

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Pangaea Connectivity Technology Limited

環聯連訊科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1473)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

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**”) for the six months ended 30 September 2021 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS*Six months ended 30 September 2021*

		Unaudited	
		For the six months ended	
		30 September	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	659,121	929,665
Cost of sales		<u>(585,519)</u>	<u>(812,540)</u>
Gross profit		73,602	117,125
Other income and gains, net	4	3,221	2,675
Selling and distribution costs		(17,688)	(19,420)
Administrative expenses		(48,851)	(42,208)
Finance costs	5	<u>(5,460)</u>	<u>(8,638)</u>
PROFIT BEFORE TAX	6	4,824	49,534
Income tax expense	7	<u>(2,991)</u>	<u>(10,010)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>1,833</u>	<u>39,524</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)	9	<u>0.18</u>	<u>5.27</u>
Diluted (<i>HK cents</i>)	9	<u>0.18</u>	<u>5.27</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Six months ended 30 September 2021*

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Profit for the period	<u>1,833</u>	<u>39,524</u>
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of a foreign operation	<u>31</u>	<u>703</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>31</u>	<u>703</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
ATTRIBUTABLE TO OWNERS OF THE PARENT	<u><u>1,864</u></u>	<u><u>40,227</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		Unaudited 30 September 2021 <i>Notes</i> <i>HK\$'000</i>	Audited 31 March 2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	10	45,399	43,003
Financial assets at fair value through profit or loss		23,985	15,970
Deferred tax assets		418	416
Total non-current assets		69,802	59,389
CURRENT ASSETS			
Inventories		316,549	235,896
Trade and bills receivables	11	190,368	183,058
Prepayments, deposits, other receivables and other assets		28,074	54,148
Pledged bank deposits		77,599	55,901
Cash and cash equivalents		178,146	146,809
Total current assets		790,736	675,812
CURRENT LIABILITIES			
Trade payables	12	119,701	178,607
Other payables, accruals and contract liabilities		16,552	19,870
Interest-bearing bank borrowings		82,834	39,777
Trust receipt loans		356,038	212,725
Lease liabilities		5,167	4,344
Tax payable		7,047	7,895
Total current liabilities		587,339	463,218
NET CURRENT ASSETS		203,397	212,594
TOTAL ASSETS LESS CURRENT LIABILITIES		273,199	271,983

	Unaudited 30 September 2021 HK\$'000	Audited 31 March 2021 HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	4,288	3,598
Deferred tax liabilities	<u>190</u>	<u>190</u>
Total non-current liabilities	<u>4,478</u>	<u>3,788</u>
Net assets	<u>268,721</u>	<u>268,195</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	10,000	10,000
Reserves	<u>258,721</u>	<u>258,195</u>
Total equity	<u>268,721</u>	<u>268,195</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

1.1 BASIS OF PRESENTATION

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 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 2021.

2 IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following revised HKFRSs for the first time for the current period’s condensed consolidated interim financial statements.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform — Phase 2

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

3 OPERATING SEGMENT INFORMATION

The Group is principally engaged in the import and export of connectivity products which are used in telecom and datacom connectivity industry.

Almost all of the Group's products are of a similar nature and subject to similar risks and returns.

Accordingly, the Group's operating activities are attributable to a single reportable operating segments.

Geographical information

(a) Revenue from external customers

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong	110,855	80,541
Mainland China	447,337	804,781
Other countries/regions	100,929	44,343
	659,121	929,665

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

(b) Non-current assets

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong	33,093	37,791
Mainland China	12,306	5,212
	45,399	43,003

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 Period is as follows:

	Unaudited For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
Customer A	170,886	338,252
Customer B	*	104,596
	170,886	442,848

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

* Sales to Customer B is less than 10% of the total revenue of the Group for the Period.

4 REVENUE AND OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Unaudited For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sale of goods	653,821	929,240
Rendering of services	5,300	425
	659,121	929,665

Revenue from contracts with customers

Disaggregated revenue information

Timing of revenue recognition

At a point in time	653,821	929,240
Over time	5,300	425
	659,121	929,665

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

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Bank interest income	117	249
Exchange differences, net	(476)	(765)
Fair value gain on financial assets at fair value through profit or loss	215	46
Reversal of impairment of trade receivables	1,053	–
Government subsidies*	–	1,640
Gain on disposal of owned items of property, plant and equipment	13	–
Sundry income, net	2,299	1,505
	<u>3,221</u>	<u>2,675</u>

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

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Interest on bank borrowings	5,294	8,501
Interest on lease liabilities	166	137
	<u>5,460</u>	<u>8,638</u>

6 PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Cost of inventories sold	585,431	812,458
Cost of services provided	88	82
Depreciation	4,701	4,177
Research and development costs [#]	5,330	5,430
Auditors' remuneration		
— annual audit	500	400
— act as reporting accountant [*]	—	1,210
Impairment/(reversal of impairment) of trade receivables [^]	(1,053)	162
Write-down of inventories to net realisable value ^{^^}	9,947	17,033
Gain on disposal of owned items of property, plant and equipment	13	—
Listing expenses	—	4,876
Staff costs (including directors' remuneration):		
Wages and salaries	24,539	26,908
Share based payment expenses for share options [^]	11,662	—
Pension scheme contributions	3,078	1,539
	39,279	28,447
Lease payments not included in the measurement of leases liabilities	215	196
Foreign exchange differences, net	476	765
Fair value gain on financial assets at fair value through profit or loss	(215)	(171)

[#] The research and development costs include HK\$4,159,000 (six months ended 30 September 2020: HK\$3,623,000) 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 auditor's remuneration for acting as reporting accountants is included in the listing expenses.

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

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

7 INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax regime.

The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profit of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%). The Company's subsidiary operating in Mainland China is subject to the prevailing PRC income tax rate of 25%.

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Current — Hong Kong		
Charge for the period	2,700	8,800
Underprovision in prior years	—	172
Current — Mainland China		
Charge for the period	291	332
Underprovision in prior years	—	552
Deferred tax	—	154
	<hr/>	<hr/>
Total tax charge for the period	2,991	10,010
	<hr/>	<hr/>

8 DIVIDENDS

No interim dividend was proposed during the Period. The dividends paid during the six months ended 30 September 2020 and 2021 were as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Dividends paid during the period — final at HK1.3 cents per ordinary share (2020: N/A)	13,000	20,400
	<hr/>	<hr/>

For the six months ended 30 September 2020, the dividends were declared by the subsidiaries of the Company to their then shareholder. Investors who became the shareholders of the Company after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 February 2021 (the “**Listing**”) were not entitled to these dividends.

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

a. Basic earnings per share

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$1,833,000 (2020: HK\$39,524,000) and the weighted average number of ordinary shares of 1,000,000,000 (2020: 750,000,000) in issue during the period, on the assumption that the capitalisation issue in connection with the Listing had been completed on 1 April 2020 for calculating the basic earnings per share amount.

b. Diluted earnings per share

For the six months ended 30 September 2020, no adjustment has been made to the basic earnings per share as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2020.

For the six months ended 30 September 2021, no adjustment has been made to the basic earnings per share in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the earnings per share.

10 PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the Period are analysed as follows:

	Owned assets HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
At 1 April 2021 (Audited)	14,203	28,800	43,003
Additions	2,842	4,312	7,154
Depreciation	(1,516)	(3,185)	(4,701)
Disposals	(44)	–	(44)
Exchange realignment	47	(60)	(13)
	<u>15,532</u>	<u>29,867</u>	<u>45,399</u>
At 30 September 2021 (Unaudited)	<u>15,532</u>	<u>29,867</u>	<u>45,399</u>

11 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 2021, 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 54.9% (31 March 2021: 46.5%) and 17.6% (31 March 2021: 12.8%) 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 2021 HK\$'000	Audited 31 March 2021 HK\$'000
Trade receivables	186,500	168,084
Bills receivable	3,868	14,974
	<u>190,368</u>	<u>183,058</u>

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

	Unaudited 30 September 2021 HK\$'000	Audited 31 March 2021 HK\$'000
Within 1 month	114,083	65,984
1 to 3 months	59,418	98,027
3 to 6 months	14,937	12,684
Over 6 months	1,930	6,363
	190,368	183,058

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:

	Unaudited 30 September 2021 HK\$'000	Audited 31 March 2021 HK\$'000
Within 30 days	82,935	109,061
31 to 90 days	36,766	69,546
	119,701	178,607

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

13 SHARE OPTIONS

The fair value of the share options granted on 20 April 2021 was HK\$32,977,000 (2020: nil) which was estimated using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted.

The contractual life of each option granted is 10 years. The fair value of the outstanding options granted was estimated using the following assumptions:

Dividend yield (%)	2.20%
Expected volatility (%)	106.26%
Historical volatility (%)	106.26%
Risk free interest rate (%)	1.39%
Exercise Multiple — Director	3.34
Exercise Multiple — Employee	2.86

The values of options are subject to (i) subjectivity and uncertainty relating to the assumptions to which such values are subject; and (ii) limitation of the model used to estimate such values.

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.

14 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) The then shareholder of Pangaea (H.K.) Limited, Ample Chance International Limited, had guaranteed a bank loan made to the Group of HK\$27,300,000 at 31 March 2020.
 - (ii) Mr. Fung Yui Kong had undertaken to indemnify the Group for all costs, losses and/or expenses for any taxation of the Group incurred with respect to the transfer pricing arrangement that arose prior to the Listing.
- b Compensation of key management personnel of the Group:

	Unaudited	
	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Short-term employee benefits	6,381	6,995
Post-employment benefits	503	358
Share based payment expenses for share options	3,356	—
	10,240	7,353

15 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 30 September 2021 <i>HK\$'000</i>	Audited 31 March 2021 <i>HK\$'000</i>
Within one year	<u>559</u>	<u>185</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby announces the unaudited condensed consolidated results of the Group for the Period. The condensed interim financial information is not audited but has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

MARKET REVIEW

The People’s Republic of China (the “**PRC**”) continued the installation of 5G base stations and network infrastructure during the financial year ended 31 March 2021. However, due to the slowdown in economic recovery during the Period, the PRC has taken a more prudent strategy on 5G deployment. In addition, the severe shortage in semiconductor ICs supply caused some customers to postpone the delivery schedule of certain products, which led to a year-on-year decrease in turnover.

Fortunately, after several months of adapting to the new normal, the market supply for infrastructure products has become increasingly stable since September 2021, with sales recording an increase since then. On the other hand, 5G infrastructure demand in the PRC is also expected to rebound, as the 14th 5-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 provides further impetus in the coming years.

Coupled with the rising demand for the Group’s other telecom and datacom connectivity products, especially in the field of high-speed network, storage capacity, and IoT, the Group has laid a solid foundation for growth in the near term.

BUSINESS REVIEW

The Company recorded a drop in revenue of approximately 29.1% for the Period as compared to the corresponding period in 2020, which was mainly due to the worldwide severe shortages in semiconductor ICs supply.

Despite the unfavourable market development during the Period, the Group continued to expand its geographical reach in order to boost market penetration. Regarding the Greater China region, the Group has established new offices in Chengdu and Suzhou, while setting up a new office in Taiwan, in order to capture the growing market opportunities. Riding on the 5G development in the Asia Pacific region, the Group is also in the process of establishing representative offices in Malaysia, Singapore and Vietnam. As for the European market, the Group is also looking to set up a sales network in the United Kingdom, which will be used as the pivot of the Group’s presence in Europe, where 5G development is now underway.

In terms of design and technical capabilities enhancement, the Group has employed 2 additional technical staff at its Shenzhen wireless and commercial laser application laboratory during the Period, as an attempt to further strengthen its product development capability. As of 30 September 2021, the Group possessed a strong and experienced in-house design and technical team comprising 34 engineers.

PROSPECTS

Heading into the second half of the financial year, the new wave of COVID-19 pandemic continued to bring serious challenges to global raw material supplies and operations, with the occasional spikes in cases in certain Southeast Asian countries creating significant disruptions to major suppliers in the area. However, taking references from the growing experience among countries, as well as China's excellent early success in combating COVID-19, it is expected that market supply and demand will gradually return to normal, and COVID-19 impact should become increasingly limited.

While it is still unclear when the global economy will be fully recovered from the pandemic, it is observed that industry players and consumers are adapting to the new normal, as the Group sees an obvious rebound in orders on hand, particularly in the area of telecom infrastructure, which should serve as a solid foundation for the Group's performance in the second half of the financial year.

To support the Group's future endeavors while maintaining agility in face of the ever-changing market dynamics, the Group will continue to strengthen its technological capability and expand its sales networks, and will maintain its lean operation and cost structure by prioritizing cash flow and efficient use of capital, with the aim to deliver sustainable and long-term returns to its shareholders.

As announced on 15 November 2021, a wholly-owned subsidiary of the Company entered into an investment agreement with an analog and mixed signal IC innovator based in Shenzhen specialising in designing, developing and marketing high-end precision control products for optical communication, industrial control, new energy, medical instruments and artificial intelligence of things ("AIoT") with design presence in India, the United States of America and the PRC, and customer base worldwide, pursuant to which the Group has agreed to subscribe for approximately 2.4% of the enlarged share capital of the target company for a cash consideration of RMB8 million.

The Board considers that this investment will broaden the Group's product portfolio, extend the Group's presence in the value chain and further strengthen the Group's position in the optical component market. The Group's investment in the target company will create synergy to the existing business of the Group in particular this creates an opportunity for the Group to co-develop complex devices for application in industry control, new energy (such as automotive and energy storage sectors), medical and AIoT by leveraging on the target company's expertise in high end IC design and marketing.

FINANCIAL REVIEW

Revenue

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

Revenue from sales of goods accounted for approximately 99.2% 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\$929.2 million in the six months ended 30 September 2020 to approximately HK\$653.8 million for the Period mainly due to the postponement of delivery schedule of the major customers due to severe shortages in supply of semiconductor ICs in the market and the slowdown of 5G project in PRC.

Revenue from rendering of services increased from approximately HK\$0.4 million for the six months ended 30 September 2020 to approximately HK\$5.3 million for the Period 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 purchased 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 11.2% for the Period, as compared to approximately 12.6% for the six months ended 30 September 2020. Such decrease was mainly due to competitive selling price offered to customers for bulk purchase orders.

Rendering of services

Gross profit margin derived from rendering of services was approximately 98.3% for the Period as compared to approximately 80.6% for the six months ended 30 September 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\$3.2 million (2020: approximately HK\$2.7 million) mainly represents bank interest income, write back of impairment on trade receivable and sundry income. During the Period, the funding received from the Government of the Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”) in relation to the Employment Support Scheme under the Anti-epidemic Fund decreased by approximately HK\$1.6 million, which is offset by the increase in (i) sundry income in relation to the repair and maintenance of commercial laser machine of approximately HK\$0.8 million; and (ii) write back of impairment on trade receivable of approximately HK\$1.1 million.

Selling and distribution costs

The selling and distribution costs of approximately HK\$17.7 million (2020: approximately HK\$19.4 million) mainly include marketing and sales staff salaries, transportation, freight charges, declaration and research and development expenses. The selling and distribution costs decreased by approximately HK\$1.7 million or 8.9% 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\$48.9 million (2020: approximately HK\$42.2 million) primarily consist of 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\$6.6 million or 15.7% for the Period, which is mainly due to (i) the share based payment expenses of approximately HK\$11.7 million incurred as a result of the share options granted under the shares option scheme of the Company as disclosed in the Company’s announcement dated 20 April 2021; (ii) the increase in legal and professional fee of HK\$1.5 million mainly for the increase in compliance cost and investor relation expenses after the Listing on 19 February 2021 and consulting fee incurred for business development; which is partly offset by (a) the decrease in salaries and staff benefits in aggregate of approximately HK\$2.5 million resulting from less bonus payment during the Period; and (b) the decrease in listing expenses of approximately HK\$4.9 million.

Finance costs

The Group’s finance costs of approximately HK\$5.5 million (2020: approximately HK\$8.6 million) mainly represented interest expenses on its bank borrowings during the Period. The Group incurred interest on bank borrowings of approximately HK\$5.3 million for the Period as compared to approximately HK\$8.5 million for the corresponding period in last year. The decrease in interest on bank borrowings was mainly due to the decrease in utilisation of borrowing facilities during the Period.

Taxation

Taxation of the Group for the Period mainly comprised current income tax expenses of approximately HK\$3.0 million (2020: HK\$9.9 million) and deferred tax credited to statement of profit or loss of approximately HK\$nil (2020: 0.2 million) recognized for the provision for inventories and impairment loss of trade receivable.

Net profit for the Period

Net profit for the Period amounted to approximately HK\$1.8 million, representing a decrease of approximately 95.4% as compared to approximately HK\$39.5 million for the six months ended 30 September 2020. 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 bulk purchase from customers; (c) increase in other income and gains, net; (d) decrease in selling and distribution costs; (e) increase in administrative expenses; (f) decrease in finance costs; and (g) decrease in taxation.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 30 September 2021 were approximately HK\$178.1 million (31 March 2021: HK\$146.8 million). They were mainly denominated in Hong Kong dollar and Renminbi. As at 30 September 2021, the Group's total outstanding bank borrowings amounted to approximately HK\$438.9 million (31 March 2021: HK\$252.5 million) which comprised mainly bank factoring loans, import loans, trust receipts loans and revolving loans. The Group's bank borrowings which were unrestricted with a clause of repayment on demand are classified as current liability. The bank borrowings were denominated in Hong Kong dollar and United States ("US") dollar and were subject to interest at floating commercial lending rates.

The Group's gearing ratio (defined as the total interest-bearing borrowings net of cash and cash equivalents divided by total equity and multiplied by 100%) and debt-to-assets ratio (defined as the total borrowings net of cash and cash equivalents divided by total assets and multiplied by 100%) increased from approximately 39.4% and 14.3% respectively as at 31 March 2021 to approximately 97.0% and 30.3% respectively as at 30 September 2021, mainly due to increase in bank borrowing resulting from increase in inventory and pledged bank deposit and decrease in trade payables of approximately HK\$80.7 million, HK\$21.7 million and HK\$58.9 million, respectively.

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 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 30 September 2021, the Group did not have any material contingent liabilities (31 March 2021: Nil).

CHARGES ON ASSETS

As at 30 September 2021, certain bank borrowings of the Group were secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$77,599,000 (31 March 2021: HK\$55,901,000);
- (ii) mortgages over the Group's owned buildings and right-of-use land situated in Hong Kong, which had an aggregate carrying value of HK\$Nil (31 March 2021: HK\$25,935,000);
- (iii) the pledge of investments in life insurance policies of Mr. Fung Yui Kong, amounting to HK\$16,185,000 (31 March 2021: HK\$15,970,000); and
- (iv) trade and bills receivable of HK\$68,539,000 (31 March 2021: HK\$136,919,000).

SIGNIFICANT INVESTMENT

During the Period, the Group did not acquire or hold any significant investment with a value of 5% or more of the Group's total assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2021, the Group had 121 employees (30 September 2020: 126 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.

IMPORTANT EVENTS AFTER THE END OF THE PERIOD

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

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Listing in the amount of approximately HK\$88.1 million after deducting underwriting commissions and all related expenses have been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 January 2021 (the "**Prospectus**").

The net proceeds received were applied by the Group from the date of the Listing up to 30 September 2021 as follows:

Use of proceeds	Application of net proceeds as stated in the Prospectus <i>HK\$'million</i>	Utilised amount up to 30 September 2021 <i>HK\$'million</i>	Unused net proceeds <i>HK\$'million</i>	Unused net proceeds %
Strengthening design and technical capabilities	57.8	0.1	57.7	99.8%
Broadening customer base by expanding the geographic reach of sales and technical support coverage	14.4	1.9	12.5	86.8%
Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff	7.2	0.4	6.8	94.4%
General working capital	8.7	8.7	0	0%
	<u>88.1</u>	<u>11.1</u>	<u>77.0</u>	<u>87.4%</u>

As at 30 September 2021, the amount of unused net proceeds amounted to approximately HK\$77.0 million. The remaining unused net proceeds are expected to be utilised on or before 31 March 2024 according to the above proposed uses of proceeds.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancement of shareholders value. Except for the deviation from code provision A.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 A.2.1 of the CG Code is appropriate in such circumstance.

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

AUDIT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INTERIM DIVIDEND

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

APPROVAL OF THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements were approved and authorised for issue by the Board on 18 November 2021.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

The interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pangaea.com.hk). The 2021 interim report of the Company will be despatched to the Company’s shareholders and available on the above websites in due course.

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

Hong Kong, 18 November 2021

As at the date of this announcement, the Board comprises Mr. Fung Yui Kong, Dr. Wong Wai Kong and Ms. Leung Kwan Sin Rita 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.