 June 2021, the Group had net current liabilities of HK\$4,548,148,000. Also, the Group has been served a petition for winding up and several other claims commenced by different parties, details of which are set out in Note 15 to this announcement. These conditions indicate the existence of a material uncertainty which may cast a doubt on the Group’s ability to continue as a going concern. In view of the above circumstances, the Directors have given careful consideration to the future liquidity and financial position of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including but not limited to, the following:

- (a) The Group has been arranging for ongoing communication with its creditors and lenders of various borrowings, and monitored closely any settlement requests and to discharge the litigations as disclosed in Note 15;
- (b) Management of the Group has been implementing various measures and actions in order for improving the Group’s revenue to adequately serve its operating expenses and finance costs;
- (c) The Group will consider various alternatives, including, but not limited to, disposal of equity interest of group entities engaging in mining operations or disposal of the Group’s mining rights and/or mining structures, to obtain additional funds to support the Group’s working capital needs; and
- (d) The Group will solicit for further financing arrangements which include new potential borrowings from various lenders.

Accordingly, the Directors are satisfied that, although the Group faces severe challenges, it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiries with the Directors, all Directors have confirmed their full compliance with the required standard as set out in the Model Code during the Reporting Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

An interim report for the six months ended 30 June 2021 containing all the information required by Appendix 16 of the Listing Rules will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Bay Area Gold Group Limited
Yi Shuhao
Chairman

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises Mr. Yi Shuhao, Mr. Chen Sheng, Mr. Zhang Lirui and Mr. Huang Zhiwei as Executive Directors; and Mr. Tang Yiu Kay, Mr. Zhu Tianxiang, Professor Xiao Rong Ge and Professor Zhang Tianyu as Independent Non-Executive Directors.