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Pangaea Connectivity Technology Limited

環聯連訊科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1473)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

Total revenue for the year ended 31 March 2021 increased by approximately 59.6% year-to-year to HK\$1,549.3 million, as compared with total revenue of HK\$970.9 million for the year ended 31 March 2020.

Net profit attributable to owners of the Company for the year ended 31 March 2021 was approximately HK\$50.1 million, as compared with net profit of HK\$33.4 million for the year ended 31 March 2020.

Basic earnings per share for the year ended 31 March 2021 was HK6.5 cents as compared with basic earnings per share of HK4.5 cents for the year ended 31 March 2020.

The Board recommends a final dividend of HK1.3 cents per Share for the year ended 31 March 2021 (2020: Nil). The proposed final dividend is subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

The board (the “**Board**”) of directors (the “**Directors**”) of Pangaea Connectivity Technology Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**Pangaea**”) for the year ended 31 March 2021, together with the comparative figures for the year ended 31 March 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2021

| | <i>Notes</i> | 2021 HK\$'000 | 2020 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| REVENUE | 5 | 1,549,284 | 970,866 |
| Cost of sales | | <u>(1,351,537)</u> | <u>(805,304)</u> |
| Gross profit | | 197,747 | 165,562 |
| Other income and gains, net | 5 | 4,838 | 2,255 |
| Selling and distribution costs | | (39,259) | (33,077) |
| Administrative expenses | | (84,155) | (77,860) |
| Finance costs | 6 | <u>(15,496)</u> | <u>(13,685)</u> |
| PROFIT BEFORE TAX | 7 | 63,675 | 43,195 |
| Income tax expense | 8 | <u>(13,546)</u> | <u>(9,747)</u> |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT | | <u>50,129</u> | <u>33,448</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted (HK cents) | 10 | <u>6.5</u> | <u>4.5</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2021

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| PROFIT FOR THE YEAR | <u>50,129</u> | <u>33,448</u> |
| OTHER COMPREHENSIVE INCOME/(EXPENSE): | | |
| Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of a foreign operation | <u>1,778</u> | <u>(1,076)</u> |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR | <u>1,778</u> | <u>(1,076)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | <u><u>51,907</u></u> | <u><u>32,372</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

| | <i>Notes</i> | 2021 HK\$'000 | 2020 HK\$'000 |
|---|--------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 43,003 | 41,219 |
| Financial assets at fair value through profit or loss | | 15,970 | 15,382 |
| Deferred tax assets | | 416 | – |
| | | <hr/> | <hr/> |
| Total non-current assets | | 59,389 | 56,601 |
| CURRENT ASSETS | | | |
| Inventories | | 235,896 | 140,430 |
| Trade and bills receivables | <i>11</i> | 183,058 | 215,938 |
| Prepayments, deposits, other receivables and other assets | | 54,148 | 10,868 |
| Pledged bank deposits | | 55,901 | 34,542 |
| Cash and cash equivalents | | 146,809 | 33,137 |
| | | <hr/> | <hr/> |
| Total current assets | | 675,812 | 434,915 |
| CURRENT LIABILITIES | | | |
| Trade payables | <i>12</i> | 178,607 | 88,438 |
| Other payables, accruals and contract liabilities | | 19,870 | 17,940 |
| Interest-bearing bank borrowings | | 39,777 | 65,525 |
| Trust receipt loans | | 212,725 | 188,721 |
| Lease liabilities | | 4,344 | 2,984 |
| Tax payable | | 7,895 | 4,831 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 463,218 | 368,439 |
| NET CURRENT ASSETS | | | |
| | | 212,594 | 66,476 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 271,983 | 123,077 |

| | <i>Notes</i> | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 3,598 | 1,362 |
| Deferred tax liabilities | | 190 | 172 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 3,788 | 1,534 |
| | | <hr/> | <hr/> |
| Net assets | | 268,195 | 121,543 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | 10,000 | – |
| Reserves | | 258,195 | 121,543 |
| | | <hr/> | <hr/> |
| Total equity | | 268,195 | 121,543 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES

1. CORPORATE INFORMATION

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

During the year, the Company made an offer to the public for subscription of its new shares (the “**Share Offer**”) in connection with the listing (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Dealing of the Company’s shares on the Stock Exchange commenced on 19 February 2021.

The Company is an investment holding company. During the year, the Company’s subsidiaries were involved in import and export of connectivity products which are used in 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, the Chairman and one of the executive directors of the Company.

2. BASIS OF PRESENTATION

In preparation for the listing of the Company’s shares on the Stock Exchange, the Company underwent a group reorganisation (the “**Reorganisation**”), further details of which are set out in the Company’s prospectus dated 30 January 2021. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 25 January 2021 by issuing 99,999 ordinary shares of the Company in exchange for acquisition of the entire issued share capital of Esteem Brilliant Limited. The companies now comprising the Group were under the common control of the controlling shareholder before and after the Reorganisation. Accordingly, these financial statements have been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the financial periods presented.

The consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 March 2021 and 2020 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 March 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|--|--|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions</i> (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

The adoption of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs has had no significant financial effect on these financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) *Revenue from external customers*

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-------------------------|-------------------------|-------------------------|
| Hong Kong | 153,592 | 165,877 |
| Mainland China | 1,310,028 | 780,106 |
| Other countries/regions | 85,664 | 24,883 |
| | <u>1,549,284</u> | <u>970,866</u> |

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

(b) *Non-current assets*

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Hong Kong | 37,791 | 33,823 |
| Mainland China | 5,212 | 7,396 |
| | <u>43,003</u> | <u>41,219</u> |

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

Information about major customers

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|------------|-------------------------|-------------------------|
| Customer A | 143,767 | 121,044 |
| Customer B | 498,947 | 169,485 |
| | <u>642,714</u> | <u>290,529</u> |

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

5. REVENUE AND OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Revenue from contracts with customers | | |
| Sale of goods | 1,547,990 | 970,335 |
| Rendering of services | 1,294 | 531 |
| | <u>1,549,284</u> | <u>970,866</u> |

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Bank interest income | 370 | 832 |
| Exchange differences, net | (1,272) | (483) |
| Fair value gain on financial assets at fair value through profit or loss | 588 | 640 |
| Government subsidies* | 2,460 | – |
| Sundry income, net | 2,692 | 1,266 |
| | <u>4,838</u> | <u>2,255</u> |

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

6. FINANCE COSTS

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Interest on bank borrowings | 15,139 | 13,386 |
| Interest on lease liabilities | 357 | 299 |
| | <u>15,496</u> | <u>13,685</u> |

7. PROFIT BEFORE TAX

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Depreciation | 9,196 | 8,940 |
| Research and development costs | 11,122 | 10,020 |
| Loss on write-off of property, plant and equipment | – | 121 |
| Impairment/(reversal of impairment) of trade receivables | (585) | 4,188 |
| Write-down of inventories to net realisable value | 11,017 | 11,097 |
| Listing expenses | 11,779 | 8,492 |
| Staff costs (excluding directors' remuneration): | | |
| Wages and salaries | 46,554 | 44,608 |
| Pension scheme contributions | 3,572 | 4,768 |
| | <u>50,126</u> | <u>49,376</u> |
| Lease payments not included in the measurement of leases liabilities | 359 | 451 |
| Foreign exchange differences, net | 1,272 | 483 |
| Fair value gain on financial assets at fair value through profit or loss | <u>(588)</u> | <u>(640)</u> |

8. INCOME TAX

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Current — Hong Kong | | |
| Charge for the year | 11,217 | 8,208 |
| Underprovision in prior years | 568 | – |
| Current — Mainland China | | |
| Charge for the year | 2,354 | 1,539 |
| Overprovision in prior years | (215) | – |
| Deferred tax | <u>(378)</u> | <u>–</u> |
| Total tax charge for the year | <u>13,546</u> | <u>9,747</u> |

9. DIVIDENDS

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Proposed final — HK1.3 cents (2020: Nil) per ordinary share | <u>13,000</u> | <u>–</u> |

The proposed final dividend of the Company for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$50,129,000 (2020: HK\$33,448,000) and the weighted average number of ordinary shares of 775,956,000 (2020: 750,000,000) in issue during the year, on the assumption that the capitalisation issue in connection with the listing of the Company had been completed on 1 April 2019 for calculating the basic earnings per share amount.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2021 and 2020 as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2021 and 2020.

11. TRADE AND BILLS RECEIVABLES

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Trade receivables | 168,084 | 196,570 |
| Bills receivable | 14,974 | 19,368 |
| | <u>183,058</u> | <u>215,938</u> |

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 1 month | 65,984 | 114,433 |
| 1 to 3 months | 98,027 | 50,647 |
| 3 to 6 months | 12,684 | 33,076 |
| Over 6 months | 6,363 | 17,782 |
| | <u>183,058</u> | <u>215,938</u> |

12. TRADE PAYABLES

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

| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 30 days | 109,061 | 49,441 |
| 31 to 90 days | 69,546 | 34,398 |
| Over 90 days | – | 4,599 |
| | <u>178,607</u> | <u>88,438</u> |

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The issued shares of the Company were successfully listed on the Main Board of the Stock Exchange (the “**Listing**”) on 19 February 2021 (the “**Listing Date**”), which marks a key milestone for the Group.

Introduction of Pangaea

Founded in 1990, Pangaea has been a distributor of telecom and datacom connectivity products and provides solution and application support to customers throughout their design and production cycle. In general, the Group’s customers incorporate the components through design-in with its technical team and procure those components from the Group to build their communications modules and systems and IoT and network connectivity products. The end applications of the Group’s products can primarily be categorised into: (i) telecom infrastructure; (ii) data centres; (iii) IoT and network connectivity products; and (iv) commercial lasers.

It is market practice to have distributors as middlemen in the industry due to the diversity and complexity of the telecom and datacom connectivity industry. Being a distributor with strong in-house design and technical capabilities, as well as self-own wireless and commercial laser application laboratories in Shenzhen, Pangaea plays an important role in the industry chain to bridge the functionality gap between upstream component manufacturers and downstream customers with technical support and value-added services. With a strong in-house design and technical team, engineering expertise and in-depth knowledge of the supply chain, the Group can provide suggestions in manufacturers’ product upgrade and/or development of new products.

Pangaea’s Competitive Strengths

With over 30 years of proven track records, the Company believes that it has the following competitive strengths to contribute to its continued success and potential for growth:

- It possesses strong design and technical capabilities with a strong and experienced in-house design and technical team which comprised 33 engineers, of which about 22 members have over 10 years of experience in the industry
- It has its own wireless and commercial laser application laboratories in Shenzhen, the main tech hub of the People’s Republic of China (the “**PRC**”), which allows the Group to conduct reference designs, manufacture demo board, device testing and troubleshooting for its customers
- It has long term and well-established business relationships with its manufacturer suppliers, including five top brand name suppliers based in the U.S. or Japan, which enables the Group to secure source of supplies and obtain the latest product and technology information and increases its familiarity and knowledge of their products

- It diligently cultivates long-term customer relationships with its major customers which allows the Group, as a co-design partner and supplier, to offer customer-driven products and provide reliable and efficient sourcing and technical support services
- It has an experienced and dedicated management team with significant industry expertise in the telecom and datacom connectivity industry which allows the Group to capture market opportunities, enhance its relationship with key customers and suppliers, and formulate and implement development strategies effectively

Value Creation

As a channel partner of manufacturer suppliers in marketing and distributing their products, as well as a service provider of customers to support their product roadmaps, Pangaea creates the following values to suppliers and customers, respectively.

To customers, Pangaea can:

- Provide specified sourcing and selection of components
- Proactively secure supply for customers
- Enable customers to have access to the latest advanced technologies and components from manufacturers to achieve optimal performance
- Provide bridging for access of technologies between suppliers and customers
- Provide technical knowhow and talent to achieve customers' design at the optimal performance and reliability levels and satisfaction

To manufacturer suppliers, Pangaea can:

- Create demand for components sourced from brand name component manufacturers
- Provide customers' feedback and suggestions for next generation products development and upgrade
- Provide bridging for access of technologies between suppliers and customers

Market and Business Review

The PRC commenced installation of 5G base station and network infrastructure in 2020, which is a process expected to last for years. Due to the increasing demand for high speed network and storage capacity, the PRC market will continue to upgrade data centres and peripherals electronic infrastructures. In addition, as an extension of the 5G development, product development for various IoT related products is already underway, and is expected to launch in the near future. All these have cultivated a growth opportunity for the Group.

The Company recorded growth in revenue of approximately 59.6% from the corresponding period in 2020 mainly due to the deployment of 5G infrastructure and base station as well as continuous expansion of capacity and speed of data center in the PRC market.

FINANCIAL REVIEW

Revenue

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

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

Revenue from sales of goods increased from approximately HK\$970.3 million for the year ended 31 March 2020 to approximately HK\$1,548.0 million for the Year mainly due to the increase in demand for 5G related products amid the 5G development in the PRC market. Revenue from rendering of services increased from approximately HK\$0.5 million for the year ended 31 March 2020 to approximately HK\$1.3 million for the Year mainly due to the increase in services provided to the customers.

Cost of sales

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

Gross profit margin

Sales of goods

Gross profit margin derived from sales of goods was approximately 12.7% for the Year, representing a decrease of approximately 4.3% from approximately 17.0% for the year ended 31 March 2020, which is mainly due to competitive selling price offered to customers for bulk purchase order.

Rendering of services

Gross profit margin derived from rendering of services was approximately 84.0% for the Year, representing an increase of approximately 20.9% from approximately 63.1% for the year ended 31 March 2020. As our services were provided to customers on a project basis, the gross profit margin of this segment varied depending on the scope and nature of services provided.

Other income and gains, net

Other income and gains of approximately HK\$4.8 million (2020: approximately HK\$2.3 million) mainly represents government subsidies, bank interest income, exchange gain, fair value gain on financial assets and sundry income. Increase in other income and gains of approximately HK\$2.6 million is mainly due to the funding received from the Government of the Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”) of approximately HK\$2.5 million in relation to the Employment Support Scheme under the Anti-epidemic Fund and the increase in income from repair and maintenance of commercial laser machine.

Selling and distribution costs

The selling and distribution costs of approximately HK\$39.3 million (2020: approximately HK\$33.1 million) mainly include marketing and sales staff salaries, transportation, freight charges, declaration and research and development expenses. The selling and distribution costs increased by approximately HK\$6.2 million or 18.7% from last year, mainly as a result of revenue growth during the Year.

Administrative expenses

Administrative expenses of approximately HK\$84.2 million (2020: approximately HK\$77.9 million) primarily consist of listing expenses, salaries and benefits (including directors’ emoluments), insurance, operating lease and other premise fee, bank charges, entertainment and depreciation expenses. The administrative expenses increased by approximately HK\$6.3 million or 8.1% for the Year mainly as a result of (i) the increase in salaries and staff benefits in aggregate of approximately HK\$5.0 million as the Group had expanded operation with more headcount in response to the significant growth of its business; (ii) an increase in listing expenses of approximately HK\$3.3 million and (iii) the decrease in impairment of trade receivables of approximately HK\$4.8 million.

Finance costs

The Group’s finance costs of approximately HK\$15.5 million (2020: approximately HK\$13.7 million) mainly represented interest expenses on its bank borrowings during the Year. The Group incurred interest on bank borrowings of approximately HK\$15.1 million for the Year as compared to approximately HK\$13.4 million for the year ended 31 March 2020. The increase in interest on bank borrowings was mainly due to the increase in utilisation of borrowing facilities during the Year.

Taxation

Taxation of the Group for the Year mainly comprised current income tax expenses of approximately HK\$13.9 million (2020: HK\$9.7 million) and deferred tax credited to statement of profit or loss of approximately HK\$0.4 million (2020: nil) recognised for the provision for inventories and impairment loss of trade receivable.

Net profit for the year

Net profit for the Year amounted to approximately HK\$50.1 million, representing an increase of approximately 49.9% as compared to approximately HK\$33.4 million for the year ended 31 March 2020. The increase in net profit was principally attributable to the net effect of the factors mentioned above, including (a) increase in revenue; (b) decrease in gross profit margin as a result of bulk purchase from customers; (c) increase in other income and gains, net; (d) increase in selling and distribution costs; (e) increase in administrative expenses; and (f) increase in finance costs.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 31 March 2021 were approximately HK\$146.8 million (2020: HK\$33.1 million). They were mainly denominated in Hong Kong dollar and Renminbi.

As at 31 March 2021, the Group's total outstanding bank borrowings amounted to HK\$252.5 million (2020: HK\$254.2 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 US dollar and were subject to interest at floating commercial lending rates.

The Group's gearing ratio (defined as the total interest-bearing borrowings net of cash and cash equivalents divided by total equity and multiplied by 100%) and debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) decreased from approximately 181.9% as at 31 March 2020 to approximately 39.4% as at 31 March 2021 and decreased from approximately 66.6% as at 31 March 2020 to approximately 41.4% as at 31 March 2021 respectively mainly due to listing proceeds received in February 2021.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2021, the Group employed 121 employees (2020: 116 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.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Listing in the amount of approximately HK\$88.1 million after deducting underwriting commissions and all related expenses will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 January 2021 (the "**Prospectus**"). The net proceeds received were applied by the Group from the Listing Date up to 31 March 2021 as follows:

| | Application of net proceeds as stated in the Prospectus HK\$ million | Actual use of net proceeds HK\$ million | Unused Net proceeds HK\$ million | Unused Net proceeds % |
|--|---|--|---|--------------------------------------|
| Strengthening design and technical capabilities | 57.8 | – | 57.8 | 100% |
| Broadening customer base by expanding the geographic reach of sales and technical support coverage | 14.4 | – | 14.4 | 100% |
| Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff | 7.2 | 0.1 | 7.1 | 99% |
| General working capital | 8.7 | 8.7 | – | 0% |
| | <u>88.1</u> | <u>8.8</u> | <u>79.3</u> | <u>90%</u> |

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as the Reorganisation as mentioned in note 2 to this announcement, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Year.

SIGNIFICANT INVESTMENT

As at 31 March 2021, the Group had no significant investment with a value of 5% or more of the Group's total assets.

CAPITAL EXPENDITURE

As at 31 March 2021, the Group invested approximately HK\$1.3 million (2020: approximately HK\$2.3 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 31 March 2021 (2020: Nil).

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

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

CONTINGENT LIABILITIES

As at 31 March 2021, the Group did not have any material contingent liabilities (2020: Nil).

PLEDGE OF ASSETS

Certain bank borrowings of the Group are secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$55,901,000 (2020: HK\$34,542,000) at the end of the reporting period;
- (ii) mortgages over the Group's owned buildings and right-of-use land situated in Hong Kong, which had aggregate carrying values of HK\$25,935,000 (2020: HK\$26,944,000) at the end of the reporting period;
- (iii) the pledge of investments in life insurance policies of Mr. Fung Yui Kong, amounting to HK\$15,970,000 (2020: HK\$15,382,000) at the end of the reporting period;

- (iv) corporate guarantees from the Company in respect of the Group's banking facilities of up to HK\$962,700,000 (2020: Nil);
- (v) personal guarantees from Mr. Fung in respect of the Group's banking facilities of up to HK\$543,240,000 as at 31 March 2020; and
- (vi) Ample Chance International Limited, the then shareholder of Pangaea (H.K.) Limited, has guaranteed the Group's bank loan of up to HK\$27,300,000 as at 31 March 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

POSSIBLE RISKS

The Group has set up a risk management committee to coordinate, respond to and to tackle the possible risks to which the Group is subject. The risk management committee is also responsible for developing and reviewing strategies, policies and guidelines on risk control; which enable the Group to monitor and respond to risks effectively and promptly.

IMPACT OF COVID-19 PANDEMIC

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

EVENTS AFTER THE REPORTING PERIOD

The Group granted share options to an aggregate of 96 employees under the share option scheme of the Company adopted on 25 January 2021 to subscribe for a total of 78,464,000 ordinary shares of HK\$0.01 each in the share capital of the Company on 20 April 2021. The exercise price of the options granted is HK\$0.6 per share. For further details, please refer to the announcements of the Company dated 20 April 2021 and 26 April 2021, respectively.

Except as disclosed above, the Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 31 March 2021 and up to the date of this announcement.

PROSPECTS

With China pioneering the 5G network applications, coupled with the popularity of fibre-to-home internet, the demand for digital storage (data & cloud) and IOT products is expected to grow in the coming years. The Group shall cautiously increase its competitiveness by broadening the product mix and expanding market share. The Group shall devote continuous effort to enhancing its technical support and research and development capability to strengthen the relationships with its customers and suppliers.

DIVIDEND

The Board recommends a final dividend of HK1.3 cents per Share for the Year. Subject to the approval of the Shareholders at the annual general meeting of the Company (the “AGM”), the proposed final dividend is expected to be payable on or about Monday, 20 September 2021 to the Shareholders whose names appear on the register of members of the Company on Friday, 3 September 2021. Based on 1,000,000,000 Shares in issue as at the date of this announcement, it is expected that the total amount of final dividend payable to the Shareholders is HK\$13.0 million in aggregate for the Year, subject to the approval of the Shareholders at the AGM.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders’ value. The Company has applied the principles and complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the period from the Listing Date up to 31 March 2021, with the exception of Corporate Governance Code Provision A.2.1, which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

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

SCOPE OF WORK OF THE COMPANY'S AUDITOR

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

AUDIT COMMITTEE

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

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 25 August 2021. The notice of the AGM will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 20 August 2021 to Wednesday, 25 August 2021 (both days inclusive) during which period no transfers of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 19 August 2021.

For ascertaining shareholders' entitlement to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 1 September 2021 to Friday, 3 September 2021 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 31 August 2021.

PUBLICATION OF FINAL RESULTS AND DESPATCH OF ANNUAL REPORT

The final results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pangaea.com.hk). The 2021 annual report containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 28 June 2021

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