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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 2023**

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 2023 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Six months ended 30 September 2023*

		Unaudited	
		For the six months ended	
		30 September	
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	4	600,249	682,449
Cost of sales		<u>(545,815)</u>	<u>(599,515)</u>
Gross profit		54,434	82,934
Other income/(expenses) and gains/(losses), net	4	3,746	(481)
Selling and distribution costs		(18,166)	(19,911)
Administrative expenses		(41,428)	(47,798)
Finance costs	5	<u>(14,355)</u>	<u>(9,611)</u>
PROFIT/(LOSS) BEFORE TAX	6	(15,769)	5,133
Income tax credit/(expense)	7	<u>1,766</u>	<u>(1,082)</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>(14,003)</u>	<u>4,051</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)	9	<u>(1.40)</u>	<u>0.41</u>
Diluted (<i>HK cents</i>)	9	<u>(1.40)</u>	<u>0.41</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 September 2023

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Profit/(loss) for the period	<u>(14,003)</u>	<u>4,051</u>
OTHER COMPREHENSIVE INCOME/(LOSS):		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
— Exchange differences on translation of a foreign operation	(1,186)	(2,456)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
— Net gain/(loss) on equity investment at fair value through other comprehensive income	<u>(409)</u>	<u>2,278</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	<u>(1,595)</u>	<u>(178)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	<u><u>(15,598)</u></u>	<u><u>3,873</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

		Unaudited 30 September 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	47,991	42,607
Financial assets at fair value through profit or loss	<i>12</i>	18,984	18,804
Equity investment at fair value through other comprehensive income	<i>13</i>	11,655	12,064
Prepayments and deposits		9,466	10,379
Deferred tax assets		5,873	4,124
		<hr/>	<hr/>
Total non-current assets		93,969	87,978
CURRENT ASSETS			
Inventories		245,497	287,571
Trade and bills receivables	<i>14</i>	196,087	139,973
Financial assets at fair value through profit or loss	<i>12</i>	9,173	9,112
Prepayments, deposits, other receivables and other assets		24,921	20,131
Pledged bank deposits		107,462	108,615
Cash and cash equivalents		85,484	64,827
		<hr/>	<hr/>
Total current assets		668,624	630,229
CURRENT LIABILITIES			
Trade payables	<i>15</i>	132,071	66,447
Other payables, accruals and contract liabilities		65,272	35,268
Interest-bearing bank borrowings		102,597	120,783
Trust receipt loans		215,071	241,092
Lease liabilities		4,743	2,718
Tax payable		2,292	2,194
		<hr/>	<hr/>
Total current liabilities		522,046	468,502
NET CURRENT ASSETS		<hr/> 146,578 <hr/>	<hr/> 161,727 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 240,547 <hr/>	<hr/> 249,705 <hr/>

	Unaudited 30 September 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Lease liabilities	5,896	416
Deferred tax liabilities	741	741
	<hr/>	<hr/>
Total non-current liabilities	6,637	1,157
	<hr/>	<hr/>
Net assets	233,910	248,548
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,000	10,000
Reserves	223,910	238,548
	<hr/>	<hr/>
Total equity	233,910	248,548
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 statements are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants 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 statements are the same as those used in the preparation of the annual financial statements for the year ended 31 March 2023.

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 2023, except for the adoption of the following new and revised HKFRSs for the first time for the current period's financial information.

HKFRS 17 Insurance Contracts	<i>Insurance Contracts</i>
Amendments to HKFRS 17 Insurance Contracts	<i>Insurance Contracts</i>
Amendment to HKFRS 17 Insurance Contracts	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>Amendments to HKAS 12 International Tax Reform — Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 International Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. The amendments did not have significant impact to the Group.

3 OPERATING SEGMENT INFORMATION

The Group is principally engaged in the import and export of electronic components including commercial lasers and connectivity products which are used in telecom and datacom connectivity industry for different end applications such as telecom infrastructure, data centres, high performance computing, IoT and network connectivity products.

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	
	2023 HK\$'000	2022 HK\$'000
Hong Kong	99,052	133,897
Mainland China	423,639	471,898
Other countries/regions	77,558	76,654
	<u>600,249</u>	<u>682,449</u>

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

(b) *Non-current assets*

	Unaudited 30 September 2023 HK\$'000	Audited 31 March 2023 HK\$'000
Hong Kong	39,149	32,637
Mainland China	11,833	12,780
Taiwan	–	326
	<u>50,982</u>	<u>45,743</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	
	2023	2022
	HK\$'000	HK\$'000
Customer A	106,698	160,261
Customer B	123,455	N/A*
	<u>230,153</u>	<u>160,261</u>

* Revenue from sales to Customer B accounted for less than 10% of the total revenue of the Group for the period ended 30 September 2022.

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	
	2023	2022
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sale of goods	598,862	682,096
Rendering of services	1,387	353
	<u>600,249</u>	<u>682,449</u>
Revenue from contracts with customers		
Disaggregated revenue information		
Timing of revenue recognition		
At a point in time	<u>600,249</u>	<u>682,449</u>

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

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Bank interest income	2,418	401
Exchange differences, net	44	(870)
Fair value gain/(loss) on financial assets at fair value through profit or loss	241	(1,645)
Reversal of impairment of trade receivables	–	525
Sundry income, net	1,043	1,108
	<u>3,746</u>	<u>(481)</u>

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Interest on bank borrowings	14,190	9,474
Interest on lease liabilities	165	137
	<u>14,355</u>	<u>9,611</u>

6 PROFIT/(LOSS) BEFORE TAX

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

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Cost of inventories sold	545,785	599,442
Cost of services provided	30	73
Depreciation	5,233	4,688
Research and development costs [#]	4,345	5,064
Auditors' remuneration		
— annual audit	780	780
Impairment/(reversal of impairment) of trade receivables [^]	164	(525)
Staff costs (including directors' remuneration):		
Wages and salaries and allowances	25,410	26,553
Share based payment expenses for share option [^]	960	3,843
Pension scheme contributions	3,173	3,389
	29,543	33,785
Lease payments not included in the measurement of leases liabilities	25	25
Foreign exchange differences, net	(44)	870
Fair value loss/(gain) on financial assets at fair value through profit or loss	(241)	1,645

[#] The research and development costs include HK\$4,295,000 (six months ended 30 September 2022: HK\$4,210,000) 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 impairment/(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.

7 INCOME TAX

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
Current — Hong Kong		
Charge for the period	–	1,000
Current — Mainland China		
Charge for the period	–	82
Deferred tax	<u>(1,766)</u>	<u>–</u>
Total tax charge/(credit) for the period	<u><u>(1,766)</u></u>	<u><u>1,082</u></u>

8 DIVIDENDS

No interim dividend was proposed during the current period (2022: Nil).

9 EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

a. Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to ordinary equity holders of the parent is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$14,003,000 (2022: profit of HK\$4,051,000) and the weighted average number of ordinary shares of 1,000,000,000 (2022: 1,000,000,000) in issue during the period.

b. Diluted earnings/(loss) per share

No adjustment has been made to the basic earnings/(loss) per share amount presented for the six months ended 30 September 2023 and 2022 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/(loss) per ordinary share 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 2023 are analysed as follows:

	Owne d assets <i>HK\$'000</i>	Right-of-use assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2023 (Audited)	20,510	22,097	42,607
Additions	537	10,755	11,292
Depreciation	(2,402)	(2,831)	(5,233)
Exchange realignment	(269)	(406)	(675)
	<hr/>	<hr/>	<hr/>
At 30 September 2023 (Unaudited)	18,376	29,615	47,991
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
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/>

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 2023				
Financial assets at fair value through profit or loss:				
Investments in life insurance policies	–	–	18,984	18,984
Investments in convertible bonds	–	–	9,173	9,173
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	21,449	–	21,449
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	11,655	11,655
	<u>–</u>	<u>21,449</u>	<u>39,812</u>	<u>61,261</u>

	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 31 March 2023				
Financial assets at fair value through profit or loss:				
Life insurance policies	–	–	18,804	18,804
Convertible bond	–	–	9,112	9,112
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	4,467	–	4,467
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	12,064	12,064
	<u>–</u>	<u>4,467</u>	<u>39,980</u>	<u>44,447</u>

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

	Unaudited	
	2023	2022
	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss:		
At 1 April (Audited)	27,916	28,001
Gain/(loss) recognised in the statement of profit or loss	241	(1,645)
	<hr/>	<hr/>
At 30 September (Unaudited)	28,157	26,356
	<hr/> <hr/>	<hr/> <hr/>

Equity investment at fair value through other comprehensive income:

	Unaudited	
	2023	2022
	HK\$'000	HK\$'000
At 1 April (Audited)	12,064	9,786
Gain/(loss) recognised through other comprehensive income	(409)	2,278
	<hr/>	<hr/>
At 30 September (Unaudited)	11,655	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 2023, if the Surrender Values have been 5% higher/lower, the impact on the amount attributable to the shareholders of the Group would be HK\$949,000 (31 March 2023: HK\$940,000) higher/lower, respectively.

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 unlisted equity investment together with a quantitative sensitivity analysis as at 30 September 2023:

	Significant technique	Valuation unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity investment	Market approach	Holding returns	Decrease of 45.48% to decrease of 27.04%	A 5% increase/(decrease) in holding returns would result in increase of HK\$293,000/ (decrease of HK\$296,000) in fair value

During the year ended 31 March 2023, the fair value of the unlisted equity investment designated at fair value through other comprehensive income was estimated using a market approach based on latest market transaction.

Below is the summary of significant unobservable inputs to the valuation of convertible bond together with a quantitative sensitivity analysis as at 30 September 2023:

	Significant technique	Valuation unobservable inputs	Range	Sensitivity of fair value to the input
Convertible bond	Black-Scholes Partial Differential Equation	Volatility	67.17% to 77.17% (31 March 2023: 84.32% to 94.32%)	A 5% increase/(decrease) in volatility would not result in fair value change (31 March 2023: HK\$41,000/(HK\$40,000))

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2022: 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 2023 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 2023 (Audited)	18,804	9,112	27,916
Changed in fair value	180	61	241
At 30 September 2023 (Unaudited)	18,984	9,173	28,157
At 1 April 2022 (Audited)	18,076	9,925	28,001
Changed in fair value	160	(1,805)	(1,645)
At 30 September 2022 (Unaudited)	18,236	8,120	26,356

13 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 September 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
Unlisted equity investment, at fair value		
PI Semiconductor (Shenzhen) Company Limited	11,655	12,064

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 2023, 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 51.8% (31 March 2023: 41.2%) and 11.9% (31 March 2023: 11.6%) 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 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
Trade receivables	190,917	124,863
Bills receivable	5,170	15,110
	<u>196,087</u>	<u>139,973</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 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
Within 1 month	96,669	134,412
1 to 3 months	80,878	4,879
3 to 6 months	17,062	515
Over 6 months	1,478	167
	<u>196,087</u>	<u>139,973</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 2023 <i>HK\$'000</i>	Audited 31 March 2023 <i>HK\$'000</i>
Within 30 days	61,416	23,690
31 to 90 days	68,941	42,734
Over 90 days	1,714	23
	<u>132,071</u>	<u>66,447</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 statements, the Group had the following transactions with related parties:
- (i) Mr. Fung 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	
	2023	2022
	HK\$'000	HK\$'000
Short-term employee benefits	6,401	6,644
Post-employment benefits	484	533
Share based payment expenses for share option	291	1,134
	7,176	8,311

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
	2023	2023
	HK\$'000	HK\$'000
Within one year	25	–

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 of the Company (the “**Audit Committee**”).

BUSINESS REVIEW

Market Review

The global and China economies remained challenging but began moving in a considerably more positive direction in the first half of the Group’s 2023/24 financial year. The plan for digital economy of China has given rise to the demand for artificial intelligence (AI) and high-performance computing (HPC) which has been a strong driving force in the semiconductor market. Machine learning and deep learning requiring powerful processing and communicating capabilities has created surge in the need for advanced semiconductors. Together with the green initiatives in China and across the globe, such as the increased utilization of solar energy, have rapidly stimulated the demand for industrial lasers aiming for solar photovoltaic panel development. When the impact of the pandemic began to subside as governmental policies all over the world became more adaptive to COVID-19, the supply chain disruption due to pandemic was considered as a past episode. However, factor such as high interest rates has still been affecting the investment decisions and operating costs which hindered the pace of overall market recovery. It has become expensive to obtain and maintain financial fundings and hence, the increase in the cost of capital has hampered and slowed down consumption, manufacturing and production. Despite the challenging situation and obstacles remaining, the positive signs grew stronger, fuelling optimism and spurring future growth opportunities.

Business Review

During the period under review, several key developments and initiatives have shaped the Group’s progress in recent times. Firstly, the Group has actively engaged in the business development for the linear device semiconductors. The emergence of generative artificial intelligence (AI) technologies like ChatGPT is driving the exponential growth of high-performance computing (HPC) power and data centre bandwidth requirements, as well as accelerating the application of new optoelectronic technologies such as Linear Direct Drive. The AI enabled high performance linear transmission technology is the key to enhance data processing and analysing performance, expand bandwidth capability, solve the increasing problems of system power consumption and heat dissipation of high-density modules, and reduce cost. Secondly, the Group has put another focus into the industrial laser sector for solar photovoltaic panel manufacturing. The Group recognized the growing demand for renewable energy and invested in supporting such cutting-edge laser technologies tailored for solar photovoltaic panel development and production. This strategic move has positioned the Group as a leading provider in the China market, enabling the technology enhancement to the key customers in China and benefiting the dominant supplier of the industrial laser which ultimately help facilitate the increase in market requirements and contribute to a growth of market share and a

sustainable business landscape. Furthermore, the Group's commitment to staying ahead of the curve has led the Group to explore new market segments, adopt more new product lines, broaden supplier and customer base, and develop strategic partnership with key suppliers and customers in the region. By diversifying the Group's offerings, the Group has expanded its market reach and tapped into previously untapped business partners and customer segments. This expansion has not only potentially boosted the Group's revenue streams but also strengthened the Group's overall competitive advantage. In addition, to address the global shift in supplier and customer dynamics, the Group has proactively matched their move to South-East Asia. Recognizing the region's emerging market potential and cost advantages, the Group has established a robust presence in those key locations to optimize supply chains and ensure seamless operations.

The Group's 4 key market sectors — Telecommunication Infrastructure, AI HPC (High Performance Computing), Wi-Fi and IoT Connectivity, and Green Energy — Industrial Lasers performed invariably with the market and within the Group's expectation during the first half of the financial year under review as compared with the corresponding period of last financial year. The Group will maintain its pace to drive growth and innovation in the ever-evolving business landscape to demonstrate its resilience, adaptability and commitment to the valued shareholders.

Prospects

This year, with the re-opening of China, global business interactions have returned to the right track albeit the global political and economic landscape still being subject to uncertainties. The Group expects and sees several positive factors catering for its potential business rebound. The direction towards digital economy has provided the driving force for qualitative living as well as further economic development through the connection between the digitalization and the real economy. AI, machine learning, HPC, deployment of communication networks and Internet of Things (IoT) are the essential building blocks for the realization of digital life. There are continuous demands on wifi6 and a booming business potential for wifi7. 5G development, though not as expected, will come eventually together with 6G. Therefore, the Group will continue to seek further investment opportunities in those essential areas by collaborating closely with key suppliers and customers of the China and South-east Asian regions. Furthermore, the Green policy of China has also generated great opportunities in the new energy sector such as the solar photovoltaic application segment. According to a new analysis conducted by Ember, an energy think tank, solar panel exports from China grew by 34% in the first half of 2023, with 114 gigawatts (GW) shipped worldwide, compared to 85 GW in the corresponding period last year. China's solar panel exports contributed 80% of the global market share. The Group was involved heavily by promoting and supporting the use of industrial laser in the production of solar photovoltaic panel in which energy efficiency, being a key benefit and competitive advantage, has achieved significant improvement as compared with the former solar panel production technology. Last but not least, the Group has not only strategically secured some important businesses to maintain a stable revenue stream, but has also been persistently making its effort to broaden its supplier and customer base swiftly.

The Group will strive to meet our shareholders' expectation by being more versatile and competitive following the worldwide product development, economy status and demand trend. The Group will act more risk controllable, stay financially healthy and be more strategically focused to drive for excellence and long-term sustainable growth to pursue thriving in the dynamic and rapidly evolving markets.

FINANCIAL REVIEW

Revenue

Revenue comprises sales of goods and rendering of services.

Revenue from sales of goods accounted for approximately 99.8% (2022: 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 decreased from approximately HK\$682.1 million in the six months ended 30 September 2022 to approximately HK\$598.9 million for the Period mainly due to the decrease 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 9.1% for the Period, as compared to approximately 12.2% for the six months ended 30 September 2022. Such decrease was mainly due to decrease in demand and price of the Group's products in the market.

Other income/expenses and gains/losses, net

Other income and gains of approximately HK\$3.7 million (2022: other expenses and losses of approximately HK\$0.5 million) mainly represented bank interest income, gain on valuation of financial assets and sundry income. During the Period, the Group recorded other income and gains of approximately HK\$3.7 million for the Period as compared to other expenses and losses of approximately HK\$0.5 million for the corresponding period in last year, which was mainly due to (i) the increase in bank interest income of HK\$2.0 million; (ii) the fair value gain for financial assets of approximately HK\$0.2 million (2022: loss of HK\$1.6 million) for the Period; and (iii) the exchange gain of approximately HK\$44,000 (2022: loss of HK\$820,000) due to the strengthened US dollar against HK dollar and depreciation of Renminbi for the Period; which was partly offset by (i) the decrease in sundry income of approximately HK\$0.1 million for the Period; and (ii) 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\$18.2 million (2022: approximately HK\$19.9 million) mainly included marketing and sales staff salaries, transportation, freight charges, declaration, consultancy fees and research and development expenses. The selling and distribution costs decreased by approximately HK\$1.7 million or 8.8% from the corresponding period in last year, which was mainly attributable to the decrease in revenue during the Period as mentioned above.

Administrative expenses

Administrative expenses of approximately HK\$41.4 million (2022: approximately HK\$47.8 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\$6.4 million or 13.3% for the Period, which is mainly due to the combined effect of (i) the decrease in share based payment expenses of approximately HK\$2.9 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 decrease in salaries and staff benefits in aggregate of approximately HK\$1.2 million resulting from decrease in salaries, bonus payment and number of staff during the Period; and (iii) the decrease in travelling and entertainment expenses of approximately HK\$1.4 million due to stringent cost control measures.

Finance costs

The Group's finance costs of approximately HK\$14.4 million (2022: approximately HK\$9.6 million) mainly represented interest expenses on its bank borrowings during the Period. The Group incurred interest on bank borrowings of approximately HK\$14.2 million for the Period as compared to approximately HK\$9.5 million for the corresponding period in last year. The increase in interest on bank borrowings was mainly due to the increase in interest rate during the Period, which has been partly offset by reduction of total bank borrowing from HK\$434.0 million as at 30 September 2022 to HK\$317.7 million as at 30 September 2023 due to enhancement of cost and working capital control measure during the Period.

Taxation

Taxation of the Group for the Period mainly comprised current income tax credit of approximately HK\$1.8 million (2022: income tax expense of HK\$1.1 million) which mainly represented deferred tax credit to statement of profit or loss for tax losses during the Period.

Net loss for the Period

Net loss for the Period amounted to approximately HK\$14.0 million as compared to net profit of approximately HK\$4.1 million for the six months ended 30 September 2022. The decrease in profit was principally attributable to the net effect of the factors mentioned above, including (a) decrease in revenue; (b) decrease in gross profit margin as a result of decrease in market demand; (c) increase in other income and gains, net; (d) decrease in selling and distribution costs; (e) decrease in administrative expenses; and (f) increase in finance costs.

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 2023 were approximately HK\$85.5 million (31 March 2023: HK\$64.8 million). They were mainly denominated in Hong Kong dollar and Renminbi. As at 30 September 2023, the Group's total outstanding bank borrowings amounted to approximately HK\$317.7 million (31 March 2023: HK\$361.9 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 and pledged bank deposits divided by total equity and multiplied by 100%) decreased from approximately 75.8% as at 31 March 2023 to approximately 53.3% as at 30 September 2023, mainly due to decrease in bank borrowing resulting from decrease in inventory of approximately HK\$42.1 million and increase in trade payables of approximately HK\$65.6 million, which is partly offset by increase in trade and bill receivables of approximately HK\$56.1 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 statements 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 is no material exchange risk in this respect. As the portion of Renminbi revenue is insignificant, there is 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\$0.5 million (2022: approximately HK\$1.0 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 2023 (31 March 2023: Nil).

CONTINGENT LIABILITIES

As at 30 September 2023, the Group did not have any material contingent liabilities (31 March 2023: Nil).

CHARGES ON ASSETS

As at 30 September 2023, certain bank borrowings of the Group were secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$107.5 million (31 March 2023: HK\$108.6 million);
- (ii) the pledge of investments in life insurance policies of Mr. Fung, amounting to HK\$19.0 million (31 March 2023: HK\$18.8 million);
- (iii) trade and bills receivables of HK\$49.4 million (31 March 2023: HK\$45.4 million);
and
- (iv) corporate guarantees from the Company of up to HK\$1,563.7 million (31 March 2023: HK\$1,563.7 million).

SIGNIFICANT INVESTMENT

As at 30 September 2023, 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 2023, the Group had 114 employees (31 March 2023: 117 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 initial public listing of the shares of the Company on the main board of the Stock Exchange (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 19 February 2021 (i.e. the listing date) up to 30 September 2023 as follows:

Use of proceeds	Application of net proceeds as stated in the Prospectus <i>HK\$'million</i>	Utilised amount up to 30 September 2023 <i>HK\$'million</i>	Unused net proceeds <i>HK\$'million</i>	Unused net proceeds %
Strengthening design and technical capabilities	57.8	8.9	48.9	84.6%
Broadening customer base by expanding the geographic reach of sales and technical support coverage	14.4	14.4	–	0%
Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff	7.2	7.2	–	0%
General working capital	8.7	8.7	–	0%
	<u>88.1</u>	<u>39.2</u>	<u>48.9</u>	<u>55.5%</u>

As at 30 September 2023, the amount of unused net proceeds amounted to approximately HK\$48.9 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, the impacts of COVID-19 and the ongoing geopolitical conflicts involving major economies worldwide, which resulted in uncertain market outlook and dwindling consumption and market sentiment across different industries which have hindered the recovery of the global economies. However, 5G adoption will trigger the surge of development and application of correlated communication infrastructure in the coming years. Barring any unforeseen circumstances, 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.

DISCLOSURE UNDER RULE 13.51B(1) OF THE LISTING RULES

Following the resignation of Mr. Sze Wing Chun as an independent non-executive director of the Company with effect from 1 October 2023, Mr. Kam, Eddie Shing Cheuk, a former non-executive Director, was redesignated as an independent non-executive Director with effect from the same date.

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 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 three independent non-executive Directors namely Mr. Kam Eddie Shing Cheuk (Chairman), who possesses the appropriate professional qualifications or accounting or related financial management expertise and was re-designated from non-executive Director to independent non-executive Director with effect from 1 October 2023 following the resignation of Mr. Sze Wing Chun, Mr. Ling Kwok Fai Joseph and Mr. Chan Hiu Fung Nicholas. 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.

RISK MANAGEMENT COMMITTEE

The risk management committee of the Company (the "**Risk Management Committee**") was established on 25 January 2021 with specific terms of reference setting out the committee's authority and duties. The Risk Management Committee comprises three executive Directors namely Mr. Fung Yui Kong (Chairman), Ms. Leung Kwan Sin Rita and Dr. Wong Wai Kong. The main duties of the Risk Management Committee include, among other matters, to monitor the Company's exposure to sanctions law risks and its implementation of the related internal control procedures, with particular emphasis on the Company's risk management policies and standards and supervise and monitor the Company's exposure to sanctions law risks. During the Period, there were no irregular findings in relation to any transactions of the Group made by the Risk Management Committee which were required to be reported to the independent non-executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Listing Rules ("**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 2023 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, 22 November 2023

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, Mr. Chan Hiu Fung Nicholas, and Mr. Ling Kwok Fai Joseph as independent non-executive Directors.