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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Pangaea Connectivity Technology Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2022 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Six months ended 30 September 2022*

		Unaudited	
		For the six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	4	682,449	659,121
Cost of sales		<u>(599,515)</u>	<u>(585,519)</u>
Gross profit		82,934	73,602
Other income/(expenses) and gains/(losses), net	4	(481)	3,221
Selling and distribution costs		(19,911)	(17,688)
Administrative expenses		(47,798)	(48,851)
Finance costs	5	<u>(9,611)</u>	<u>(5,460)</u>
PROFIT BEFORE TAX	6	5,133	4,824
Income tax expense	7	<u>(1,082)</u>	<u>(2,991)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>4,051</u>	<u>1,833</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)	9	<u>0.41</u>	<u>0.18</u>
Diluted (<i>HK cents</i>)	9	<u>0.41</u>	<u>0.18</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 September 2022

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Profit for the period	<u>4,051</u>	<u>1,833</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME:		
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:		
— Exchange differences on translation of a foreign operation	(2,456)	31
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
— Net gain on equity investment at fair value through other comprehensive income	<u>2,278</u>	<u>—</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	<u>(178)</u>	<u>31</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	<u><u>3,873</u></u>	<u><u>1,864</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	40,088	43,062
Financial assets at fair value through profit or loss	<i>12</i>	26,356	28,001
Equity investment at fair value through other comprehensive income	<i>13</i>	12,064	9,786
Deferred tax assets		361	392
Total non-current assets		78,869	81,241
CURRENT ASSETS			
Inventories		375,305	300,414
Trade and bills receivables	<i>14</i>	199,867	134,007
Prepayments, deposits, other receivables and other assets		21,047	12,723
Pledged bank deposits		93,038	104,511
Cash and cash equivalents		121,928	161,195
Total current assets		811,185	712,850
CURRENT LIABILITIES			
Trade payables	<i>15</i>	119,029	87,946
Other payables, accruals and contract liabilities		43,169	17,351
Interest-bearing bank borrowings		51,287	95,930
Trust receipt loans		382,727	303,913
Lease liabilities		4,652	5,188
Tax payable		5,333	6,548
Total current liabilities		606,197	516,876
NET CURRENT ASSETS		204,988	195,974
TOTAL ASSETS LESS CURRENT LIABILITIES		283,857	277,215

	Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Lease liabilities	1,212	2,286
Deferred tax liabilities	<u>340</u>	<u>340</u>
Total non-current liabilities	<u>1,552</u>	<u>2,626</u>
Net assets	<u>282,305</u>	<u>274,589</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,000	10,000
Reserves	<u>272,305</u>	<u>264,589</u>
Total equity	<u>282,305</u>	<u>274,589</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 5 July 2018. The registered office address of the Company is the address of the offices of Conyers Trust Company (Cayman) Limited, which is 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 period, 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 directors of the Company.

2.1 BASIS OF PREPARATION

The condensed consolidated interim financial information are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Save for the adoption of revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) during the period as set out in note 2.2 below, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the annual financial statements for the year ended 31 March 2022.

2.2 IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2022, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period's financial information.

Amendments to HKFRS 3
Amendments to HKAS 16
Amendments to HKAS 37
*Annual Improvements to
HKFRSs 2018–2020*

*Reference to the Conceptual Framework
Property, Plant and Equipment: Proceeds before Intended Use
Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples
accompanying HKFRS 16, and HKAS 41*

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3 OPERATING SEGMENT INFORMATION

The Group is principally engaged in the import and export of connectivity products which are used in 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*

	Unaudited For the six months ended 30 September	
	2022 HK\$'000	2021 HK\$'000
Hong Kong	133,897	110,855
Mainland China	471,898	447,337
Other countries/regions	76,654	100,929
	<u>682,449</u>	<u>659,121</u>

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

(b) *Non-current assets*

	Unaudited 30 September 2022 HK\$'000	Audited 31 March 2022 HK\$'000
Hong Kong	32,270	33,464
Mainland China	7,818	9,598
	<u>40,088</u>	<u>43,062</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 10% or more of the total revenue of the Group during the Period is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Customer A	<u>160,261</u>	<u>170,886</u>

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

4 REVENUE AND OTHER INCOME/(EXPENSES) AND GAINS/(LOSSES), NET

An analysis of revenue is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sale of goods	682,096	653,821
Rendering of services	<u>353</u>	<u>5,300</u>
	<u>682,449</u>	<u>659,121</u>

Revenue from contracts with customers

Disaggregated revenue information

Timing of revenue recognition

At a point in time	682,449	653,821
Over time	<u>-</u>	<u>5,300</u>
	<u>682,449</u>	<u>659,121</u>

An analysis of other income/(expenses) and gains/(losses), net, is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	401	117
Exchange differences, net	(870)	(476)
Fair value (loss)/gain on financial assets at fair value through profit or loss	(1,645)	215
Reversal of impairment of trade receivables	525	1,053
Gain on disposal of items of property, plant and equipment	–	13
Sundry income, net	<u>1,108</u>	<u>2,299</u>
	<u>(481)</u>	<u>3,221</u>

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	9,474	5,294
Interest on lease liabilities	<u>137</u>	<u>166</u>
Total finance costs	<u>9,611</u>	<u>5,460</u>

6 PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Cost of inventories sold	599,442	585,431
Cost of services provided	73	88
Depreciation	4,688	4,701
Research and development costs [#]	5,064	5,330
Auditors' remuneration		
— annual audit	780	500
Reversal of impairment of trade receivables [^]	(525)	(1,053)
Write-down of inventories to net realisable value ^{^^}	—	9,947
Gain on disposal of items of property, plant and equipment	—	(13)
Staff costs (including directors' remuneration):		
Wages and salaries	26,553	24,539
Share based payment expenses for share option [^]	3,843	11,662
Pension scheme contributions	3,389	3,078
	33,785	39,279
Lease payments not included in the measurement of leases liabilities	25	215
Foreign exchange differences, net	871	476
Fair value loss/(gain) on financial assets at fair value through profit or loss	1,645	(215)

[#] The research and development costs include HK\$4,210,000 (six months ended 30 September 2021: HK\$4,159,000) relating to staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses for the period.

[^] The reversal of impairment of trade receivables and share based payment expenses for share option are included in "Other income/(expenses) and gains/(losses), net" and "Administrative expenses" on the face of the condensed consolidated statement of profit or loss.

^{^^} The write-down of inventories to net realisable value is included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

7 INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax regime.

The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). The Company's subsidiary operating in Mainland China is subject to the prevailing PRC income tax rate of 25%.

	Unaudited For the six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Current — Hong Kong		
Charge for the period	1,000	2,700
Current — Mainland China		
Charge for the period	82	291
	<u>1,082</u>	<u>2,991</u>
Total tax charge for the period	<u>1,082</u>	<u>2,991</u>

8 DIVIDENDS

No interim dividend was proposed during the current period. The dividends paid during the periods were as follows:

	Unaudited For the six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Dividends paid during the period		
— 2022: N/A (2021: final at HK1.3 cents per ordinary share)	—	13,000
	<u>—</u>	<u>13,000</u>

9 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

a. Basic earnings per share

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$4,051,000 (2021: HK\$1,833,000) and the weighted average number of ordinary shares of 1,000,000,000 (2021: 1,000,000,000) in issue during the period.

b. Diluted earnings per share

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 September 2022 and 2021 in respect of a dilution as the exercise price of the share options of the Company outstanding during both periods were higher than the average market prices of the Company's ordinary shares and, accordingly, such share options held have no dilutive effect on the basic earnings per ordinary shares for both periods.

10 PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the six months ended 30 September 2022 are analysed as follows:

	Owned assets <i>HK\$'000</i>	Right-of-use assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2022 (Audited)	15,637	27,425	43,062
Additions	957	1,366	2,323
Depreciation	(1,771)	(2,917)	(4,688)
Exchange realignment	(256)	(353)	(609)
	<hr/>	<hr/>	<hr/>
At 30 September 2022 (Unaudited)	14,567	25,521	40,088
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 April 2021 (Audited)	14,203	28,800	43,003
Additions	2,842	4,312	7,154
Depreciation	(1,516)	(3,185)	(4,701)
Disposals	(44)	–	(44)
Exchange realignment	47	(60)	(13)
	<hr/>	<hr/>	<hr/>
At 30 September 2021 (Unaudited)	15,532	29,867	45,399
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of trade and bills receivables at amortised cost, other receivables, deposits, pledged bank deposits, cash and cash equivalents, trade payables, interest-bearing bank borrowings, trust receipt loans, and other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's instruments:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 30 September 2022				
Financial assets at fair value through profit or loss:				
Investments in life insurance policies	–	–	18,236	18,236
Investments in convertible bonds	–	–	8,120	8,120
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	19,475	–	19,475
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	12,064	12,064
	–	19,475	38,420	57,895
	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
At 31 March 2022				
Financial assets at fair value through profit or loss:				
Life insurance policies	–	–	18,076	18,076
Convertible bond	–	–	9,925	9,925
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	3,469	–	3,469
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	9,786	9,786
	–	3,469	37,787	41,256

The movements in fair value measurements within Level 3 during the year are as follows:

	Unaudited	
	2022	2021
	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss:		
At 1 April (Audited)	28,001	15,970
Additions	–	7,800
(Loss)/gain recognised in the statement of profit or loss	(1,645)	215
	<hr/>	<hr/>
At 30 September (Unaudited)	26,356	23,985
	<hr/> <hr/>	<hr/> <hr/>

Equity investment at fair value through other comprehensive income:

	Unaudited	
	2022	2021
	HK\$'000	HK\$'000
At 1 April (Audited)	9,786	–
Gain recognised through other comprehensive income	2,278	–
	<hr/>	<hr/>
At 30 September (Unaudited)	12,064	–
	<hr/> <hr/>	<hr/> <hr/>

The following method and assumptions were used to estimate the fair values:

The fair value of the investments in life insurance policies is determined by reference to the Surrender Values provided by the insurance companies. When the Surrender Values are higher, the fair value of investments in life insurance policies will be higher. As at 30 September 2022, if the Surrender Values have been 5% higher/lower, the impact on the amount attributable to the shareholders of the Group would be HK\$912,000 (31 March 2022: HK\$904,000) higher/lower, respectively.

The fair value of unlisted equity investment designated at fair value through other comprehensive income has been estimated using a market approach based on latest market transaction during the period.

The fair value of trade receivables stated at fair value through other comprehensive income is determined by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Below is the summary of significant unobservable inputs to the valuation of convertible bond together with a quantitative sensitivity analysis as at 31 March 2022:

	Significant technique	Valuation unobservable inputs	Range	Sensitivity of fair value to the input
Convertible bond	Black-Scholes Partial Differential Equation	Volatility	57.36% to 67.36% (31 March 2022: 114.69% to 124.69%)	A 5% increase/(decrease) in volatility would result in an increase/(decrease) in fair value by HK\$21,000/ (HK\$16,000) (31 March 2022: HK\$93,000/(HK\$88,000))

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2021: Nil).

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The changes in the net book value of financial assets at fair value through profit or loss for the six months ended 30 September 2022 are analysed as follows:

	Life insurance policy <i>HK\$'000</i>	Convertible bond <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2022 (Audited)	18,076	9,925	28,001
Changed in fair value	<u>160</u>	<u>(1,805)</u>	<u>(1,645)</u>
At 30 September 2022 (Unaudited)	<u><u>18,236</u></u>	<u><u>8,120</u></u>	<u><u>26,356</u></u>
At 1 April 2021 (Audited)	15,970	–	15,970
Additions	–	7,800	7,800
Changed in fair value	<u>215</u>	<u>–</u>	<u>215</u>
At 30 September 2021 (Unaudited)	<u><u>16,185</u></u>	<u><u>7,800</u></u>	<u><u>23,985</u></u>

13 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
Unlisted equity investment, at fair value		
PI Semiconductor (Shenzhen) Company Limited	<u><u>12,064</u></u>	<u><u>9,786</u></u>

The above unlisted equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature.

14 TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit with terms of one month, extending up to four months for major customers.

Overdue balances are reviewed regularly by senior management. As at 30 September 2022, the Group had certain concentration of credit risk that might arise from the exposure to its five largest customers and the largest customer which accounted for approximately 45.6% (31 March 2022: 38.5%) and 23.5% (31 March 2022: 11.0%) of the Group's total trade receivables, respectively. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest bearing.

	Unaudited 30 September 2022 HK\$'000	Audited 31 March 2022 HK\$'000
Trade receivables	189,128	126,075
Bills receivable	10,739	7,932
	<u>199,867</u>	<u>134,007</u>

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

	Unaudited 30 September 2022 HK\$'000	Audited 31 March 2022 HK\$'000
Within 1 month	101,544	105,275
1 to 3 months	73,876	26,068
3 to 6 months	24,357	2,505
Over 6 months	90	159
	<u>199,867</u>	<u>134,007</u>

15 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:

	Unaudited 30 September 2022 HK\$'000	Audited 31 March 2022 HK\$'000
Within 30 days	98,305	78,080
31 to 90 days	20,724	9,866
	<u>119,029</u>	<u>87,946</u>

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

16 RELATED PARTY TRANSACTIONS

- a. In addition to the transactions detailed in elsewhere in these interim financial information, the Group had the following transactions with related parties:
- (i) Mr. Fung Yui Kong had undertaken to indemnify the Group for all costs, losses and/or expenses for any taxation of the Group incurred with respect to the transfer pricing arrangement that arose prior to the listing on the Stock Exchange on 19 February 2021.
- b. Compensation of key management personnel of the Group:

	Unaudited	
	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Short-term employee benefits	6,644	6,381
Post-employment benefits	533	503
Share based payment expenses for share option	1,134	3,356
	8,311	10,240

17 COMMITMENTS

The Group leases certain of its office premises under short-term operating lease arrangements.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited	Audited
	30 September	31 March
	2022	2022
	HK\$'000	HK\$'000
Within one year	21	181

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the unaudited condensed consolidated results of the Group for the Period. The condensed interim financial information is not audited but has been reviewed by the Audit Committee.

BUSINESS REVIEW

Market Review

Global geopolitical and trade tensions remained tight during the first half of the financial year 2022/23. The escalation of energy price and raw materials cost, and the instability of the global supply chain raised significant challenges to the semiconductor industry. Despite the state of such tense global environment, the telecommunication industry continued making progress in expanding its network capacity with additional optics and wireless deployments to meet the demand for higher-speed network requirements. Upon closer view, it would be apparent that the telecommunication industry itself was also in fact full of challenges in 2022 in relation to government policy, technology development, financing cost and market circumstances. The recent development of the pandemic situation forced significant changes to local economies and the status of continuous lock-down of cities including those of manufacturing sites induced uncertainties to the local demand and imposed tremendous stress to the rate of recovery of the global economy as a whole. Trade sanctions and technology restrictions from the United States of America had an impact on capital investment of individual companies and caused many to become more cautious on new product and market development. Recent increase in interest rates and volatile markets also signalled the rise of financing costs. Product deployments and market expansions were observed to be happening in a subtle way where the market would eventually find its way to exist and grow. Although the aforementioned factors had an impact on the market growth of the telecom and datacom connectivity industry in the first half of the financial year, the Group's performance was still duly maintained for the Period.

Business Review

The overall market was full of challenges. Trade sanctions and technology restrictions posed issues that the Group, its customers and its suppliers have had to focus their attention to be adaptive and work around. With all the uncertainties arising from various global and domestic environments, market decisions and strategies tended to be short-sighted as businesses merely focused and planned for the short-term visible future. Notwithstanding, the Group believed that more opportunities are ahead of it so the Group had prepared itself to tackle and overcome the issues wisely, with the long-term future of the Group in mind as they came. Therefore, the Group not only did not pause, but kept up its development pace in search of the next growth momentum and had spent time to equip itself for the market to gradually regain its energy and return to relative normality.

During the Period, the Group continued its strategic move in parallel with its key customers in China to set up offices nearby those customers' newly developed manufacturing sites located in South-East Asian countries. By way of this partial manufacturing landscape shift, the Group and its customers had been positively anticipating and making preparations for the hopeful business re-bounce in forthcoming years. The latest offices set up in South-East Asia during last financial year continued to contribute to enhancing traction, developing intimate collaboration and partnership with both customers and suppliers so the Group was able to capture demand from the market, further diversify its product portfolio, as well as expand and broaden market coverage from China to the Southeast Asian regions amid the highly challenging macro-economic environment. The Group also continued seeking localization of material supply by collaborating with local supplier to improve resiliency of the Group's supply chain and optimize the support to local customers with the view to reduce operating and logistic cost.

Prospects

In connection with the global 5G development, market statistics have shown that, as at the end of September, 2022, 288 operators in 92 countries and territories have announced 3GPP-compatible 5G service launches, either mobile or fixed wireless access, and 505 operators in 155 countries and territories have been investing 5G mobile or 5G fixed wireless access or home broadband networks. As at the end of July 2022, based on public information published by the relevant government authority in the PRC, the number of 5G base station constructed in China reached 2.22 million which was 795 thousand more as compared with the number of base station as at the end of December 2021. This signifies that 5G is still in the heart of telecommunication industry globally and domestically, but the pace of its development has become a question for the industry. The Group remains cautiously positive that the temporarily slowdown of projects on 5G, and others like communication network infrastructure, data centre, Internet of Things (IoT) and commercial laser usage in China as well as the overseas markets will recover in the coming future.

The semiconductor industry has been deeply affected by the uncertainties arising from the geopolitical tension, the global economy and the COVID-19 pandemic policy of China. The industry itself is cyclical in nature which correlates strongly with the macro-economy. The Group believes that the demand situation will be fluctuating for the time being. But the Group will manage to leverage its market advantage to serve its customers and its suppliers in the regions to the highest satisfaction. When 6G is underway to enable faster and lower cost connectivity, the Group will benefit from the continuous growth of the industry. The Group remains confident in its long-term growth for revenues, profits and market presence, albeit there is possible short-term market adjustment.

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 the Group's total revenue for the Period. Revenue from rendering of services mainly represented income derived from providing administrative and support services to customers. During the Period, the Company generated a substantial portion of the revenue from customers in the PRC.

Revenue from sales of goods slightly increased from approximately HK\$653.8 million in the six months ended 30 September 2021 to approximately HK\$682.1 million for the Period mainly due to the increase in market demand.

Cost of sales

Cost of sales mainly comprises cost of goods which represents cost of products purchased from suppliers.

Gross profit margin

Gross profit margin was approximately 12.2% for the Period, as compared to approximately 11.2% for the six months ended 30 September 2021. Such increase was mainly due to increase in demand of the Group's products in the market.

Other income/expenses and gains/losses, net

Other expenses and losses of approximately HK\$0.5 million (2021: other income and gains of approximately HK\$3.2 million) mainly represented exchange losses, loss on valuation of financial assets, bank interest income, reversal of impairment on trade receivable and sundry income. During the Period, the Group recorded other expenses and losses of approximately HK\$0.5 million for the Period as compared to other income and gains for the corresponding period in last year, which was mainly due to (i) the loss on valuation of financial assets of approximately HK\$1.6 million for the Period; (ii) the increase in exchange loss of approximately HK\$0.4 million due to the depreciation of Renminbi for the Period; (iii) the decrease in sundry income of approximately HK\$1.2 million for the Period; and (iv) the decrease in reversal of impairment on trade receivable of approximately HK\$0.5 million.

Selling and distribution costs

The selling and distribution costs of approximately HK\$19.9 million (2021: approximately HK\$17.7 million) mainly included marketing and sales staff salaries, transportation, freight charges, declaration, consultancy fees and research and development expenses. The selling and distribution costs increased by approximately HK\$2.2 million or 12.6% from the corresponding period in last year, which was mainly attributable to the increase in revenue during the Period as mentioned above and increase in consultancy fee for business development.

Administrative expenses

Administrative expenses of approximately HK\$47.8 million (2021: approximately HK\$48.9 million) primarily consisted of salaries and benefits (including Directors' emoluments), insurance, operating lease and other premise fee, bank charges, entertainment and depreciation expenses. The administrative expenses decreased by approximately HK\$1.1 million or 2.2% for the Period, which is mainly due to the combined effect of (i) the decrease in share based payment expenses of approximately HK\$7.8 million as a result of the share options granted under the shares option scheme of the Company as disclosed in the Company's announcement dated 20 April 2021; (ii) the increase in salaries and staff benefits in aggregate of approximately HK\$3.8 million resulting from increase in salaries, bonus payment and number of staff during the Period; and (iii) the increase in travelling and entertainment expenses of approximately HK\$1.3 million due to business development activities.

Finance costs

The Group's finance costs of approximately HK\$9.6 million (2021: approximately HK\$5.5 million) mainly represented interest expenses on its bank borrowings during the Period. The Group incurred interest on bank borrowings of approximately HK\$9.5 million for the Period as compared to approximately HK\$5.3 million for the corresponding period in last year. The increase in interest on bank borrowings was mainly due to the increase in utilisation of borrowing facilities and increase in interest rate during the Period.

Taxation

Taxation of the Group for the Period mainly comprised current income tax expenses of approximately HK\$1.1 million (2021: HK\$3.0 million).

Net profit for the Period

Net profit for the Period amounted to approximately HK\$4.1 million, representing an increase of approximately 121.0% as compared to approximately HK\$1.8 million for the six months ended 30 September 2021. The increase in profit was principally attributable to the net effect of the factors mentioned above, including (a) increase in revenue; (b) increase in gross profit margin as a result of increase in market demand; (c) decrease in other income and gains, net; (d) increase in selling and distribution costs; (e) decrease in administrative expenses; (f) increase in finance costs; and (g) decrease in taxation.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 30 September 2022 were approximately HK\$121.9 million (31 March 2022: HK\$161.2 million). They were mainly denominated in Hong Kong dollar and Renminbi. As at 30 September 2022, the Group's total outstanding bank borrowings amounted to approximately HK\$434.0 million (31 March 2022: HK\$399.8 million) which comprised mainly bank factoring loans, import loans, trust receipts loans and revolving loans. 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 United States ("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 86.9% as at 31 March 2022 to approximately 110.5% as at 30 September 2022, mainly due to increase in bank borrowing resulting from increase in inventory and trade and bill receivables of approximately HK\$74.9 million and approximately HK\$65.9 million, respectively, which is partly offset by increase in trade payables of approximately HK\$31.1 million.

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

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group's financial information are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollar, US dollar and Renminbi. As the Hong Kong dollar remains 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.

CAPITAL EXPENDITURE AND COMMITMENTS

During the Period, the Group invested approximately HK\$1.0 million (2021: approximately HK\$2.8 million) in capital expenditure mainly for office equipment, furniture and fixtures and leasehold improvements.

The Group did not have any material capital commitments as at 30 September 2022 (2021: Nil).

CONTINGENT LIABILITIES

As at 30 September 2022, the Group did not have any material contingent liabilities (31 March 2022: Nil).

CHARGES ON ASSETS

As at 30 September 2022, certain bank borrowings of the Group were secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$93.0 million (31 March 2022: HK\$104.5 million);
- (ii) the pledge of investments in life insurance policies of Mr. Fung Yui Kong, amounting to HK\$18.2 million (31 March 2022: HK\$18.1 million);
- (iii) trade and bills receivable of HK\$34.1 million (31 March 2022: HK\$58.7 million);
and
- (iv) corporate guarantees from the Company of up to HK\$857.8 million (31 March 2022: HK\$1,016.1 million).

SIGNIFICANT INVESTMENT

As at 30 September 2022, the Group had no significant investment with a value of 5% or more of the Group's total assets.

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 Period.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2022, the Group had 121 employees (31 March 2022: 119 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 has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

EVENTS AFTER THE END OF THE PERIOD

No matters or circumstances have occurred subsequent to the end of the Period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state-of-affairs of the Group.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Listing in the amount of approximately HK\$88.1 million after deducting underwriting commissions and all related expenses have been and 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 Listing Date up to 30 September 2022 as follows:

Use of proceeds	Application of net proceeds as stated in the Prospectus <i>HK\$'million</i>	Utilised amount up to 30 September 2022 <i>HK\$'million</i>	Unused net proceeds <i>HK\$'million</i>	Unused net proceeds %
Strengthening design and technical capabilities	57.8	3.7	54.1	93.6%
Broadening customer base by expanding the geographic reach of sales and technical support coverage	14.4	8.7	5.7	39.6%
Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff	7.2	6.5	0.7	9.7%
General working capital	8.7	8.7	0	0%
	88.1	27.6	60.5	68.7%

As at 30 September 2022, the amount of unused net proceeds amounted to approximately HK\$60.5 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 significantly affected by the worldwide semiconductor supply and demand and the continuing impacts of COVID-19 since the start of 2020 and the ongoing geopolitical conflicts involving major economies worldwide, which resulted in historical drop in output in all major economies, uncertain market outlook and dwindling consumption and market sentiment across different industries, together with the restrictions and rules imposed from time to time on border controls, lockdowns and quarantine measures which have further hindered the recovery of the global economies. In view of the foregoing, as at the date of this announcement, it is expected that the unused net proceeds from the Listing would be utilised not earlier than 2024. The Group shall regularly evaluate the market conditions for the fulfillment of the Group's future plan and provide any further updates as and when appropriate.

PURCHASE, SALE OR REDEMPTION 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 Period.

CORPORATE GOVERNANCE

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 enhancement of shareholders value. Except for the deviation from code provision C.2.1 of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual, the Company has complied with all the code provisions set out in the CG Code.

Mr. Fung Yui Kong ("**Mr. Fung**") is the chairman of the Board and the chief executive of the Company. In view of Mr. Fung being the founder of the Group and that he has considerable experience in operating and managing the Company since 1990, the Board believes that it is in the best interest of the Group to have Mr. Fung taking up both the role of chairman and chief executive for effective management and business development. The Board considers that the balance of power between the Board and the management can still be maintained under the current structure. Therefore, the Directors consider that the deviation from the code provision C.2.1 of the CG Code is appropriate in such circumstance.

Save as disclosed, the Company has applied the principles and complied with the CG Code throughout the Period.

AUDIT COMMITTEE

The Audit Committee was established on 25 January 2021 with specific terms of reference setting out the committee's authority and duties. The Audit Committee comprises one non-executive Director namely Mr. Kam Eddie Shing Cheuk and two independent non-executive Directors namely Mr. Sze Wing Chun (Chairman), who possesses the appropriate professional qualifications or accounting or related financial management expertise, and Mr. Ling Kwok Fai Joseph. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The Audit Committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited condensed interim financial statements of the Group for the Period before recommending them to the Board for approval.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 Period.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

The interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pangaea.com.hk). The 2022 interim report of the Company 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, 23 November 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.