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)

(In Compulsory Liquidation in Hong Kong)

SUPPLEMENTAL ANNOUNCEMENT
DE-CONSOLIDATION OF SUBSIDIARIES

Reference is made to the announcement of Bay Area Gold Group Limited (In Compulsory Liquidation in Hong Kong) (the "**Company**", together with its subsidiaries, the "**Group**") dated 4 December 2023 (the "**Announcement**") in relation to the de-consolidation of certain subsidiaries of the Company (the "**De-consolidation**"). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

In addition to the information provided in the Announcement, the Company wishes to provide further information in relation to the De-consolidation as follows.

Reasons for providing the share charges, the corporate guarantees and the entering into the Entrusted Operation Agreements

In consideration of the provision of the share charges, the corporate guarantees and the entering into of the entrusted operation agreements (details of which are set out in the Announcement) (collectively, the "**Entrusted Operation Agreements**"), the then management of the Company had taken into account the following factors:

(i) according to the annual report of the Company for the year ended 31 December 2020, assets of the Group, i.e. the assets of the de-consolidated subsidiaries of the Company (the "**Deconsolidated Subsidiaries**"), with the carrying amount of approximately HK$4.26 billion were already pledged to secure bank and other borrowings, which include mining rights, fixed assets, equity instruments and bank deposit. To the best of the knowledge, information and belief of the Liquidators, having made all reasonable enquiries, (1) the then management of the Company had considered the fair values of such assets which are assessed whilst preparing the audited consolidated results of the Group for the year ended 31 December 2020, and

(2) such assets had been pledged to financial institutions/lenders/financiers other than Shenzhen Anying (the "**Lender**") before the entering into of the Entrusted Operation Agreements;

(ii) the provision of the share charge and the corporate guarantees by the holding companies of the gold mines in favour of the Lender was part of the pre-requisite conditions requested by the Lender to extend the provision of loans to each of Kai Yuan, Shenzhen Munsun, Zhuhai Munsun, Jinxing, Mojiang Mining and their respective group affiliates;

(iii) it is not uncommon for the value of the collaterals to exceed the principal amount of the loans. Take Hong Kong property mortgage loans as an example, the Hong Kong Monetary Authority imposes a restriction to banks such that banks cannot extend any loan to company borrowers for more than 50% of loan to value ratio ("**LTV ratio**"), i.e. the value of mortgaged property should be at least 2 times of the principal amount of loan. In general, lenders would consider, among other things, price volatility, liquidity, risk of the charged assets as well as the borrower's credit rating in determining an appropriate LTV ratio. In this occasion, the charged assets are mainly the shares or equity interests of the Deconsolidated Subsidiaries. Moreover, such shares or equity interests of private companies have no market liquidity;

(iv) the then management of the Company was of the view that the entering into of the Entrusted Operation Agreements was merely an enhancement of security for the loans as requested by the Lenders and was optimistic and confident that the same could mitigate the risk of the Lender taking further or more aggressive recovery actions, including but not limited to the winding-up of the Company at the material time, which would be against the interest of the Company and its Shareholders;

(v) it is a common and usual commercial practice to provide and/or be requested to provide pledged and/or charged assets to secure borrowings;

(vi) the then management of the Company was of the view that the entering into of the Entrusted Operation Agreements would not affect the legal title of the Group in such companies and believed that in essence certain level of control and/or management would be maintained over such companies upon entering into of the Entrusted Operation Agreements given that the Lender has no prior mining experience and would require the assistance of the then management of the Company (i.e. co-management with the Lender); and

(vii) as all the loans provided by the Lender have matured between 2018 to 2020, and the entering into of the Entrusted Operation Agreements was part of the pre-requisite conditions requested by the Lender to extend the provision of loans, the then management of the Company had no other alternatives but to accept such arrangement in order to extend the repayment date of the loans and maintain positive relationship with the Lender.

Based on the information available to the Liquidators, the Liquidators, having considered the reasons above, are of the view that (1) the then Board to provide the share charge, the corporate guarantees and the entering into of the Entrusted Operation Agreements at the material time are fair and reasonable and (2) the Board had complied with Rule 3.08 of the Listing Rules at the material time by acting honestly and in good faith in the interests of the Company and its Shareholders as a whole.

Implications under the Listing Rules

The failure to make timely disclosure and comply with the Listing Rules in respect of the loss of control over the Deconsolidated Subsidiaries and the loss of books and records of Wah Heen, China Precious Resources, Sinowise, Decent Connection, Able Supplement and Kai Yuan were unintentional and primarily attributable to the erroneous belief that they would be able to retain certain level of control over these entities notwithstanding the entering into of the Entrusted Operation Agreements and misinterpretation by the management of the Company regarding the accounting treatment of the De-consolidated Subsidiaries at the material time.

The then management of the Company was not aware that the entering into of the Entrusted Operation Agreements would constitute a transaction, namely, a very substantial disposal under Chapter 14 of the Listing Rules at the material time which should have been subject to the announcement, circular and shareholders' approval requirements under the Listing Rules. It only subsequently came to the attention of the management of the Company when preparing the audited results of the Company for the years ended 31 December 2021 and 2022, respectively, and the unaudited interim results of the Company for the six months ended 30 June 2022 and 2023, respectively, which have been published on 4 December 2023, that due to continuous default, the management of the Company has lost control over the De-consolidated Subsidiaries and they would be treated as de-consolidated from the said financial statements for accounting purposes.

The Company noted that the entering into of the Entrusted Operation Agreements should have constituted a very substantial disposal of the Company and the Company did not announce all material information in accordance with the Listing Rules at the material time, and would like to stress that legal and regulatory compliance has long been an important culture of the Group and that it has always treated compliance with the Listing Rules as a top priority. The then management has been maintaining regular communications with, and seeking advice from, its professional advisers on different aspects of Listing Rules compliance, but has unfortunately and regrettably not done so for the aforementioned Entrusted Operation Agreements on a timely basis.

Remedial actions

The Company deeply regrets about its non-compliance with the Listing Rules but the Company would like to stress that the non-compliance was inadvertent and unintentional. In order to prevent re-occurrence of similar incidents of non-compliance, the Company will consider to take/has taken the following measures and actions:

(i) to provide internal trainings to the Board, senior management and relevant staff members of the Group to explain the relevant Listing Rules requirements and the reporting procedures for notifiable transactions, connected transactions and other obligations under the Listing Rules and to reinforce and strengthen their understanding and knowledge of the Listing Rules, as well as their ability to identify possible compliance issues at early stages of transactions;

(ii) to appoint a compliance officer to the Company to ensure on-going compliance with the Listing Rules; and

(iii) to seek external legal or other professional advice as to any action required to be taken in relation to any proposed transactions or events in the future to avoid non-compliance with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

Trading in the Company's shares on the Stock Exchange, which has suspended with effect from 9:00 a.m. on 1 April 2022 remains suspended and will continue to be so until further notice.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

For and on behalf of
Bay Area Gold Group Limited
(In Compulsory Liquidation in Hong Kong)
Osman Mohammed Arab
Wong Kwok Keung
Joint and Several Liquidators
Acting as agents of the Company
without personal liabilities

Hong Kong, 8 January 2024

As at the date of this announcement, the Board comprises Mr. Yi Shuhao, Mr. Chen Sheng and Mr. Zhang Lirui as the Executive Directors, Mr. Tang Yiu Kay, Mr. Zhu Tianxiang, Professor Xiao Rong Ge and Professor Zhang Tianyu as the Independent Non-executive Directors. All powers of the directors ceased upon granting of the Winding-up Order by the High Court of Hong Kong on 31 August 2022.

The affairs, business and property of the Company are being managed by the Joint and Several Liquidators who act as agents of the Company only and without personal liabilities.