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Pangaea Connectivity Technology Limited

環聯連訊科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1473)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2022

Total revenue for the Year decreased by approximately 21.0% year-to-year to HK\$1,223.8 million, as compared with total revenue of HK\$1,549.3 million for the year ended 31 March 2021.

Net profit attributable to owners of the Company for the Year was approximately HK\$3.7 million, as compared with net profit of HK\$50.1 million for the year ended 31 March 2021.

Basic earnings per share for the Year was HK0.37 cent as compared with basic earnings per share of HK6.5 cents for the year ended 31 March 2021.

The Board does not recommend payment of a final dividend for the Year (2021: HK1.3 cents).

The board (the “**Board**”) of directors (the “**Directors**”) of Pangaea Connectivity Technology Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**Pangaea**”) for the year ended 31 March 2022 (the “**Year**”), together with the comparative figures for the year ended 31 March 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2022

	Notes	2022 HK\$'000	2021 HK\$'000
REVENUE	5	1,223,791	1,549,284
Cost of sales		<u>(1,068,339)</u>	<u>(1,351,537)</u>
Gross profit		155,452	197,747
Other income and gains, net	5	7,052	4,838
Selling and distribution costs		(39,082)	(39,259)
Administrative expenses		(98,095)	(84,155)
Finance costs	6	<u>(15,025)</u>	<u>(15,496)</u>
PROFIT BEFORE TAX	7	10,302	63,675
Income tax expense	8	<u>(6,567)</u>	<u>(13,546)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>3,735</u>	<u>50,129</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (HK cents)	10	<u>0.37</u>	<u>6.5</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>3,735</u>	<u>50,129</u>
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of a foreign operation	<u>782</u>	<u>1,778</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR	<u>782</u>	<u>1,778</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	<u><u>4,517</u></u>	<u><u>51,907</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		43,062	43,003
Financial assets at fair value through profit or loss		28,001	15,970
Equity investment at fair value through other comprehensive income		9,786	–
Deferred tax assets		392	416
		<hr/>	<hr/>
Total non-current assets		81,241	59,389
CURRENT ASSETS			
Inventories		300,414	235,896
Trade and bills receivables	<i>11</i>	134,007	183,058
Prepayments, deposits, other receivables and other assets		12,723	54,148
Pledged bank deposits		104,511	55,901
Cash and cash equivalents		161,195	146,809
		<hr/>	<hr/>
Total current assets		712,850	675,812
CURRENT LIABILITIES			
Trade payables	<i>12</i>	87,946	178,607
Other payables, accruals and contract liabilities		17,351	19,870
Interest-bearing bank borrowings		95,930	39,777
Trust receipt loans		303,913	212,725
Lease liabilities		5,188	4,344
Tax payable		6,548	7,895
		<hr/>	<hr/>
Total current liabilities		516,876	463,218
NET CURRENT ASSETS		<hr/> 195,974 <hr/>	<hr/> 212,594 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 277,215 <hr/>	<hr/> 271,983 <hr/>

	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Lease liabilities	2,286	3,598
Deferred tax liabilities	340	190
	<hr/>	<hr/>
Total non-current liabilities	2,626	3,788
	<hr/>	<hr/>
Net assets	274,589	268,195
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,000	10,000
Reserves	264,589	258,195
	<hr/>	<hr/>
Total equity	274,589	268,195
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NOTES

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 5 July 2018. The registered office of the Company is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is located at Room 902–906, 9/F Tai Yau Building, 181 Johnston Road, Wanchai, Hong Kong.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 19 February 2021.

The Company is an investment holding company. During the year, the Company's subsidiaries were involved in the import and export of connectivity products which are used in the telecom and datacom connectivity industry.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is Generous Horizon Limited (formerly known as Generous Team Limited), which is a limited liability company incorporated in the British Virgin Islands (the “**BVI**”) and wholly-owned by Mr. Fung Yui Kong (“**Mr. Fung**”), the Chairman and one of the executive director of the Company.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for certain investments and financial assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

During the year, the interest rates of certain interest-bearing bank borrowings denominated in United States dollars were changed from the London Interbank Offered Rate (“**LIBOR**”) to RFRs. The Group applied the above-mentioned practical expedient upon modification of these borrowings as the “economically equivalent” criterion was met. No significant modification gain or loss has arisen as a result of applying the amendments to these changes.

As at 31 March 2022, the Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate (“**HIBOR**”) and United States dollars based on the LIBOR. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. For other LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period.

The Group has adopted the amendment on 1 April 2021. The Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the import and export of connectivity products which are used in the telecom and datacom connectivity industry. Almost all of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single reportable operating segment.

Geographical information

(a) Revenue from external customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	147,628	153,592
Mainland China	889,638	1,310,028
Other countries/regions	186,525	85,664
	<u>1,223,791</u>	<u>1,549,284</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	33,464	37,791
Mainland China	9,598	5,212
	<u>43,062</u>	<u>43,003</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue derived from sales to individual customers which contributed over 10% of the total revenue of the Group during the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	N/A*	143,767
Customer B	<u>240,981</u>	<u>498,947</u>
	<u><u>240,981</u></u>	<u><u>642,714</u></u>

* Revenue from sales to Customer A accounted for less than 10% of the total revenue of the Group for the year ended 31 March 2022.

The above amounts include sales to a group of entities which are known to be under common control with these customers.

5. REVENUE AND OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers		
Sale of goods	1,222,939	1,547,990
Rendering of services	<u>852</u>	<u>1,294</u>
	<u><u>1,223,791</u></u>	<u><u>1,549,284</u></u>

An analysis of other income and gains, net is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank interest income	287	370
Other interest income from financial assets at fair value through profit or loss	156	–
Exchange differences, net	(195)	(1,272)
Fair value gain on financial assets at fair value through profit or loss	4,231	588
Government subsidies*	–	2,460
Sundry income, net	<u>2,573</u>	<u>2,692</u>
	<u><u>7,052</u></u>	<u><u>4,838</u></u>

* Government subsidies were granted by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There were no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank borrowings	14,624	15,139
Interest on lease liabilities	401	357
	<hr/>	<hr/>
Total finance costs	<u>15,025</u>	<u>15,496</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation	9,788	9,196
Research and development costs	11,616	11,122
Gain on disposal of items of property, plant and equipment	14	–
Reversal of impairment of trade receivables	(1,568)	(585)
Provision/(write-back of provision) for inventories	(2,762)	11,017
Listing expenses	–	11,779
Staff costs (excluding directors' remuneration):		
Wages and salaries	45,008	46,554
Equity-settled share option expense	10,603	–
Pension scheme contributions	5,644	3,572
	<hr/>	<hr/>
	61,255	50,126
	<hr/>	<hr/>
Lease payments not included in the measurement of leases liabilities	366	359
Foreign exchange differences, net	195	1,272
Fair value gain on financial assets at fair value through profit or loss	(4,231)	(588)
	<hr/>	<hr/>

8. INCOME TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current — Hong Kong		
Charge for the year	4,070	11,217
Underprovision/(overprovision) in prior years	(128)	568
Current — Mainland China		
Charge for the year	2,231	2,354
Underprovision/(overprovision) in prior years	208	(215)
Deferred tax	186	(378)
	<hr/>	<hr/>
Total tax charge for the year	<u>6,567</u>	<u>13,546</u>

9. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Proposed final — Nil (2021: HK1.3 cents) per ordinary share	<u>—</u>	<u>13,000</u>

The Board does not recommend payment of a final dividend for the year ended 31 March 2022 (2021: HK1.3 cents).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$3,735,000 (2021: HK\$50,129,000) and the weighted average number of ordinary shares of 1,000,000,000 (2021: 776,712,329) in issue during the year, on the assumption that the capitalisation issue in connection with the listing of the Company had been completed on 1 April 2019 for calculating the basic earnings per share amount.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2021 as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 March 2021.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 March 2022 in respect of a dilution as the exercise price of the share options of the Company outstanding during the year was higher than the average market price of the Company's ordinary shares and, accordingly, such share options held have no dilutive effect on the basic earnings per ordinary share.

11. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	129,264	172,884
Less: Impairment on trade receivables	(3,189)	(4,800)
	<u>126,075</u>	<u>168,084</u>
Bills receivable	<u>7,932</u>	<u>14,974</u>
	<u>134,007</u>	<u>183,058</u>

An ageing analysis of the trade and bills receivables based on the invoice date and net of loss allowance, is as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	105,275	65,984
1 to 3 months	26,068	98,027
3 to 6 months	2,505	12,684
Over 6 months	159	6,363
	<u>134,007</u>	<u>183,058</u>

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	78,080	109,061
31 to 90 days	9,866	69,546
	<u>87,946</u>	<u>178,607</u>

The trade payables are non-interest-bearing and are normally settled on terms of one to two months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Market Review

The financial year of 2021 manifested quite a tough year for the semiconductor industry. Serious shortage on semiconductor chips and raw materials caused a challenging supply chain problem particularly coming from the lockdown of cities and manufacturing sites across the globe due to the Covid-19 pandemic. That also created an impact on China's 5G projects slowdown when supply chain was an inevitable issue during the Year. Geopolitical direction between countries had also raised concern to the semiconductor industry. What was fortunate was that, US sanction did not show as severe an impact as it was anticipated. Further strategic moves of our customers such as manufacturing location shift and new market expansion have helped circumvent the sanction impact. The overall market is always full of challenges, but we believe that more opportunities will present themselves and the Group would be prepared to wisely tackle and overcome the issues as they come.

Business Review

Challenges always come with opportunities. Every problem we saw last year will come with an opportunity for us to grow now and in the future. We have made our moves strategically in parallel with some of our key customers in China to set up offices close to our customers' newly developed manufacturing sites located in the South-East Asian countries. By virtue of this partial manufacturing location shift, our customers and ourselves are aiming positively at the business re-bounce in the forthcoming years. This direction has simultaneously enhanced us to get a more intimate collaboration and partnership with both our customers and suppliers so that we can take the chance to expand and broaden our market coverage from China to the South-East Asian regions, including Taiwan, Vietnam, Malaysia, Thailand, and Singapore where our three new offices have been set up to cover those areas' demands, and to Europe. A close move with our customers can give rise to a strategic relationship development in between. Our technical expertise and relationship with customers are being effectively utilized in any places where our existing customers are moving to, or new markets are being developed. The continuing pursuit of the diversification of customer base and market coverage are important to reach our business growth target. By knowing our suppliers' visions, and by making use of our connection developed from the long-standing presence in the industry, we will keep looking for opportunities to engage potential customers across the globe. We believe the international exposure will help create solid return on future revenue and actual company growth for the Company and its shareholders as a whole.

In addition, we will continue and commit to building growth engines which can bring us to a new horizon from time to time. We have invested in a renowned industry veteran formed supplier and collaborated with them to increase our product mix and expand market reach in China and the South-East Asian regions. This investment will not only broaden our product portfolio to further enhance our competitive advantages in both vertical and horizontal perspective markets, but also create synergy to our existing business by extending our presence in the value chain and strengthening our position in the market. We see enormous potential opportunities from this newly invested product mix on various market segments including industry control, new energy such as automotive and energy storage, medical, and artificial intelligence of things. Greater growth is expected in those segments when pandemic situation becomes more stable. We also seek to achieve localization of material supply by collaborating with a local supplier to improve our resiliency of supply chain support to our local customers. Two additional offices have been set up in Chengdu and Suzhou in the PRC to complement our existing sales network, and offer rapid and agile response to both customers and suppliers.

Prospects

We are confident that projects on 5G, communication network infrastructure, data centre, IoT (Internet of Things) and commercial laser usage in China and overseas will be getting more visible and promising in the short coming future. 5G adoption will trigger the surge of development and application of correlated communication infrastructure and hence, a more prospective and a much stronger demand for high-speed communications period is coming. Expectation on 6G is underway to enable faster and lower cost connectivity. We will grow our company, our revenue, and our market together with our suppliers, our customers, and our stakeholders.

FINANCIAL REVIEW

Revenue

Revenue is comprised of sales of goods and rendering of services.

Revenue from sales of goods accounted for approximately 99.9% of our total revenue for the Year. Revenue from rendering of services mainly represented income derived from providing administrative and support services to customers. During the Year, the Company generated a substantial portion of the revenue from customers in the PRC.

Revenue from sales of goods decreased from approximately HK\$1,548.0 million in the year ended 31 March 2021 to approximately HK\$1,222.9 million for the Year mainly due to the shortage of semiconductor during the Year and adverse impacts of the pandemic, including supply chain disruptions and lockdown measures led to slowdown of the 5G development in the PRC market. Revenue from rendering of services decreased from approximately HK\$1.3 million for the year ended 31 March 2021 to approximately HK\$0.9 million for the Year mainly due to the decrease in services provided to the customers.

Cost of sales

Cost of sales comprises (i) cost of goods which represents cost of products purchase from suppliers; and (ii) cost of service which represents staff costs associated with provision of services.

Gross profit margin

Sales of goods

Gross profit margin derived from sales of goods was approximately 12.7% for the Year, which is similar to approximately 12.7% for the year ended 31 March 2021.

Rendering of services

Gross profit margin derived from rendering of services was approximately 80.7% for the Year, representing a decrease of approximately 3.3% from approximately 84.0% for the year ended 31 March 2021. As our services were provided to customers on a project basis, the gross profit margin of this segment varied depending on the scope and nature of services provided.

Other income and gains, net

Other income and gains of approximately HK\$7.1 million (2021: approximately HK\$4.8 million) mainly represents bank interest income, exchange loss, fair value gain on financial assets, and sundry income. Increase in other income and gains of approximately HK\$2.2 million is mainly due to the combined effect of (i) the increase in fair value gain on financial assets of approximately HK\$3.6 million for the Year; and (ii) the decrease in exchange loss of approximately HK\$1.3 million to HK\$0.2 million, which is partially offset by the absence of the funding from the Government of the Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”) of approximately HK\$2.5 million in the year ended 31 March 2021 in relation to the Employment Support Scheme under the Anti-epidemic Fund.

Selling and distribution costs

The selling and distribution costs of approximately HK\$39.1 million (2021: approximately HK\$39.3 million) mainly include staff salaries, transportation, freight charges, declaration and consultancy expenses. The selling and distribution costs decreased by approximately HK\$0.2 million or 0.5% from last year, which is mainly due to the decrease in staff salaries and transportation cost resulting from decrease in revenue during the Year and partially offset by the increase in consultancy fee for market related support services.

Administrative expenses

Administrative expenses of approximately HK\$98.1 million (2021: approximately HK\$84.2 million) primarily consist of salaries and staff benefits (including directors' emoluments), share based expenses for share options, insurance, operating lease and other premise fee, bank charges, entertainment, professional fee, office supplies and depreciation expenses. The administrative expenses increased by approximately HK\$13.9 million or 16.6% for the Year mainly as a result of (i) the increase in salaries and staff benefits (including directors' remuneration) in aggregate of approximately HK\$5.4 million mainly due to annual salary increment; (ii) an increase in share base expenses for share option of approximately HK\$14.9 million; (iii) increase in professional fees for regulatory compliance and expansion of business of approximately HK\$4.0 million, which was partly offset by the decrease in listing expenses of approximately HK\$11.8 million.

Finance costs

The Group's finance costs of approximately HK\$15.0 million (2021: approximately HK\$15.5 million) mainly represented interest expenses on its bank borrowings during the Year. The Group incurred interest on bank borrowings of approximately HK\$14.6 million for the Year as compared to approximately HK\$15.1 million for the year ended 31 March 2021. The decrease in interest on bank borrowings was mainly due to the decrease in utilisation of borrowing facilities during the Year.

Taxation

Taxation of the Group for the Year mainly comprised current income tax expenses of approximately HK\$6.6 million (2021: HK\$13.5 million) which included deferred tax charged to statement of profit or loss of approximately HK\$0.2 million (2021: credit of HK\$0.4 million) recognised for the provision for inventories and impairment loss of trade receivable.

Net profit for the year

Net profit for the Year amounted to approximately HK\$3.7 million, representing a decrease of approximately 92.5% as compared to approximately HK\$50.1 million for the year ended 31 March 2021. The decrease in net profit was principally attributable to the net effect of the factors mentioned above, including (a) decrease in revenue; (b) increase in other income and gains, net; (c) increase in administrative expenses; and (d) decrease in taxation expenses due to decrease in taxable profit.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 31 March 2022 were approximately HK\$161.2 million (2021: HK\$146.8 million). They were mainly denominated in Hong Kong dollar and Renminbi.

As at 31 March 2022, the Group's total outstanding bank borrowings amounted to HK\$399.8 million (2021: HK\$252.5 million) which comprised mainly bank factoring loans, trust receipts loans and revolving loans. Certain bank borrowings of the Group were secured by the pledge of the Group's bank deposits and investments in insurance policies. The Group's bank borrowings which were unrestricted with a clause of repayment on demand are classified as current liability. The bank borrowings were denominated in Hong Kong dollar and US dollar and were subject to interest at floating commercial lending rates.

The Group's gearing ratio (defined as the total interest-bearing borrowings net of cash and cash equivalents divided by total equity and multiplied by 100%) increased from approximately 39.4% as at 31 March 2021 to approximately 86.9% as at 31 March 2022 mainly due to increase in inventory and decrease in trade payables as at 31 March 2022 because the Group kept more inventory to meet the delivery schedule in the coming months in view of the shortage of semi-conductor in the market.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2022, the Group employed 119 employees (2021: 121 employees). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from basic salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as on-the-job and external training to staff are also provided. The Group maintains a good relationship with its employees.

USE OF PROCEEDS FROM LISTING

The net proceeds received by the Company from the listing of the shares of the Company on the Main Board of the Stock Exchange on 19 February 2021 (the “**Listing**”) in the amount of approximately HK\$88.1 million will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 January 2021 (the “**Prospectus**”). The net proceeds received were applied by the Group from the date of Listing up to 31 March 2022 as follows:

	Application of net proceeds as stated in the Prospectus HK\$'million	Actual use of net proceeds HK\$'million	Unused net proceeds HK\$'million	Unused net proceeds %
Strengthening design and technical capabilities	57.8	3.2	54.6	94.5
Broadening customer base by expanding the geographic reach of sales and technical support coverage	14.4	4.8	9.6	66.7
Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff	7.2	3.1	4.1	56.9
General working capital	8.7	8.7	–	–
	<u>88.1</u>	<u>19.8</u>	<u>68.3</u>	<u>77.5</u>

As at 31 March 2022, the amount of unused net proceeds amounted to approximately HK\$68.3 million. The unused net proceeds from the Listing are expected to be used in accordance with the Company’s plan as disclosed in the Prospectus except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others, the business environment being affected by the worldwide semiconductor shortage and the continuing impacts of COVID-19, together with the restrictions and rules on border controls, lockdowns and quarantine measures. However, 5G adoption will trigger the surge of development and application of correlated communication infra-structure and hence, a more prospective and a much stronger demand for high-speed communications period is coming. Therefore, the Group shall regularly evaluate the market conditions for the fulfillment of the Group’s future plan.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Year.

SIGNIFICANT INVESTMENT

As at 31 March 2022, the Group had no significant investment with a value of 5% or more of the Group's total assets.

CAPITAL EXPENDITURE

As at 31 March 2022, the Group invested approximately HK\$4.5 million (2021: approximately HK\$1.3 million) in capital expenditure mainly for office equipment, furniture and fixtures, motor vehicles and leasehold improvements.

The Group did not have any material capital commitments as at 31 March 2022 (2021: Nil).

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollar, Renminbi, and US dollar. As the Hong Kong dollar is pegged to the US dollar, there was no material exchange risk in this respect. As the portion of Renminbi revenue is insignificant, there was no material exchange risk in this respect. The Group currently does not have any interest rate hedging policy. However, the management monitors the Group's exposure to interest rate risk on an ongoing basis and will consider hedging interest rate risk should the need arise. Credit risk was hedged mainly through credit policy and factored to external financial institutions.

CONTINGENT LIABILITIES

As at 31 March 2022, the Group did not have any material contingent liabilities (2021: Nil).

PLEDGE OF ASSETS

Certain bank borrowings of the Group are secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$104,511,000 (2021: HK\$55,901,000) at the end of the reporting period;
- (ii) mortgages over the Group's owned buildings and right-of-use land situated in Hong Kong as at 31 March 2021, which had an aggregate carrying value of HK\$25,935,000 as at 31 March 2021. There were no such mortgages as at 31 March 2022;
- (iii) the pledge of investments in life insurance policies of Mr. Fung Yui Kong, amounting to HK\$18,076,000 (2021: HK\$15,970,000) at the end of the reporting period; and
- (iv) corporate guarantees from the Company of up to HK\$1,016,130,000 (2021: HK\$962,700,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

POSSIBLE RISKS

The Group has set up a risk management committee to coordinate, respond to and to tackle the possible risks. The risk management committee has developed strategies, policies and guidelines on risk control which enable the Group to monitor and respond to risk effectively and promptly.

IMPACT OF COVID-19 PANDEMIC

The Group has implemented a series of precautionary and control measures since the outbreak of COVID-19 to ensure business continuity. In order to protect our workforce from outbreak, the Group has provided clear and timely guidelines to all staff, maintained a close monitoring on all staff's health status, travel history and potentially infectious contacts, and provided extra sanitization products to all sites.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 31 March 2022 and up to the date of this announcement.

PROSPECTS

COVID-19 has placed an unprecedented demand on high-speed telecom and datacom solutions in every sector of industries. It has also pressed ahead the pursuit of technological advancement and created huge opportunities in network structure and IoT applications. As a key player in telecom and datacom component segments, the Group will continue to benefit from the trends and to strive for a robust growth both in revenue and customer base.

DIVIDEND

In view of the overall economic and business environment and the results of the Company for the Year, the Board considers that it is more beneficial to the Company and its shareholders as a whole for the Company to adopt a prudent approach. As such, the Board does not recommend payment of a final dividend for the Year (2021: HK1.3 cents). Subject to the overall economic and business environment and the results of the Company next year, the Company will earnestly consider the recommendation of an interim or a final dividend next year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Model Code**”) as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code during the Year.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders’ value. The Company has applied the principles and complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the Year, with the exception of Code Provision C.2.1, which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual, and Code Provision C.5.1, which states that board meetings should be held at least four times a year at approximately quarterly intervals.

C.2.1

Mr. Fung Yui Kong is currently performing the roles of chairman and chief executive officer. With the extensive experience in the industry and being the founder of the Group, Mr. Fung is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion since the founding of our Group. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, both of which comprise experienced and high-calibre individuals. Our Board currently comprises three executive Directors (including Mr. Fung), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

C.5.1

During the Year, the Board held three regular meetings. The significant matters concerning the business activities and operation of the Group had been either duly reported, discussed and resolved at the three Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures set out in the preliminary announcement in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for the Year have been agreed by the Company's auditor, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors and a non-executive Director namely Mr. Sze Wing Chun (Chairman), Mr. Kam Eddie Shing Cheuk and Mr. Ling Kwok Fai Joseph respectively. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and risk management systems of the Group, and financial reporting matters including a review of the Group's annual results for the Year. The Audit Committee was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

ANNUAL GENERAL MEETING (“AGM”)

The AGM will be held on Friday, 12 August 2022. The notice of the AGM will be published and despatched to the shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders’ entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 9 August 2022 to Friday, 12 August 2022 (both days inclusive) during which period no transfers of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Monday, 8 August 2022.

PUBLICATION OF FINAL RESULTS AND DESPATCH OF ANNUAL REPORT

The final results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pangaea.com.hk). The 2022 annual report containing all the information required by the Listing Rules will be despatched to the Company’s shareholders and available on the above websites in due course.

By Order of the Board
Pangaea Connectivity Technology Limited
Mr. Fung Yui Kong
Chairman

Hong Kong, 29 June 2022

As at the date of this announcement, the Board comprises Mr. Fung Yui Kong, Ms. Leung Kwan Sin Rita and Dr. Wong Wai Kong as executive Directors; Mr. Kam, Eddie Shing Cheuk as non-executive Director; and Mr. Chan Hiu Fung Nicholas, Mr. Ling Kwok Fai Joseph, and Mr. Sze Wing Chun as independent non-executive Directors.