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Pangaea Connectivity Technology Limited

環聯連訊科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1473)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024**

The board (the “**Board**”) of directors (the “**Directors**”) of Pangaea Connectivity Technology Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2024 (the “**Period**”), together with the comparative figures for the six months ended 30 September 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Six months ended 30 September 2024*

		Unaudited	
		For the six months ended	
		30 September	
		2024	2023
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	1,020,762	600,249
Cost of sales		<u>(923,120)</u>	<u>(545,815)</u>
Gross profit		97,642	54,434
Other income and gains, net	4	3,498	3,746
Selling and distribution costs		(20,709)	(18,166)
Administrative expenses		(48,246)	(41,428)
Finance costs	5	<u>(15,202)</u>	<u>(14,355)</u>
PROFIT/(LOSS) BEFORE TAX	6	16,983	(15,769)
Income tax credit/(expense)	7	<u>(2,400)</u>	<u>1,766</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>14,583</u>	<u>(14,003)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)	9	<u>1.47</u>	<u>(1.40)</u>
Diluted (<i>HK cents</i>)	9	<u>1.47</u>	<u>(1.40)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 September 2024

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	<u>14,583</u>	<u>(14,003)</u>
OTHER COMPREHENSIVE INCOME/(LOSS):		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
— Exchange differences on translation of a foreign operation	217	(1,186)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
— Net gain/(loss) on equity investment at fair value through other comprehensive income	<u>1,846</u>	<u>(409)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>2,063</u>	<u>(1,595)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	<u><u>16,646</u></u>	<u><u>(15,598)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2024

	<i>Notes</i>	Unaudited 30 September 2024 HK\$'000	Audited 31 March 2024 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	43,437	43,110
Intangible asset	<i>12</i>	5,502	6,497
Financial assets at fair value through profit or loss	<i>13</i>	19,486	19,165
Equity investment at fair value through other comprehensive income	<i>14</i>	12,509	10,663
Prepayments and deposits		107	244
Deferred tax assets		5,335	8,194
Total non-current assets		86,376	87,873
CURRENT ASSETS			
Inventories		182,342	226,997
Trade and bills receivables	<i>15</i>	312,433	336,187
Prepayments, deposits, other receivables and other assets		37,978	25,640
Pledged bank deposits		106,966	107,081
Cash and cash equivalents		55,839	64,101
Total current assets		695,558	760,006
CURRENT LIABILITIES			
Trade payables	<i>16</i>	204,151	272,178
Other payables, accruals and contract liabilities		73,631	65,846
Interest-bearing bank borrowings		15,720	22,491
Trust receipt loans		246,903	258,258
Lease liabilities		5,373	3,978
Tax payable		2,354	2,295
Total current liabilities		548,132	625,046
NET CURRENT ASSETS		147,426	134,960
TOTAL ASSETS LESS CURRENT LIABILITIES		233,802	222,833

		Unaudited	Audited
		30 September	31 March
		2024	2024
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Lease liabilities		4,696	3,979
Deferred tax liabilities		190	672
		<hr/>	<hr/>
Total non-current liabilities		4,886	4,651
		<hr/>	<hr/>
Net assets		228,916	218,182
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>17</i>	9,950	10,000
Reserves		218,966	208,182
		<hr/>	<hr/>
Total equity		228,916	218,182
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 19 February 2021.

The Company is an investment holding company. During the period, the Company's subsidiaries were involved in the import and export of connectivity products which are used in the telecom and datacom connectivity industry.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is Generous Horizon Limited (formerly known as Generous Team Limited), which is a limited liability company incorporated in the British Virgin Islands (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 D2 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 2024.

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 2024, except for the adoption of the following new and revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited condensed interim financial statements of the Group.

3 OPERATING SEGMENT INFORMATION

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

Almost all of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single reportable operating segment.

Geographical information

(a) *Revenue from external customers*

	Unaudited For the six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Hong Kong	115,787	99,052
Chinese Mainland	857,043	423,639
Other countries/regions	47,932	77,558
Total	<u>1,020,762</u>	<u>600,249</u>

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

(b) *Non-current assets*

	Unaudited 30 September 2024 HK\$'000	Audited 31 March 2024 HK\$'000
	Hong Kong	32,240
Chinese Mainland	16,781	15,045
Other countries/regions	25	–
Total	<u>49,046</u>	<u>49,851</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	
	2024	2023
	HK\$'000	HK\$'000
Customer A	128,292	106,698
Customer B	110,712	123,455
Customer C	152,910	N/A*
Customer D	111,281	N/A*
Total	<u>503,195</u>	<u>230,153</u>

* Revenue from sales to Customer C and Customer D accounted for less than 10% of the total revenue of the Group for the period ended 30 September 2023.

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 AND GAINS, NET

An analysis of revenue is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sale of goods	1,016,710	598,862
Rendering of services	4,052	1,387
Total	<u>1,020,762</u>	<u>600,249</u>
Revenue from contracts with customers		
Disaggregated revenue information		
Timing of revenue recognition		
At a point in time	<u>1,020,762</u>	<u>600,249</u>

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

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
Bank interest income	2,351	2,418
Exchange differences, net	450	44
Fair value gain on financial assets at fair value through profit or loss	321	241
Sundry income, net	376	1,043
	<hr/>	<hr/>
Total other income and gains, net	3,498	3,746
	<hr/> <hr/>	<hr/> <hr/>

5 FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
Interest on bank borrowings	15,027	14,190
Interest on lease liabilities	175	165
	<hr/>	<hr/>
Total finance costs	15,202	14,355
	<hr/> <hr/>	<hr/> <hr/>

6 PROFIT/(LOSS) BEFORE TAX

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

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
Cost of inventories sold	914,121	545,785
Cost of services provided	199	30
Amortisation	1,081	–
Depreciation	4,739	5,233
Research and development costs [#]	4,178	4,345
Auditors' remuneration		
— annual audit	780	780
Provision for inventories ^{^^}	8,800	–
Impairment of trade receivables [^]	5	164
Staff costs (including directors' remuneration):		
Wages and salaries and allowances	31,170	25,410
Share based payment expenses for share option [^]	100	960
Pension scheme contributions	3,276	3,173
	34,546	29,543
Lease payments not included in the measurement of leases liabilities	26	25
Foreign exchange gain, net	(450)	(44)
Fair value gain on financial assets at fair value through profit or loss	(321)	(241)

[#] The research and development costs include HK\$4,178,000 (six months ended 30 September 2023: HK\$4,295,000) relating to staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses for the period.

[^] The impairment of trade receivables and share based payment expenses for share option are included in “Other income and gains, net” and “Administrative expenses” on the face of the condensed consolidated statement of profit or loss.

^{^^} Provision for inventories is included in “Cost of sales” on the face of the consolidated statement of profit or loss.

7 INCOME TAX

	Unaudited	
	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
Current — Hong Kong		
Charge for the period	2,400	—
Deferred tax	—	(1,766)
	<u> </u>	<u> </u>
Total tax charge/(credit) for the period	<u>2,400</u>	<u>(1,766)</u>

8 DIVIDENDS

No interim dividend was proposed during the current period (2023: Nil).

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

a. Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to ordinary equity holders of the parent is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$14,583,000 (2023: loss of HK\$14,003,000) and the weighted average number of ordinary shares of 993,000,000 (2023: 1,000,000,000) in issue during the period.

b. Diluted earnings/(loss) per share

No adjustment has been made to the basic earnings/(loss) per share amount presented for the six months ended 30 September 2024 and 2023 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 2024 are analysed as follows:

	Owne d assets HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
At 1 April 2024 (Audited)	17,239	25,871	43,110
Additions	155	4,818	4,973
Depreciation	(1,601)	(3,138)	(4,739)
Exchange realignment	505	(412)	93
	<hr/>	<hr/>	<hr/>
At 30 September 2024 (Unaudited)	16,298	27,139	43,437
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 April 2023 (Audited)	20,510	22,097	42,607
Additions	537	10,755	11,292
Depreciation	(2,402)	(2,831)	(5,233)
Exchange realignment	(269)	(406)	(675)
	<hr/>	<hr/>	<hr/>
At 30 September 2023 (Unaudited)	18,376	29,615	47,991
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, lease liabilities, and other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's instruments:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 30 September 2024				
Financial assets at fair value through profit or loss:				
Investments in life insurance policies	–	–	19,486	19,486
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	83,975	–	83,975
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	12,509	12,509
	<u>–</u>	<u>83,975</u>	<u>31,995</u>	<u>115,970</u>
	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 31 March 2024				
Financial assets at fair value through profit or loss:				
Life insurance policies	–	–	19,165	19,165
Financial assets at fair value through other comprehensive income:				
Trade receivables	–	6,999	–	6,999
Equity investment at fair value through other comprehensive income:				
Unlisted equity investment	–	–	10,663	10,663
	<u>–</u>	<u>6,999</u>	<u>29,828</u>	<u>36,827</u>

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

	Unaudited	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets at fair value through profit or loss:		
At 1 April (Audited)	19,165	27,916
Gain recognised in the statement of profit or loss	321	241
	<hr/>	<hr/>
At 30 September (Unaudited)	19,486	28,157
	<hr/> <hr/>	<hr/> <hr/>

Equity investment at fair value through other comprehensive income:

	Unaudited	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April (Audited)	10,663	12,064
Gain/(loss) recognised through other comprehensive income	1,846	(409)
	<hr/>	<hr/>
At 30 September (Unaudited)	12,509	11,655
	<hr/> <hr/>	<hr/> <hr/>

The following method and assumptions were used to estimate the fair values:

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.

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 2024, if the Surrender Values have been 5% higher/lower, the impact on the amount attributable to the shareholders of the Group would be HK\$974,000 (31 March 2024: HK\$958,000) higher/lower, respectively.

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

12 INTANGIBLE ASSET

	Exclusive rights HK\$'000
30 September 2024	
Cost	
At 1 April 2024	6,497
Additions	–
Exchange realignment	105
	<u>6,602</u>
At 30 September 2024	<u>6,602</u>
Accumulated amortisation	
At 1 April 2024	–
Provided during the period	1,081
Exchange realignment	19
	<u>1,100</u>
At 30 September 2024	<u>1,100</u>
Net carrying amount	<u><u>5,502</u></u>
30 September 2023	
Cost	
At 1 April 2023 and 30 September 2023	–
Accumulated amortisation	
At 1 April 2023 and 30 September 2023	–
Net carrying amount	<u><u>–</u></u>

13 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 2024 are analysed as follows:

	Life insurance policy HK\$'000	Convertible bond HK\$'000	Total HK\$'000
At 1 April 2024 (Audited)	19,165	–	19,165
Changed in fair value	321	–	321
	<u>19,486</u>	<u>–</u>	<u>19,486</u>
At 30 September 2024 (Unaudited)	<u>19,486</u>	<u>–</u>	<u>19,486</u>
At 1 April 2023 (Audited)	18,804	9,112	27,916
Changed in fair value	180	61	241
	<u>18,984</u>	<u>9,173</u>	<u>28,157</u>
At 30 September 2023 (Unaudited)	<u>18,984</u>	<u>9,173</u>	<u>28,157</u>

14 EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited 30 September 2024 HK\$'000	Audited 31 March 2024 HK\$'000
Unlisted equity investment, at fair value	<u>12,509</u>	<u>10,663</u>

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.

15 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 2024, 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 56.1% (31 March 2024: 63.5%) and 15.0% (31 March 2024: 19.9%) 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 2024 HK\$'000	Audited 31 March 2024 HK\$'000
Trade receivables	311,225	335,429
Bills receivable	<u>1,208</u>	<u>758</u>
Total	<u>312,433</u>	<u>336,187</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 2024 HK\$'000	Audited 31 March 2024 HK\$'000
Within 1 month	138,713	275,841
1 to 3 months	107,421	36,119
3 to 6 months	45,749	23,442
Over 6 months	<u>20,550</u>	<u>785</u>
Total	<u>312,433</u>	<u>336,187</u>

16 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 2024 <i>HK\$'000</i>	Audited 31 March 2024 <i>HK\$'000</i>
Within 30 days	127,537	131,465
31 to 90 days	75,111	121,154
Over 90 days	1,503	19,559
Total	204,151	272,178

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

17 SHARE CAPITAL

The Company purchased 27,000,000 of its shares on the Hong Kong Stock Exchange at a total consideration of HK\$6,012,000, of which 5,000,000 shares were cancelled.

18 RELATED PARTY TRANSACTIONS

- a In addition to the transactions detailed in elsewhere in these interim financial statements, the Group had the following transactions with related parties:
- (i) Mr. Fung had undertaken to indemnify the Group for all costs, losses and/or expenses for any taxation of the Group incurred with respect to the transfer pricing arrangement that arose prior to the listing on the Stock Exchange on 19 February 2021.
- b Compensation of key management personnel of the Group:

	Unaudited For the six months ended 30 September 2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Short-term employee benefits	9,348	6,401
Post-employment benefits	546	484
Share based payment expenses for share option	100	291
Total compensation paid to key management personnel	9,994	7,176

19 COMMITMENTS

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

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

	Unaudited	Audited
	30 September	31 March
	2024	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>23</u>	<u>–</u>

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 2024 (the “**Period**”). The condensed interim financial information is not audited but has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

BUSINESS REVIEW

Market Review

The semiconductor market is experiencing a notable surge in demand for AI solutions, signalling a robust appetite for advanced technologies. This escalating need propels innovation and growth within the industry, particularly in AI-focused sectors. Concurrently, positive market conditions, such as China’s commitment to sustainability and green initiatives, are driving expansion and steering the industry towards carbon neutrality. Progress in eco-friendly products and green manufacturing practices further accelerates the sector’s advancement.

Moreover, ongoing developments in the connectivity segment, the swift adoption of 5G technology, expansions and upgrading of data centres, and advancements in WiFi 7 connectivity are sustaining this upward trajectory. These advancements highlight the semiconductor industry’s pivotal role in shaping technological progress and fostering innovation across diverse sectors. Despite these promising trends, challenges persist, including financial pressures and geopolitical tensions like US-China trade disputes impacting inflation and interest rates. Notwithstanding, the recent downward adjustment in interest rates offers a favourable shift, potentially alleviating financial burdens and stimulating investments in semiconductor innovations, particularly those revolving around AI technologies. Navigating these challenges while capitalizing on the growing AI demand will be crucial for sustained success in this dynamic market environment.

Business Review

Throughout the review period, industry challenges influenced the Group’s trajectory and semiconductor demand. Sales improved from the previous year despite these hurdles, although heightened financing costs from high interest rates still affected profitability at a certain level. Ongoing global economic volatility, geopolitical risks, and U.S. monetary policy shifts continue to impact the industry outlook.

To combat these challenges, the Group is pursuing strategic initiatives. It has been capitalizing on the demand for AI-enabled semiconductors, enhancing intensive support to meet the growing demand. The Group has also been putting strong effort from its processing know-how in supporting the laser cutting technology for solar energy applications, solidifying its position in the Chinese market.

Furthermore, the Group is keen on diversifying into new markets, expanding product lines, widening its network of partners, and establishing strategic alliances. By broadening offerings, the Group aims to extend market reach, engage in more new customer segments, and enhance competitiveness. To adapt to changing global dynamics, the Group is expanding into areas strategically to optimize supply chains and operational efficiency, leveraging the region's growth potential. The various key business sectors of the Group performed in line with expectations. The Group remains focused on growth, innovation, and shareholder value.

Prospects

In the upcoming phase, the Group will persist in its AI-related ventures, forging partnerships with key players in the AI sector to leverage leading-edge technologies for enhanced products and transformative solutions. Acknowledging the rising demand for AI-enabled communication devices in data centers and HPC environments, we are increasing investments to deliver superior performance and efficiency.

Excitement surrounding the potential of WiFi 7 standards continues as the need for high-speed, reliable wireless connectivity grows. The rapid expansion of AI applications necessitates robust IoT infrastructure to manage the growing data influx efficiently. Actively engaging with suppliers, the Group will enhance IoT solutions seamlessly integrated with AI systems, fostering reliable connectivity and interoperability.

Furthermore, the Group's commitment to advancing solar PV panel laser processing technology conforms to the green energy initiatives which leverage industrial laser expertise to boost process efficiency and affordability in production to empower our customers' competitive edge.

By staying ahead in the 5G networks, our Group will continue exploring advancements in optical and wireless communications to enable faster data transfer rates and enhanced network reliability which we strive to connect individuals and industries seamlessly.

Overall, our focus on AI-connected, WiFi technologies, IoT integrations, green initiatives, and advanced communications networks has positioned the Group for growth and success, ensuring we meet evolving customer needs in a dynamic market landscape. The Group is optimistic about the forthcoming sustainability of profitability and persistently creates value for our shareholders.

FINANCIAL REVIEW

Revenue

Revenue comprises sales of goods and rendering of services.

Revenue from sales of goods accounted for approximately 99.6% (2023: 99.8%) 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 increased from approximately HK\$598.9 million in the six months ended 30 September 2023 to approximately HK\$1,016.7 million for the Period, mainly due to the increase in market demand for artificial intelligence (AI) products.

Cost of sales

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

Gross profit margin

Gross profit margin was approximately 9.6% for the Period, as compared to approximately 9.1% for the six months ended 30 September 2023. Such increase was mainly due to increase in demand and price of the Group's products in the market.

Other income/expenses and gains/losses, net

Other income and gains of approximately HK\$3.5 million (2023: HK\$3.7 million) mainly represented bank interest income, exchange differences, net, fair value gain on valuation of financial assets and sundry income. The decrease in other income and gains of HK\$0.2 million during the Period as compared to the corresponding period in last year was mainly due to the decrease in sundry income of approximately HK\$0.7 million and the decrease in bank interest income of approximately HK\$0.1 million for the Period, which was partly offset by the increase in exchange gain of approximately HK\$0.4 million due to the appreciation of Renminbi for the Period.

Selling and distribution costs

The selling and distribution costs of approximately HK\$20.7 million (2023: approximately HK\$18.2 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\$2.5 million or 14.0% from the corresponding period last year, which was mainly attributable to the increase in revenue during the Period as mentioned above.

Administrative expenses

Administrative expenses of approximately HK\$48.2 million (2023: approximately HK\$41.4 million) primarily consisted of salaries and benefits (including Directors' emoluments), insurance, operating lease and other premise fees, bank charges, entertainment and depreciation expenses. The administrative expenses increased by approximately HK\$6.8 million or 16.5% for the Period, which is mainly due to the combined effect of (i) the increase in salaries and staff benefits in aggregate of approximately HK\$5.7 million resulting from the increase in salaries, bonus payment and the number of staff during the Period; (ii) the increase in bank charges of approximately HK\$1.4 million; and (iii) the increase in travelling and entertainment expenses of approximately HK\$0.9 million due to the increase in revenue during the Period; which was partly offset by the decrease in share-based payment expenses of approximately HK\$0.9 million as a result of the share options granted under the shares option scheme of the Company as disclosed in the Company's announcement dated 20 April 2021.

Finance costs

The Group's finance costs of approximately HK\$15.2 million (2023: approximately HK\$14.4 million) mainly represented interest expenses on its bank borrowings during the Period. The Group incurred interest on bank borrowings of approximately HK\$15.0 million for the Period as compared to approximately HK\$14.2 million for the corresponding period last year. The increase in interest on bank borrowings was mainly due to the increase in interest rate during the Period, which has been partly offset by the reduction of total bank borrowing from HK\$317.7 million as at 30 September 2023 to HK\$262.6 million as at 30 September 2024 due to enhancement of cost and working capital control measure during the Period.

Taxation

Taxation of the Group for the Period mainly comprised current income tax expense of approximately HK\$2.4 million (2023: income tax credit of HK\$1.8 million).

Net profit for the Period

Net profit for the Period amounted to approximately HK\$14.6 million as compared to net loss of approximately HK\$14.0 million for the six months ended 30 September 2023. The increase in profit was principally attributable to the net effect of the factors mentioned above, including (a) an increase in revenue; (b) an increase in gross profit margin as a result of an increase in market demand; (c) a decrease in other income and gains, net; (d) an increase in selling and distribution costs; (e) an increase in administrative expenses; and (f) an increase in finance costs.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 30 September 2024 were approximately HK\$55.8 million (31 March 2024: HK\$64.1 million). They were mainly denominated in Hong Kong dollar and Renminbi. As at 30 September 2024, the Group's total outstanding bank borrowings amounted to approximately HK\$262.6 million (31 March 2024: HK\$280.7 million) which comprised mainly bank factoring loans, import loans, trust receipts loans and revolving loans. The Group's bank borrowings which were unrestricted with a clause of repayment on demand are classified as current liability. The bank borrowings were denominated in Hong Kong dollar and United States ("US") dollar and were subject to interest at floating commercial lending rates.

The Group's gearing ratio (defined as the total interest-bearing borrowings net of cash and cash equivalents and pledged bank deposits divided by total equity and multiplied by 100%) decreased from approximately 50.2% as at 31 March 2024 to approximately 43.6% as at 30 September 2024, mainly due to the decrease in bank borrowing resulting from the decrease in inventory of approximately HK\$44.7 million and the decrease in trade and bills receivables of approximately HK\$23.8 million, which is partly offset by the decrease in trade payables of approximately HK\$68.0 million.

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

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

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

CAPITAL EXPENDITURE AND COMMITMENTS

During the Period, the Group invested approximately HK\$0.2 million (2023: approximately HK\$0.5 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 2024 (31 March 2024: Nil).

CONTINGENT LIABILITIES

As at 30 September 2024, the Group did not have any material contingent liabilities (31 March 2024: Nil).

CHARGES ON ASSETS

As at 30 September 2024, certain bank borrowings of the Group were secured by:

- (i) the pledge of the Group's bank deposits amounting to HK\$107.0 million (31 March 2024: HK\$107.1 million);
- (ii) the pledge of investments in life insurance policies of Mr. Fung Yui Kong, amounting to HK\$19.5 million (31 March 2024: HK\$19.2 million);
- (iii) trade and bills receivables of HK\$97.3 million (31 March 2024: HK\$28.0 million);
and
- (iv) corporate guarantees from the Company of up to HK\$1,563.7 million (31 March 2024: HK\$1,563.7 million).

SIGNIFICANT INVESTMENT

The Group had no significant investment with a value of 5% or more of the Group's total assets as at 30 September 2024.

ISSUE FOR CASH OF EQUITY SECURITIES OR SALE OF TREASURY SHARES

There was no equity fund raising activity nor was there any sale of treasury shares by the Company during the Period.

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 2024, the Group had 122 employees (31 March 2024: 114 employees). Salaries of employees are maintained at a competitive level and reviewed annually, with close reference to individual performance, working experience, qualification, and current relevant industry practices. Apart from basic salary and statutory provident fund scheme, discretionary bonuses and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other benefits such as on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

EVENTS AFTER THE END OF THE PERIOD

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

USE OF NET PROCEEDS FROM LISTING

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

The net proceeds received were applied by the Group from 19 February 2021 (i.e. the listing date) up to 30 September 2024 as follows:

Use of proceeds	Application of net proceeds as stated in the Prospectus HK\$'million	Utilised amount up to 30 September 2024 HK\$'million	Unused net proceeds HK\$'million	Unused net proceeds %
Strengthening design and technical capabilities	57.8	11.2	46.6	80.6%
Broadening customer base by expanding the geographic reach of sales and technical support coverage	14.4	14.4	–	0%
Strengthening back office operational supports by enhancing information technology management system and recruiting IT staff	7.2	7.2	–	0%
General working capital	8.7	8.7	–	0%
	<u>88.1</u>	<u>41.5</u>	<u>46.6</u>	<u>52.9%</u>

As at 30 September 2024, the amount of unused net proceeds amounted to approximately HK\$46.6 million. The unused net proceeds from the Listing are expected to be used in accordance with the Company's plan as disclosed in the Prospectus except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others, the business environment being significantly affected by the worldwide semiconductor supply and demand, the impacts of COVID-19 and the ongoing geopolitical conflicts involving major economies worldwide, which resulted in uncertain market outlook and dwindling consumption and market sentiment across different industries which have hindered the recovery of the global economies. However, 5G adoption will trigger the surge of development and application of correlated communication infrastructure in the coming years. Barring any unforeseen circumstances, it is expected that the unused net proceeds from the Listing would be utilised not earlier than 2025. The Group shall regularly evaluate the market conditions for the fulfillment of the Group's future plan and provide any further updates as and when appropriate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, pursuant to the general mandate to repurchase the Shares granted by the shareholders of the Company at the annual general meeting of the Company held on 25 August 2023, the Company repurchased 27,000,000 Shares on the Stock Exchange, representing approximately 2.7% of the then total number of issued Shares, for an aggregate consideration of approximately HK\$6.0 million. 5,000,000 of these repurchased Shares were subsequently cancelled on 14 May 2024, and 22,000,000 of these were held by the Company as treasury shares.

As of 30 September 2024, the Company's issued share capital amounted to HK\$9,950,000, and there were a total of 995,000,000 Shares (of which 22,000,000 Shares were treasury shares that are intended to be used in accordance with the applicable rules and regulations, including but not limited to for use as consideration shares, for resale, or for satisfying the share schemes of the Company, depending on the needs of the Company from time to time) with a nominal value of HK\$0.01 each.

Details of the Shares repurchased are as follows:

Month of repurchase during the Period	Number of Shares repurchased	Highest price paid per Share	Lowest price paid per Share	Approximate aggregate consideration
2024				
April	5,000,000	HK\$0.23	HK\$0.22	HK\$1.1 million
August	17,000,000	HK\$0.24	HK\$0.19	HK\$3.7 million
September	5,000,000	HK\$0.25	HK\$0.24	HK\$1.2 million
Total	<u>27,000,000</u>			

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (including the sale of treasury shares) 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 C.2.1 of the Corporate Governance Code (the "CG Code") as set out in Part 2 of Appendix C1 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 three independent non-executive Directors namely Mr. Kam Eddie Shing Cheuk (Chairman), who possesses the appropriate professional qualifications or accounting or related financial management expertise, Mr. Ling Kwok Fai Joseph and Mr. Chan Hiu Fung Nicholas. None of the members of the Audit Committee is a former partner of the Company’s existing external auditors. The Audit Committee has discussed with management the accounting policies adopted by the Group and reviewed the unaudited condensed interim financial statements of the Group for the Period before recommending them to the Board for approval.

RISK MANAGEMENT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix C3 to the Listing Rules (“**Model Code**”) as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code during the Period.

INTERIM DIVIDEND

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

APPROVAL OF THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements were approved and authorised for issue by the Board on 29 November 2024.

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 2024 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, 29 November 2024

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