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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)

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE
ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

Reference is made to the annual results announcement (the “**Announcement**”) of Bay Area Gold Group Limited (the “**Company**”) for the year ended 31 December 2020 dated 30 March 2021 with the annual report for the pertaining year (the “**Annual Report**”) enclosed. Terms used herein shall have the same meanings as defined in the Annual Report unless otherwise stated.

The Board wishes to provide further information regarding the Annual Report as follows:

IMPAIRMENT LOSS ON MINING RIGHTS AND EXPLORATION RIGHTS AND ASSETS

As stated in the Annual Report, the Company recognised a provision for impairment loss of approximately HK\$1.3 billion (2019: nil) on mining rights and exploration rights and assets (the “**Impairment Loss**”) for the year ended 31 December 2020 (“**FY2020**”). The Impairment Loss was supported by valuations conducted by an independent firm of professional valuers with recognised qualifications and experiences. Save as disclosed in the Annual Report, further information regarding the Impairment Loss is set out below:

Reasons for and the circumstances leading to the Impairment Loss

During FY2020, the turnover from the Group’s Gold Mining Operation increased due to the increase in gold price and increase in gold production during the year. However, after years of operations, management of the Group expected increases in the production cost per unit due to the increasing geological complexity of underground mining and expected increase in short-term inflation due to quantitative easing measures following the COVID-19 pandemic. In view of this, the Group carried out a review of the business values of the various cash-generating units (the “**CGUs**”) of the Gold Mining Operation by comparing the carrying values and the business values of the CGUs which are based on certain key assumptions (as stated below). Accordingly, the Impairment Loss was recognised for FY2020.

Save for the major factors as mentioned below, there are no other reasons for, or events and circumstances leading to, the recognition of the Impairment Loss which has been discussed with the Group's auditors and valuers.

Value of inputs used or key assumptions adopted in the valuation

With reference to the valuation conducted by the Valuer, the Group carried out a review of the recoverable amounts of the mining rights and the exploration rights and assets containing in the CGUs based on the income-based approach. The key assumptions are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Discount rates are estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the gold mining operation segment. The growth rates are based on long-term average gold price growth rate of the gold mining operation segment. Budgeted gross margins and turnover are based on past practices and expectations on market development.

The details of the key assumptions and inputs adopted in the impairment assessment of the CGUs are as follow:

(i) Projected turnover for the coming four years:

There were no significant changes to the projected productions schedules as estimated by the Group's management. The turnover is estimated to based on the product of production volume and the projected gold price. During the years 2021 to 2024, the projected gold price has a steady growth of is 10%, and decreasing thereafter to a long-term growth rate of 3%, which approximated the long-term inflation rate. Besides, due to the more widespread availability of vaccines, it is expected that there will not be mass-scale disruption in business operations due to the COVID-19 pandemic. There were no significant changes in the value of inputs used or key assumptions adopted in the valuation in this regard.

(ii) Projected profit margins for the coming four years:

Whilst there were no significant changes in the projected turnover, due to the increasing geological complexity of underground mining and expected increase in short-term inflation due to quantitative easing measures following the COVID-19 pandemic, the projected profit margins went down from 27% to 71% in 2019 to 2% to 68% in 2020.

(iii) Discount rates:

The rates used to discount the projected cash flows for the CGU are 10% (2019: 8%). The rise of discount rate is due to adverse economic environment forecast and the COVID-19 pandemic uncertainty.

The impairment assessment for the CGUs were prepared with reference to the valuation conducted by an independent firm of professional valuers with recognised qualifications and experiences. Having discussed with the Group's auditors and valuers, it was believed that the valuation basis adopted by the Valuer and the key assumptions and inputs were in line with the management's estimation and it supported the decision to make the impairment amount for audit purposes and accordingly, the Impairment Loss had been made to the Group's audited financial statements for FY2020.

Valuation method and reason for its adoption

There are three generally accepted valuation approaches in business valuation.

Asset Approach

The asset approach determines a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities. Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Selection of Valuation Methodology

It is considered that the asset approach not an adequate approach for the valuation, as this approach does not take future growth potential into consideration. Besides, we also considered that the market approach not applicable for the valuation, as there are insufficient comparable transactions in the market. Thus, we determined that the income approach was the most appropriate valuation approach to value the enterprise value.

Discounted Cash-flow Method

For the valuation of the enterprise value, the Discounted Cash-Flow Method is adopted. The discounted cash-flow method is premised on the concept that the value is based on the present value of all future benefits by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the property, or a combination of both. In essence, this valuation method requires a forecast to be made of cash-flow, going out far enough into the future until an assumed stabilization occurs for the assets being appraised. This methodology assumes that the forecasted income/cash-flow will not necessarily be stable in the near term but will stabilize in the future.

Pursuant to Hong Kong Accounting Standards 36 “Impairment of Assets”, value-in-use is defined as “the present value of the future cash flows expected to be derived from an asset or cash-generating unit”. Based on the impairment assessment, as at 31 December 2020, the carrying amounts of the CGUs exceeded their respective recoverable amounts and hence, the Impairment Loss was recognised.

As at the date of this announcement, there are no subsequent changes to the valuation methods as referred to above following their adoption.

The above additional information does not affect other information contained in the Announcement or the Annual Report and save for those disclosed above, all other information contained in the Announcement and the Annual Report remains unchanged.

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

Hong Kong, 15 October 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.