

Pangaea Connectivity Technology Limited

環聯連訊科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code 股份代號 : 1473

INTERIM REPORT 中期報告

2023



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Fung Yui Kong (馮銳江)
Dr. Wong Wai Kong (黃偉栢)
Ms. Leung Kwan Sin Rita (梁筠倩)

Non-Executive Director

Mr. Kam, Eddie Shing Cheuk (甘承倬)
(Re-designated from Non-Executive
Director to Independent Non-Executive
Director with effect from
1 October 2023)

Independent Non-Executive Directors

Mr. Chan Hiu Fung Nicholas (陳曉峰)
Mr. Ling Kwok Fai Joseph (凌國輝)
Mr. Sze Wing Chun (施永進)
(Resigned with effect from
1 October 2023)
Mr. Kam, Eddie Shing Cheuk (甘承倬)
(Re-designated from Non-Executive
Director to Independent Non-Executive
Director with effect from
1 October 2023)

AUDIT COMMITTEE

Mr. Sze Wing Chun (施永進) (*Chairman*)
(Resigned with effect from
1 October 2023)
Mr. Kam, Eddie Shing Cheuk (甘承倬)
(Re-designated from member to
Chairman with effect from
1 October 2023)
Mr. Ling Kwok Fai Joseph (凌國輝)
Mr. Chan Hiu Fung Nicholas
(Appointed with effect from
1 October 2023)

REMUNERATION COMMITTEE

Mr. Ling Kwok Fai Joseph (凌國輝)
(*Chairman*)
Ms. Leung Kwan Sin Rita (梁筠倩)
Mr. Sze Wing Chun (施永進)
(Resigned with effect from
1 October 2023)
Mr. Kam, Eddie Shing Cheuk (甘承倬)
(Appointed with effect from
1 October 2023)

NOMINATION COMMITTEE

Mr. Chan Hiu Fung Nicholas (陳曉峰)
(*Chairman*)
Mr. Fung Yui Kong (馮銳江)
Mr. Ling Kwok Fai Joseph (凌國輝)

RISK MANAGEMENT COMMITTEE

Mr. Fung Yui Kong (馮銳江) (*Chairman*)
Dr. Wong Wai Kong (黃偉栢)
Ms. Leung Kwan Sin Rita (梁筠倩)

COMPANY SECRETARY

Dr. Wong Wai Kong (黃偉栢)

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

COMPLIANCE ADVISER

Honestum International Limited
(During the reporting period up to
30 June 2023)

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

COMPANY WEBSITE

www.pangaea.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 902–6, 9/F
Tai Yau Building
181 Johnston Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited:
01473

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Pangaea Connectivity Technology Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2023 (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 from 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Yui Kong, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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**").

MANAGEMENT DISCUSSION AND ANALYSIS

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 HK\$'million	Utilised amount up to 30 September 2023 HK\$'million	Unused net proceeds HK\$'million	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.

OTHER INFORMATION

DISCLOSURE OF INTEREST

(a) Interests of Directors

As at 30 September 2023, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the Securities and Futures Ordinance (the “SFO”), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Rules (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange (the “Model Code”), were as follows:

(i) Long position in the shares and underlying shares of the Company

Name of Directors	Interest in shares	Interest in share option (Note 2)	Total interests	Approximate percentage of issued share capital
Mr. Fung Yui Kong (Note 1)	750,000,000	–	750,000,000	75.00
Ms. Leung Kwan Sin Rita	–	10,000,000	10,000,000	1.00
Dr. Wong Wai Kong	–	6,500,000	6,500,000	0.65
Mr. Kam Eddie Shing Cheuk	–	300,000	300,000	0.03
Mr. Chan Hiu Fung Nicholas	–	300,000	300,000	0.03
Mr. Ling Kwok Fai Joseph	–	300,000	300,000	0.03
Mr. Sze Wing Chun (Note 3)	–	300,000	300,000	0.03

OTHER INFORMATION

Notes:

1. These Shares are held by Generous Horizon Limited (formerly named Generous Team Limited), a company incorporated in the British Virgin Islands with limited liability the entire issued share capital of which is legally and beneficially owned by Mr. Fung Yui Kong. As such, Mr. Fung Yui Kong is deemed to be interested in the Shares in which Generous Horizon Limited is interested under Part XV of the SFO.
2. These are underlying shares which represent the share options granted by the Company from 20 April 2021 to 12 May 2021 under the share option scheme of the Company adopted on 25 January 2021, exercisable according to the schedule set out in the paragraph headed "Share Option Scheme" in this report.
3. Mr. Sze Wing Chun, who was an independent non-executive director of the Company as at 30 September 2023, had at the time interest in 300,000 share options, representing approximately 0.03% of the issued share capital of the Company, which subsequently lapsed as a result of his resignation.

(ii) Long position in the shares of associated corporation(s) of the Company

Name of Director	Name of associated corporation	Capacity	Number of share(s) held in the associated corporation	Percentage of issued share capital
Mr. Fung Yui Kong	Generous Horizon Limited	Beneficial owner	1	100

Save as disclosed above, as at 30 September 2023, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

(b) Interests of substantial shareholders

As at 30 September 2023, so far as is known to the Directors, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholders	Nature of interest	No. of shares held	Percentage of issued share capital
Generous Horizon Limited	Beneficial owner	750,000,000 (L) (Note 1)	75
Ms. Lam Esther W.	Interest of spouse	750,000,000 (L) (Note 2)	75

(L) denotes long position

Notes:

1. Generous Horizon Limited (formerly named Generous Team Limited) is a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is legally and beneficially owned by Mr. Fung Yui Kong.
2. Ms. Lam Esther W. is the spouse of Mr. Fung Yui Kong. As such, she is deemed to be interested in the shares in which Mr. Fung Yui Kong is interested under Part XV of the SFO.

Save as disclosed above, as at 30 September 2023, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company operates a share option scheme (the “**Share Option Scheme**”) for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any entity in which the Group holds an equity interest (the “**Invested Entity**”). Eligible participants of the Share Option Scheme include the Directors, including executive, non-executive and independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity, any person who, in the sole discretion of the Board, has contributed or may contribute to the Group or any Invested Entity eligible for options under the Share Option Scheme (the “**Eligible Participant**”). The Share Option Scheme became effective on 25 January 2021 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 100,000,000 shares, being 10% of the total number of shares in issue unless the Company obtains the approval of the shareholders in general meeting for renewing the 10% limit (the “**Scheme Mandate Limit**”) under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

No option shall be granted to any Eligible Participant if any further grant of options would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including both exercised and outstanding options) in the 12-month period up to and including the date of such further grant exceeding 1% of the total number of shares in issue.

OTHER INFORMATION

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An offer of grant of an option may be accepted by an Eligible Participant within 21 days from the date upon which it is made or within such other period of time as may be determined by the Board pursuant to the Listing Rules, by which the Eligible Participant must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten (10) years after the date of adoption of the Share Option Scheme. A consideration of HK\$1.00 is payable on acceptance of the offer of grant of an option.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 20 April 2021 (the "**Date of Grant**"), the Board resolved to grant on the same date share options to the Eligible Participants to subscribe for a total of 78,464,000 ordinary shares of HK\$0.01 each at the exercise price of HK\$0.60 per share. Among the 78,464,000 share options granted, a total of 17,700,000 share options were granted to certain Directors in respect of their services to the Group in the forthcoming years. 38,464,000 options shall be exercisable as to 30%, 30% and 40% from the first anniversary of the Date of Grant, the second anniversary of the Date of Grant and the third anniversary of the Date of Grant, respectively, until the expiry of the validity period of the options. 40,000,000 options shall be exercisable as to 25%, 25%, 25% and 25% from the date falling 6 months, 12 months, 18 months and 24 months from the Date of Grant, respectively, until the expiry of the validity period of the options.

OTHER INFORMATION

As at the date of this report, a total of 7,032,000 share options had lapsed, of which 5,528,000, 1,204,000 and 300,000 share options had lapsed in the prior years as at 31 March 2023, during the current period and after the current period, respectively. A total of 28,568,000 share options were available for grant by the Company as at the date of this report, representing approximately 2.86% of the total issued shares of the Company. The share options available for grant by the Company as at the beginning and the end of the Period were 27,064,000 share options and 28,268,000 share options respectively.

As at 30 September 2023, the following share options granted under the Share Option Scheme were outstanding:

Name or category of participant	Number of share options						Closing price of the Shares				
	At 1 April 2023	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	At 30 September 2023	Date of grant (Note 2)	Number of share options exercisable in accordance with exercise period I (Note 3)	Number of share options exercisable in accordance with exercise period II (Note 4)	Exercise price HK\$ per share (Note 5)	As at date of grant HK\$ per share (Note 6)	As at the date before the date of grant HK\$ per share
Directors											
Ms. Leung Kwan Sin Rita Executive Director	10,000,000	-	-	-	10,000,000	20 April 2021	5,000,000	5,000,000	0.6	0.59	0.59
Dr. Wong Wai Kong Executive Director	6,500,000	-	-	-	6,500,000	20 April 2021	1,500,000	5,000,000	0.6	0.59	0.59
Mr. Kam Eddie Shing Cheuk Non-executive Director	300,000	-	-	-	300,000	26 April 2021	300,000	-	0.6	0.60	0.61
Mr. Chan Hiu Fung Nicholas Independent non-executive Director	300,000	-	-	-	300,000	26 April 2021	300,000	-	0.6	0.60	0.61
Mr. Ling Kwok Fai Joseph Independent non-executive Director	300,000	-	-	-	300,000	26 April 2021	300,000	-	0.6	0.60	0.61
Mr. Sze Wing Chun Independent non-executive Director	300,000 (Note 8)	-	-	-	300,000	26 April 2021	300,000	-	0.6	0.60	0.61
	<u>17,700,000</u>				<u>17,700,000</u>		<u>7,700,000</u>	<u>10,000,000</u>			
Employees in aggregate (not exceeding the 1% individual limit)	<u>55,236,000</u>	-	-	(1,204,000)	<u>54,032,000</u>	20 April 2021– 12 May 2021	<u>24,032,000</u>	<u>30,000,000</u>	0.6	0.59-0.74	0.59-0.74
Total number of share options	<u><u>72,936,000</u></u>				<u><u>71,732,000</u></u>		<u><u>31,732,000</u></u>	<u><u>40,000,000</u></u>			

OTHER INFORMATION

Notes:

1. The relevant share options were granted under the Share Option Scheme of the Company adopted on 25 January 2021.
2. All options are exercisable during the exercise periods specified in below notes 3 and 4.
3. Exercise Period I: 31,432,000 options shall be exercisable as to 30%, 30% and 40% from the first anniversary of the Date of Grant, the second anniversary of the Date of Grant and the third anniversary of the Date of Grant respectively until the expiry of the validity period of the options.
4. Exercise Period II: 40,000,000 options shall be exercisable as to 25%, 25%, 25% and 25% from the date falling 6 months, 12 months, 18 months and 24 months from the Date of Grant respectively until the expiry of the validity period of the options.
5. The exercise price of the share options is subject to adjustments in the event of any alteration in the capital structure of the Company.
6. The price refers to the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant.
7. No information on the exercise price and the weighted average closing price of the securities immediately before the exercise date has been disclosed as there was no share option exercised during the Period.
8. Mr. Sze Wing Chun, who was an independent non-executive director of the Company as at 30 September 2023, had at the time interest in 300,000 share options, representing approximately 0.03% of the issued share capital of the Company, which subsequently lapsed as a result of his resignation.

The fair value of the share options at the Date of Grant was HK\$23,875,000, of which the Group recognised a share option expense of HK\$20.6 million and HK\$1.0 million in the prior years as at 31 March 2023 and the current period, respectively.

OTHER INFORMATION

The fair value of equity-settled share options granted during the Year was estimated as at the Date of Grant using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	2.20
Expected volatility (%)	77.93–78.04
Historical volatility (%)	77.93–78.04
Risk-free interest rate (%)	1.29–1.38
Expected life of options (year)	9.94–10
Weighted average share price (HK\$ per share)	0.6

The expected volatility is based on the historical volatility and is not necessarily indicative of the exercise patterns that may occur, which may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 71,732,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 71,732,000 additional ordinary shares of the Company and additional share capital and reserves of HK\$717,320 and HK\$42,321,880, respectively (before issue expenses).

At the date of approval of these financial statements, the Company had 71,432,000 share options outstanding under the Scheme, which represented approximately 7.14% of the Company's shares in issue as at that date.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

OTHER INFORMATION

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 of the Company, 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 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.

OTHER INFORMATION

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.

OTHER INFORMATION

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.

APPROVAL OF THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements were approved and authorised for issue by the Board on 22 November 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 September 2023

		Unaudited	
		For the six months ended	
		30 September	
		2023	2022
	Notes	HK\$'000	HK\$'000
REVENUE	4	600,249	682,449
Cost of sales		(545,815)	(599,515)
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	(14,355)	(9,611)
PROFIT/(LOSS) BEFORE TAX	6	(15,769)	5,133
Income tax credit/(expense)	7	1,766	(1,082)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		(14,003)	4,051
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (HK cents)	9	(1.40)	0.41
Diluted (HK cents)	9	(1.40)	0.41

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	(14,003)	4,051
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	(409)	2,278
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	(1,595)	(178)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	(15,598)	3,873

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

		Unaudited 30 September 2023 HK\$'000	Audited 31 March 2023 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	47,991	42,607
Financial assets at fair value through profit or loss	12	18,984	18,804
Equity investment at fair value through other comprehensive income	13	11,655	12,064
Prepayments and deposits		9,466	10,379
Deferred tax assets		5,873	4,124
Total non-current assets		93,969	87,978
CURRENT ASSETS			
Inventories		245,497	287,571
Trade and bills receivables	14	196,087	139,973
Financial assets at fair value through profit or loss	12	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
Total current assets		668,624	630,229

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

		Unaudited	Audited
		30 September	31 March
		2023	2023
	Note	HK\$'000	HK\$'000
CURRENT LIABILITIES			
Trade payables	15	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
Total current liabilities		522,046	468,502
NET CURRENT ASSETS			
		146,578	161,727
TOTAL ASSETS LESS CURRENT LIABILITIES			
		240,547	249,705
NON-CURRENT LIABILITIES			
Lease liabilities		5,896	416
Deferred tax liabilities		741	741
Total non-current liabilities		6,637	1,157
Net assets		233,910	248,548
EQUITY			
Equity attributable to owners of the parent			
Share capital		10,000	10,000
Reserves		223,910	238,548
Total equity		233,910	248,548

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2023 (Unaudited)	Attributable to owners of the parent							
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity investment reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2023 (audited)	10,000	105,146	625	(1,782)	2,278	20,446	111,835	248,548
Loss for the period	-	-	-	-	-	-	(14,003)	(14,003)
Other comprehensive loss for the period:								
Exchange differences on translation of a foreign operation	-	-	-	(1,186)	-	-	-	(1,186)
Net loss on equity investment at fair value through other comprehensive income	-	-	-	-	(409)	-	-	(409)
Total comprehensive loss for the year	-	-	-	(1,186)	(409)	-	(14,003)	(15,598)
Share based payment expenses	-	-	-	-	-	960	-	960
At 30 September 2023	<u>10,000</u>	<u>105,146</u>	<u>625</u>	<u>(2,968)</u>	<u>1,869</u>	<u>21,406</u>	<u>97,832</u>	<u>233,910</u>

For the six months ended 30 September 2022 (Unaudited)	Attributable to owners of the parent							
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity investment reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2022 (audited)	10,000	105,146	625	854	-	14,877	143,087	274,589
Profit for the period	-	-	-	-	-	-	4,051	4,051
Other comprehensive loss for the period:								
Exchange differences on translation of a foreign operation	-	-	-	(2,456)	-	-	-	(2,456)
Net gain on equity investment at fair value through other comprehensive income	-	-	-	-	2,278	-	-	2,278
Total comprehensive income/(loss) for the period	-	-	-	(2,456)	2,278	-	4,051	3,873
Share based payment expenses	-	-	-	-	-	3,843	-	3,843
At 30 September 2022	<u>10,000</u>	<u>105,146</u>	<u>625</u>	<u>(1,602)</u>	<u>2,278</u>	<u>18,720</u>	<u>147,138</u>	<u>282,305</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 September 2023

Unaudited
For the six months ended
30 September
2023 **2022**
HK\$'000 **HK\$'000**

CASH FLOWS FROM OPERATING ACTIVITIES

Profit/(loss) before tax	(15,769)	5,133
Adjustments for:		
Interest income	(2,418)	(401)
Finance costs	14,355	9,611
Impairment/(reversal of impairment) of trade receivables	164	(525)
Equity-settled share option expense	960	3,843
Depreciation of property, plant and equipment	5,233	4,688
Fair value loss/(gain) on financial assets at fair value through profit or loss	(241)	1,645
	2,284	23,994
Decrease/(increase) in inventories	42,074	(74,891)
Increase in trade and bills receivables	(56,278)	(65,335)
Increase in prepayments, deposits and other receivables	(3,877)	(8,324)
Increase in trade payables	65,624	31,083
Increase in other payables, accruals and contract liabilities	30,004	25,818
Exchange realignment	(222)	640
Cash generated from/(used in) operations	79,609	(67,015)
Hong Kong profits tax paid	–	(260)
Overseas tax paid	–	(2,037)
Net cash flows from/(used in) operating activities	79,609	(69,312)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 September 2023

	Unaudited	
	For the six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,418	401
Purchase of items of property, plant and equipment	(537)	(957)
Withdrawal of pledged bank deposits	1,488	19,561
Placement of pledged bank deposits	(335)	(8,088)
	<u>3,034</u>	<u>10,917</u>
Net cash flows from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
New trust receipt loans	374,189	607,948
Repayment of trust receipt loans	(400,210)	(529,134)
New other bank loans	447,543	354,193
Repayment of other bank loans	(465,729)	(398,836)
Interest paid	(14,355)	(9,611)
Repayment of the principal portion of lease liabilities	(3,250)	(2,976)
	<u>(61,812)</u>	<u>21,584</u>
Net cash flows from/(used in) financing activities		
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	20,831	(36,811)
Cash and cash equivalents at beginning of period	64,827	161,195
Effect of foreign exchange rate changes, net	(174)	(2,456)
	<u>85,484</u>	<u>121,928</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	<u>85,484</u>	<u>121,928</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statements of cash flows	<u>85,484</u>	<u>121,928</u>

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 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 (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 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	<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>

2.2 IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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.

2.2 IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

(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 HK\$'000	2022 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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>

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

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
Total finance costs	<u>14,355</u>	<u>9,611</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	(1,766)	—
	<hr/>	<hr/>
Total tax charge/(credit) for the period	<u>(1,766)</u>	<u>1,082</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 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 2023 are analysed as follows:

	Owned assets HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
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)
	<u>18,376</u>	<u>29,615</u>	<u>47,991</u>
At 30 September 2023 (Unaudited)			
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)
	<u>14,567</u>	<u>25,521</u>	<u>40,088</u>
At 30 September 2022 (Unaudited)			

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.

11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

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
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Investments in convertible
bonds

–	–	9,173	9,173
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Financial assets at fair value
through other
comprehensive income:

Trade receivables

–	21,449	–	21,449
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Equity investment at fair value
through other
comprehensive income:

Unlisted equity investment

–	–	11,655	11,655
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–	21,449	39,812	61,261
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11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

	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>

11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

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)
At 30 September (Unaudited)	28,157	26,356

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
At 30 September (Unaudited)	11,655	12,064

11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

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		Sensitivity of fair value to the input
			Range	
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.

11 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

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 HK\$'000	Convertible bond HK\$'000	Total HK\$'000
At 1 April 2023 (Audited)	18,804	9,112	27,916
Changed in fair value	<u>180</u>	<u>61</u>	<u>241</u>
At 30 September 2023 (Unaudited)	<u><u>18,984</u></u>	<u><u>9,173</u></u>	<u><u>28,157</u></u>
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>

13 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 September 2023 HK\$'000	Audited 31 March 2023 HK\$'000
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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 HK\$'000	Audited 31 March 2023 HK\$'000
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Trade receivables	190,917	124,863
Bills receivable	5,170	15,110
	196,087	139,973

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND BILLS RECEIVABLES *(Continued)*

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 HK\$'000	Audited 31 March 2023 HK\$'000
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 HK\$'000	Audited 31 March 2023 HK\$'000
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
	<u>7,176</u>	<u>8,311</u>

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	–

Pangaea Connectivity Technology Limited
環聯連訊科技有限公司