

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



2022

Interim Report
中期報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Kam, Eddie Shing Cheuk (甘承倬)

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)

AUDIT COMMITTEE

Mr. Sze Wing Chun (施永進) (*Chairman*)
Mr. Kam, Eddie Shing Cheuk (甘承倬)
Mr. Ling Kwok Fai Joseph (凌國輝)

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)

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 (黃偉桃)
Ms. Leung Kwan Sin Rita (梁筠倩)

COMPANY SECRETARY

Dr. Wong Wai Kong (黃偉桃)

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

COMPLIANCE ADVISER

Honestum International Limited

REGISTERED OFFICE

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

CORPORATE INFORMATION

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 2022 (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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

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

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

Cost of sales

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

Gross profit margin

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other income/expenses and gains/losses, net

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

Selling and distribution costs

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

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

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

Finance costs

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

Taxation

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

Net profit for the Period

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

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 2022 were approximately HK\$121.9 million (31 March 2022: HK\$161.2 million). They were mainly denominated in Hong Kong dollar and Renminbi. As at 30 September 2022, the Group's total outstanding bank borrowings amounted to approximately HK\$434.0 million (31 March 2022: HK\$399.8 million) which comprised mainly bank factoring loans, import loans, trust receipts loans and revolving loans. The Group's bank borrowings which were unrestricted with a clause of repayment on demand are classified as current liability. The bank borrowings were denominated in Hong Kong dollar and United States ("US") dollar and were subject to interest at floating commercial lending rates.

The Group's gearing ratio (defined as the total interest-bearing borrowings net of cash and cash equivalents divided by total equity and multiplied by 100%) increased from approximately 86.9% as at 31 March 2022 to approximately 110.5% as at 30 September 2022, mainly due to increase in bank borrowing resulting from increase in inventory and trade and bill receivables of approximately HK\$74.9 million and approximately HK\$65.9 million, respectively, which is partly offset by increase in trade payables of approximately HK\$31.1 million.

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

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group's financial 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE AND COMMITMENTS

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

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

CONTINGENT LIABILITIES

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

CHARGES ON ASSETS

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

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

SIGNIFICANT INVESTMENT

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

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 2022, the Group had 121 employees (31 March 2022: 119 employees). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from basic salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

EVENTS AFTER THE END OF THE PERIOD

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

USE OF NET PROCEEDS FROM LISTING

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

MANAGEMENT DISCUSSION AND ANALYSIS

The net proceeds received were applied by the Group from the Listing Date up to 30 September 2022 as follows:

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

As at 30 September 2022, the amount of unused net proceeds amounted to approximately HK\$60.5 million. The unused net proceeds from the Listing are expected to be used in accordance with the Company's plan as disclosed in the Prospectus except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others, the business environment being significantly affected by the worldwide semiconductor supply and demand and the continuing impacts of COVID-19 since the start of 2020 and the ongoing geopolitical conflicts involving major economies worldwide, which resulted in historical drop in output in all major economies, uncertain market outlook and dwindling consumption and market sentiment across different industries, together with the restrictions and rules imposed from time to time on border controls, lockdowns and quarantine measures which have further hindered the recovery of the global economies. In view of the foregoing, as at the date of this report, it is expected that the unused net proceeds from the Listing would be fully 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 2022, 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 (Note 1) | Interest in share option (Note 2) | Total interests | Approximate percentage of issued share capital |
|----------------------------|--------------------------------|--------------------------------------|-----------------|--|
| Mr. Fung Yui Kong | 750,000,000.00 | – | 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 | – | 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.

(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 2022, 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 2022, 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 2022, 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 4,024,000 share options had lapsed, of which 3,856,000 and 168,000 share options had lapsed in the prior year and during the current period, respectively. A total of 25,560,000 share options were available for grant by the Company as at the date of this report, representing approximately 2.56% of the total issued shares of the Company.

As at 30 September 2022, the following share options granted under the Share Option Scheme were outstanding:

| Name or category of participant | Number of share options | | | | | At 30 September 2022 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) | Closing price of the Shares | | |
|--|-------------------------|---------------------------|-----------------------------|-------------------------------------|----------------------|---|--|---|---|--|--|
| | At 1 April 2022 | Granted during the period | Exercised during the period | Lapsed/ cancelled during the period | At 30 September 2022 | | | | 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 | 20 April 2021 | 300,000 | - | 0.6 | 0.59 | 0.59 |
| Mr. Chan Hiu Fung Nicholas Independent non-executive Director | 300,000 | - | - | - | 300,000 | 20 April 2021 | 300,000 | - | 0.6 | 0.59 | 0.59 |
| Mr. Ling Kwok Fai Joseph Independent non-executive Director | 300,000 | - | - | - | 300,000 | 20 April 2021 | 300,000 | - | 0.6 | 0.59 | 0.59 |
| Mr. Sze Wing Chun Independent non-executive Director | 300,000 | - | - | - | 300,000 | 20 April 2021 | 300,000 | - | 0.6 | 0.59 | 0.59 |
| | <u>17,700,000</u> | | | | <u>17,700,000</u> | | <u>7,700,000</u> | <u>10,000,000</u> | | | |
| Employees in aggregate | 56,908,000 | - | - | (168,000) | 56,740,000 | 20 April 2021 | 26,740,000 | 30,000,000 | 0.6 | 0.59 | 0.59 |
| Total number of share options | <u>74,608,000</u> | | | | <u>74,440,000</u> | | <u>34,440,000</u> | <u>40,000,000</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: 34,440,000 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 (i.e. 20 April 2031) 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.

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\$14.9 million and HK\$3.8 million in the prior year and the current period, respectively.

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 |

OTHER INFORMATION

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 74,440,000 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 74,440,000 additional ordinary shares of the Company and additional share capital and reserves of HK\$744,400 and HK\$43,919,600, respectively (before issue expenses).

At the date of approval of these financial statements, the Company had 74,440,000 share options outstanding under the Scheme, which represented approximately 7.44% 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.

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

Mr. Kam, Eddie Shing Cheuk has ceased to be an independent non-executive director of AVIC Joy Holdings (HK) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 260) with effect from 3 August 2022.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancement of shareholders value. Except for the deviation from code provision C.2.1 of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual, the Company has complied with all the code provisions set out in the CG Code.

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

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

AUDIT COMMITTEE

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

OTHER INFORMATION

RISK MANAGEMENT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 23 November 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 September 2022

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 September 2022

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

| | | Unaudited 30 September 2022 HK\$'000 | Audited 31 March 2022 HK\$'000 |
|--|-------|---|---|
| | Notes | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 40,088 | 43,062 |
| Financial assets at fair value through profit or loss | 12 | 26,356 | 28,001 |
| Equity investment at fair value through other comprehensive income | 13 | 12,064 | 9,786 |
| Deferred tax assets | | 361 | 392 |
| Total non-current assets | | 78,869 | 81,241 |
| CURRENT ASSETS | | | |
| Inventories | | 375,305 | 300,414 |
| Trade and bills receivables | 14 | 199,867 | 134,007 |
| Prepayments, deposits, other receivables and other assets | | 21,047 | 12,723 |
| Pledged bank deposits | | 93,038 | 104,511 |
| Cash and cash equivalents | | 121,928 | 161,195 |
| Total current assets | | 811,185 | 712,850 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

| | | Unaudited 30 September 2022 HK\$'000 | Audited 31 March 2022 HK\$'000 |
|--|------|---|---|
| | Note | | |
| CURRENT LIABILITIES | | | |
| Trade payables | 15 | 119,029 | 87,946 |
| Other payables, accruals and contract liabilities | | 43,169 | 17,351 |
| Interest-bearing bank borrowings | | 51,287 | 95,930 |
| Trust receipt loans | | 382,727 | 303,913 |
| Lease liabilities | | 4,652 | 5,188 |
| Tax payable | | 5,333 | 6,548 |
| Total current liabilities | | 606,197 | 516,876 |
| NET CURRENT ASSETS | | 204,988 | 195,974 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 283,857 | 277,215 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 1,212 | 2,286 |
| Deferred tax liabilities | | 340 | 340 |
| Total non-current liabilities | | 1,552 | 2,626 |
| Net assets | | 282,305 | 274,589 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | 10,000 | 10,000 |
| Reserves | | 272,305 | 264,589 |
| Total equity | | 282,305 | 274,589 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 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 expense 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/ (expense) 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> |

| For the six months ended 30 September 2021 (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 2021 (audited) | 10,000 | 105,146 | 625 | 72 | - | - | 152,352 | 268,195 |
| Profit for the period | - | - | - | - | - | - | 1,833 | 1,833 |
| Other comprehensive income for the period: | | | | | | | | |
| Exchange differences on translation of a foreign operation | - | - | - | 31 | - | - | - | 31 |
| Total comprehensive income for the year | - | - | - | 31 | - | - | 1,833 | 1,864 |
| Dividends declared | - | - | - | - | - | - | (13,000) | (13,000) |
| Share based payment expenses | - | - | - | - | - | 11,662 | - | 11,662 |
| At 30 September 2021 | <u>10,000</u> | <u>105,146</u> | <u>625</u> | <u>103</u> | <u>-</u> | <u>11,662</u> | <u>141,185</u> | <u>268,721</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 September 2022

Unaudited
For the six months ended
30 September
2022 2021
HK\$'000 HK\$'000

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|-----------------|-----------|
| Profit before tax | 5,133 | 4,824 |
| Adjustments for: | | |
| Interest income | (401) | (117) |
| Finance costs | 9,611 | 5,460 |
| Reversal of impairment of trade receivables | (525) | (1,053) |
| Write-down of inventories to net realisable value | – | 9,947 |
| Gain on disposal of items of property, plant and equipment | – | (13) |
| Equity-settled share option expense | 3,843 | 11,662 |
| Depreciation of property, plant and equipment | 4,688 | 4,701 |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | 1,645 | (215) |
| | 23,994 | 35,196 |
| Increase in inventories | (74,891) | (90,600) |
| Increase in trade and bills receivables | (65,335) | (6,257) |
| (Increase)/decrease in prepayments, deposits and other receivables | (8,324) | 26,074 |
| Increase/(decrease) in trade payables | 31,083 | (58,906) |
| Increase/(decrease) in other payables, accruals and contract liabilities | 25,818 | (3,318) |
| Exchange realignment | 640 | 3 |
| Cash used in operations | (67,015) | (97,808) |
| Hong Kong profits tax paid | (260) | (2,074) |
| Overseas tax paid | (2,037) | (1,767) |
| Net cash flows used in operating activities | (69,312) | (101,649) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 September 2022

Unaudited For the six months ended 30 September

2022
HK\$'000

2021
HK\$'000

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|--------|----------|
| Interest received | 401 | 117 |
| Purchase of items of property, plant and equipment | (957) | (2,842) |
| Proceeds from disposal of items of property, plant and equipment | – | 57 |
| Purchase of financial assets at fair value through profit or loss | – | (7,800) |
| Decrease/(increase) in pledged bank deposits | 11,473 | (21,698) |
| Net cash flows from/(used in) investing activities | 10,917 | (32,166) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|-----------|-----------|
| Increase in trust receipt loans, net | 78,814 | 143,313 |
| New other bank loans | 354,193 | 331,372 |
| Repayment of other bank loans | (398,836) | (288,315) |
| Interest paid | (9,611) | (5,460) |
| Dividend paid | – | (13,000) |
| Repayment of the principal portion of lease liabilities | (2,976) | (2,798) |
| Net cash flows from financing activities | 21,584 | 165,112 |

NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS

| | | |
|--|---------|---------|
| Cash and cash equivalents at beginning of period | 161,195 | 146,809 |
| Effect of foreign exchange rate changes, net | (2,456) | 40 |

CASH AND CASH EQUIVALENTS AT END OF PERIOD

| | |
|---------|---------|
| 121,928 | 178,146 |
|---------|---------|

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

| | |
|---------|---------|
| 121,928 | 178,146 |
|---------|---------|

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 2022.

2.2 IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3

Amendments to HKAS 16

Amendments to HKAS 37

*Annual Improvements to
HKFRSs 2018-2020*

Reference to the Conceptual Framework

Property, Plant and Equipment:

Proceeds before Intended Use

*Onerous Contracts — Cost of Fulfilling
a Contract*

Amendments to HKFRS 1, HKFRS 9,
Illustrative Examples accompanying
HKFRS 16, and HKAS 41

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

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

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

- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3 OPERATING SEGMENT INFORMATION

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

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

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

Geographical information

(a) *Revenue from external customers*

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

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

3 OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

(b) *Non-current assets*

| | Unaudited 30 September 2022 HK\$'000 | Audited 31 March 2022 HK\$'000 |
|----------------|---|---|
| Hong Kong | 32,270 | 33,464 |
| Mainland China | 7,818 | 9,598 |
| | <u>40,088</u> | <u>43,062</u> |

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

Information about major customers

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

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

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

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

An analysis of revenue is as follows:

| | Unaudited | |
|--|---------------------------------|-----------------|
| | For the six months ended | |
| | 30 September | |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Revenue from contracts with customers | | |
| Sale of goods | 682,096 | 653,821 |
| Rendering of services | 353 | 5,300 |
| | 682,449 | 659,121 |
| Revenue from contracts with customers | | |
| Disaggregated revenue information | | |
| Timing of revenue recognition | | |
| At a point in time | 682,449 | 653,821 |
| Over time | – | 5,300 |
| | 682,449 | 659,121 |

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

5 FINANCE COSTS

An analysis of finance costs is as follows:

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

6 PROFIT BEFORE TAX

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 PROFIT BEFORE TAX (Continued)

- # The research and development costs include HK\$4,210,000 (six months ended 30 September 2021: HK\$4,159,000) relating to staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses for the period.
- ^ The reversal of impairment of trade receivables and share based payment expenses for share option are included in "Other income/(expenses) and gains/(losses), net" and "Administrative expenses" on the face of the condensed consolidated statement of profit or loss.
- ^^ The write-down of inventories to net realisable value is included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

7 INCOME TAX

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

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

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

8 DIVIDENDS

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

| Unaudited | |
|---------------------------------|-----------------|
| For the six months ended | |
| 30 September | |
| 2022 | 2021 |
| HK\$'000 | HK\$'000 |

Dividends paid during the period

— 2022: N/A (2021: final at HK1.3 cents per ordinary share)

| | |
|---|---------------|
| — | <u>13,000</u> |
|---|---------------|

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

a. Basic earnings per share

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

b. Diluted earnings per share

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

10 PROPERTY, PLANT AND EQUIPMENT

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

| | Owned assets HK\$'000 | Right-of-use assets HK\$'000 | Total HK\$'000 |
|----------------------------------|-----------------------------|------------------------------------|-------------------|
| 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) | <u>14,567</u> | <u>25,521</u> | <u>40,088</u> |
| 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 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 2022 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Investments in life insurance policies | – | – | 18,236 | 18,236 |
| Investments in convertible bonds | – | – | 8,120 | 8,120 |
| Financial assets at fair value through other comprehensive income: | | | | |
| Trade receivables | – | 19,475 | – | 19,475 |
| Equity investment at fair value through other comprehensive income: | | | | |
| Unlisted equity investment | – | – | 12,064 | 12,064 |
| | – | 19,475 | 38,420 | 57,895 |

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 2022 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Life insurance policies | – | – | 18,076 | 18,076 |
| Convertible bond | – | – | 9,925 | 9,925 |
| Financial assets at fair value through other comprehensive income: | | | | |
| Trade receivables | – | 3,469 | – | 3,469 |
| Equity investment at fair value through other comprehensive income: | | | | |
| Unlisted equity investment | – | – | 9,786 | 9,786 |
| | <u>–</u> | <u>3,469</u> | <u>37,787</u> | <u>41,256</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 | |
|---|---------------|---------------|
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Financial assets at fair value through profit or loss: | | |
| At 1 April (Audited) | 28,001 | 15,970 |
| Additions | – | 7,800 |
| (Loss)/gain recognised in the statement of profit or loss | (1,645) | 215 |
| At 30 September (Unaudited) | <u>26,356</u> | <u>23,985</u> |

Equity investment at fair value through other comprehensive income:

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

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 2022, if the Surrender Values have been 5% higher/lower, the impact on the amount attributable to the shareholders of the Group would be HK\$912,000 (31 March 2022: HK\$904,000) higher/lower, respectively.

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

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

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

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

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

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

13 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | Unaudited 30 September 2022 HK\$'000 | Audited 31 March 2022 HK\$'000 |
|--|---|---|
|--|---|---|

| | | |
|---|---------------|-------|
| Unlisted equity investment, at fair value | | |
| PI Semiconductor (Shenzhen) Company Limited | 12,064 | 9,786 |

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

14 TRADE AND BILLS RECEIVABLES

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

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

| | Unaudited 30 September 2022 HK\$'000 | Audited 31 March 2022 HK\$'000 |
|--|---|---|
|--|---|---|

| | | |
|-------------------|----------------|---------|
| Trade receivables | 189,128 | 126,075 |
| Bills receivable | 10,739 | 7,932 |
| | 199,867 | 134,007 |

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

15 TRADE PAYABLES

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

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

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 Yui Kong had undertaken to indemnify the Group for all costs, losses and/or expenses for any taxation of the Group incurred with respect to the transfer pricing arrangement that arose prior to the listing on the Stock Exchange on 19 February 2021.
- b Compensation of key management personnel of the Group:

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

17 COMMITMENTS

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

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

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

Pangaea Connectivity Technology Limited
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