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Guan Chao Holdings Limited

冠 轆 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1872)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (“Board”) of Directors (the “Directors”) of Guan Chao Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
	Notes	2019 S\$'000 (unaudited)	2018 S\$'000 (unaudited)
Revenue	4	91,970	93,567
Cost of sales	6	<u>(81,120)</u>	<u>(81,697)</u>
Gross profit		10,850	11,870
Other income		148	254
Other (losses)/gains — net		(32)	133
Selling and distribution expenses	6	(2,107)	(2,110)
General and administrative expenses	6	<u>(6,041)</u>	<u>(3,918)</u>
Operating profit		2,818	6,229
Finance income	5	17	—
Finance expenses	5	<u>(1,042)</u>	<u>(777)</u>
Finance expenses — net		<u>(1,025)</u>	<u>(777)</u>
Profit before income tax		1,793	5,452
Income tax expense	7	<u>(325)</u>	<u>(988)</u>
Profit and total comprehensive income for the period		<u>1,468</u>	<u>4,464</u>
Basic and diluted earnings per share for profit attributable to equity holders of the Company for the period (express in Singapore cents per share)	8	<u><u>0.18</u></u>	<u><u>0.64</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2019 <i>S\$'000</i> (unaudited)	As at 31 December 2018 <i>S\$'000</i> (audited)
<i>Notes</i>		
ASSETS		
Non-current assets		
Property, plant and equipment	16,936	14,651
Deferred income tax assets	131	131
Finance lease receivables	21,320	21,084
	<u>38,387</u>	<u>35,866</u>
Current assets		
Inventories	26,879	27,516
Trade and other receivables	18,466	23,144
Finance lease receivables	6,868	6,058
Amount due from a related party	10	22
Cash and cash equivalents	12,176	7,855
	<u>64,399</u>	<u>64,595</u>
Total assets	<u>102,786</u>	<u>100,461</u>
EQUITY AND LIABILITIES		
Capital and reserve attributable to equity holders of the Company		
Share capital	1,550	—
Share premium	11,864	—
Other reserves	3,494	3,494
Retained earnings	25,706	24,238
Total equity	<u>42,614</u>	<u>27,732</u>

		As at 30 June 2019 <i>S\$'000</i> (unaudited)	As at 31 December 2018 <i>S\$'000</i> (audited)
	<i>Notes</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	12	<u>22,261</u>	<u>19,701</u>
Current liabilities			
Trade and other payables and provision for warranty	11	10,635	19,259
Amount due to a shareholder		—	131
Borrowings	12	25,837	31,635
Income tax liabilities		<u>1,439</u>	<u>2,003</u>
		<u>37,911</u>	<u>53,028</u>
Total liabilities		<u>60,172</u>	<u>72,729</u>
Total equity and liabilities		<u>102,786</u>	<u>100,461</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. GENERAL INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on 4 July 2017 as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

The Company is an investment holding company. The Group sells new parallel-import motor vehicles and pre-owned motor vehicles, provision of motor vehicle financing services and motor vehicle insurance agency services, sales of motor vehicle spare parts and accessories and provision of motor vehicle leasing services (the "Business"). The ultimate holding company of the Company is Gatehouse Ventures Limited a limited company incorporated in the British Virgin Islands on 10 May 2017. The ultimate controlling party of the Group is Mr. Tan Shuay Tarn Vincent ("Mr. Vincent Tan").

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 February 2019.

The condensed consolidated interim financial information is presented in Singapore Dollar ("S\$") unless otherwise stated.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 is prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the accountant's report included as Appendix I of the prospectus dated 13 February 2019 (the "Prospectus"), which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB").

3 IMPACT OF NEW, AMENDED STANDARDS AND INTERPRETATIONS

In the current accounting period, the Group has adopted the followings new and amended standards and interpretations, a collective term includes all applicable individual IFRSs, IASs and Interpretations issued by the IASB which are mandatory and relevant to the Group's operations for the accounting period beginning on 1 January 2019:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Annual improvements to 2015–2017 cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The impact of adoption of IFRS 16 Leases is disclosed in note 3.1 below. The adoption of other new and amended IFRSs does not have any material impact on the Group's condensed consolidated interim financial statements for the current period.

The following new and amended standards have been issued, but are not effective for the Group's accounting period beginning on 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Amendments to IFRSs	Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17	Insurance contracts	1 January 2022
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

None of the standards issued but not yet applied by the Group is expected to have significant effect on the Consolidated Interim Financial Information of the Group.

3.1 Changes in accounting policies and disclosures

(i) *Impact of the adoption of IFRS 16*

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balances on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s annual incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.00%.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	1 January 2019 S\$'000 (unaudited)
Operating lease commitments disclosed as at 31 December 2018	2,237
Discounted using the lessee’s annual incremental borrowing rate of at the date of initial application	2,126
Add:	
Finance lease liabilities recognised as at 31 December 2018	8,194
Less:	
Short-term leases recognised on a straight-line basis as expenses	<u>(75)</u>
Lease liabilities recognised as at 1 January 2019	<u><u>10,245</u></u>
Of which are:	
Current lease liabilities	9,173
Non-current lease liabilities	<u>1,072</u>
	<u><u>10,245</u></u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The Group presents right-of-use assets in “property, plant and equipment” in the condensed consolidated statement of financial position and relate to the following types of assets:

	30 June 2019 S\$'000 (unaudited)	1 January 2019 S\$'000 (unaudited)
Properties	1,548	2,051
Motor vehicles	7,717	9,304
Total right-of-use assets	<u>9,265</u>	<u>11,355</u>

The Group presents lease liabilities in “Borrowings” in the condensed consolidated statement of financial position.

	30 June 2019 S\$'000 (unaudited)	1 January 2019 S\$'000 (unaudited)
Current lease liabilities	8,498	9,173
Non-current lease liabilities	543	1,072
Total lease liabilities	<u>9,041</u>	<u>10,245</u>

The change in accounting policy affected the following items in the condensed consolidated statement of financial position on 1 January 2019:

	1 January 2019 S\$'000 (unaudited)
Right-of-use assets	2,051
Lease liabilities (current)	(979)
Lease liabilities (non-current)	(1,072)

There was no net impact on retained earnings on 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an arrangement contains a Lease.

(ii) *The Group's leasing activities and how these are accounted for*

- *Assets leased to the Group*

The Group leases various office premises and showrooms. Lease contracts are typically made for fixed periods of less than 1 year to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of office premises and showrooms were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, other leases are recognised as right-of-use assets and a corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

- *Assets leased out by the Group*

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies.

4. SEGMENT INFORMATION

The executive Directors of the Company, who are the chief operating decision-maker of the Group, review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on reports reviewed by the executive Directors of the Company that are used to make strategic decisions.

Revenue, which is also the Group's turnover, represents amounts received and receivable from the operation of the Business in Singapore. An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Sales of motor vehicles*	87,315	89,148
Motor vehicles related services		
— Finance commission income	1,789	1,911
Insurance commission income	205	218
Sales of spare parts and accessories	33	57
Revenue from contracts with customers under IFRS 15 recognised at point in time	89,342	91,334
Motor vehicles financing related services		
— Interest income from finance lease arrangements	1,095	1,072
Rental income from operating lease of motor vehicles	1,533	1,161
Revenue from operating and finance lease arrangement under IFRS16/IAS 17	2,628	2,233
	91,970	93,567

* Include direct sales of motor vehicles and sales of motor vehicles under finance lease arrangements.

Segment revenue and results

	Sales of motor vehicles and provision of related services S\$'000	Rental income from operating lease of motor vehicles S\$'000	Sales of spare parts and accessories S\$'000	Unallocated S\$'000	Combined S\$'000
For the six months ended 30 June 2019					
(unaudited)					
Segment revenue					
Total sales	89,893	1,543	40	—	91,476
Inter-segment sales	(2,578)	(10)	(7)	—	(2,595)
External sales	87,315	1,533	33	—	88,881
Finance commission income	1,789	—	—	—	1,789
Insurance commission income	205	—	—	—	205
Interest income from finance lease arrangement	1,095	—	—	—	1,095
	<u>90,404</u>	<u>1,533</u>	<u>33</u>	<u>—</u>	<u>91,970</u>
Segment profit/(loss)					
Finance expenses	846	196	—	—	1,042
Depreciation	906	642	—	—	1,548
Provision for inventories write-down	352	—	—	—	352
	<u>352</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>352</u>

	Sales of motor vehicles and provision of related services <i>S\$'000</i>	Rental income from operating lease of motor vehicles <i>S\$'000</i>	Sales of spare parts and accessories <i>S\$'000</i>	Combined <i>S\$'000</i>
For the six months ended 30 June 2018 (unaudited)				
Segment revenue				
Total sales	91,746	1,171	71	92,988
Inter-segment sales	<u>(2,598)</u>	<u>(10)</u>	<u>(14)</u>	<u>(2,622)</u>
External sales	89,148	1,161	57	90,366
Finance commission income	1,911	—	—	1,911
Insurance commission income	218	—	—	218
Interest income from finance lease arrangement	<u>1,072</u>	<u>—</u>	<u>—</u>	<u>1,072</u>
	<u>92,349</u>	<u>1,161</u>	<u>57</u>	<u>93,567</u>
Segment profit/(loss)	5,702	530	(3)	6,229
Finance expenses	634	143	—	777
Depreciation	330	449	—	779
Provision for inventories write-down	<u>325</u>	<u>—</u>	<u>—</u>	<u>325</u>

Inter-segment transactions are conducted at terms mutually agreed among group companies.

Segment assets exclude deferred income tax assets and segment liabilities exclude income tax liabilities. Capital expenditure comprises additions to property, plant and equipment.

Segment assets and liabilities

	Sales of motor vehicles and provision of related services <i>S\$'000</i>	Rental income from operating lease of motor vehicles <i>S\$'000</i>	Sales of spare parts and accessories <i>S\$'000</i>	Unallocated <i>S\$'000</i>	Combined <i>S\$'000</i>
As at 30 June 2019 (unaudited)					
Segment assets	<u>85,133</u>	<u>9,636</u>	<u>105</u>	<u>7,912</u>	<u>102,786</u>
Segment liabilities	<u>52,412</u>	<u>7,328</u>	<u>4</u>	<u>428</u>	<u>60,172</u>
Capital expenditure	<u>220</u>	<u>2,366</u>	<u>—</u>	<u>—</u>	<u>2,586</u>
As at 31 December 2018 (audited)					
Segment assets	<u>88,513</u>	<u>11,715</u>	<u>102</u>	<u>131</u>	<u>100,461</u>
Segment liabilities	<u>62,322</u>	<u>8,401</u>	<u>3</u>	<u>2,003</u>	<u>72,729</u>
Capital expenditure	<u>1,626</u>	<u>4,421</u>	<u>—</u>	<u>—</u>	<u>6,047</u>

5. FINANCE INCOME AND FINANCE EXPENSES

	For the six months ended 30 June	
	2019 <i>S\$'000</i> (unaudited)	2018 <i>S\$'000</i> (unaudited)
Bank overdrafts interest	13	4
Interest expenses on bank loans	313	197
Interest expenses on block discounting financing	455	430
Interest expenses on lease liabilities	261	146
	<u>1,042</u>	<u>777</u>
Bank interest income	<u>17</u>	<u>—</u>

6. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution, and general and administrative expenses are analysed as follows:

	For the six months ended	
	30 June	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Purchases and related costs	81,116	74,060
Changes in inventories	(989)	6,863
Provision for inventories write-down	352	325
Auditor's remunerations	95	—
Depreciation	1,548	779
Employee benefit expense	3,368	3,182
Operating lease rental payments	173	695
Listing expenses	1,352	586
Legal and professional fees	854	100
Others	1,399	1,135
Total cost of sales, selling and distribution expenses and general and administrative expenses	<u>89,268</u>	<u>87,725</u>

7. INCOME TAX EXPENSE

Singapore statutory income tax has been provided at the rate of 17% on the estimated assessable profit during the periods.

The amounts of income tax expenses charged to the condensed consolidated statements of comprehensive income represent:

	For the six months ended	
	30 June	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Singapore profits tax		
Current income tax	325	988
Total tax expenses for the periods	<u>325</u>	<u>988</u>

8. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 and 2018.

	For the six months ended	
	30 June	
	2019	2018
	(unaudited)	(unaudited)
Profit attributable to the equity holders of the Company (S\$'000)	<u>1,468</u>	<u>4,464</u>
Weighted average number of ordinary shares in issue (in thousands)	<u>834,309</u>	<u>695,000</u>
Basic earnings per share in Singapore cents	<u><u>0.18</u></u>	<u><u>0.64</u></u>

In determining the weighted average number of ordinary shares, 695,000,000 shares of the Company, which resulted from the issue and allotment of 695,000,000 shares by the Company in connection with the reorganisation had been treated as if such shares were issued on 1 January 2018.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares outstanding during six months ended 30 June 2018 and 2019, and hence the diluted earnings per share is the same as basic earnings per share.

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil). No Dividend has been paid or declared by the Company since its incorporation.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 S\$'000 (unaudited)	As at 31 December 2018 S\$'000 (audited)
Trade receivables	3,441	5,233
Prepayments	14,514	17,344
Other receivables	511	567
	<u>18,466</u>	<u>23,144</u>

Trade receivables mainly include outstanding balances from customers arising from sales of motor vehicles and sales of spare parts and accessories. For the sales of motor vehicles, all customers are generally required to make payment at the point of transaction and no credit period is granted to these customers. The Group may, however, at times grant credit period to certain customers based on (i) size of order; (ii) the Group's relationship with the customers; and (iii) the Group's assessment of the reputation and credit worthiness of the customers and may impose interest on overdue balances.

As at 31 December 2018 and 30 June 2019, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at 30 June 2019 S\$'000 (unaudited)	As at 31 December 2018 S\$'000 (audited)
Up to 3 months	2,983	5,041
3 to 4 months	7	11
4 months to 1 year	325	122
More than 1 year	126	59
	<u>3,441</u>	<u>5,233</u>

11. TRADE AND OTHER PAYABLES AND PROVISION FOR WARRANTY

	As at 30 June 2019 S\$'000 (unaudited)	As at 31 December 2018 S\$'000 (audited)
Trade payables	2,592	5,503
Other payables	708	226
Receipt in advance from customers	4,609	10,251
Accrued operating expenses	2,456	3,009
Provision for warranty	270	270
	<u>10,635</u>	<u>19,259</u>

An ageing analysis of the trade payables as at 31 December 2018 and 30 June 2019, based on the invoice date, is as follows:

	As at 30 June 2019 S\$'000 (unaudited)	As at 31 December 2018 S\$'000 (audited)
1 to 30 days	691	4,836
31 to 120 days	752	482
121 to 365 days	335	17
More than 365 days	814	168
	<u>2,592</u>	<u>5,503</u>

Trade payables are unsecured and non-interest bearing. These trade payables do not have any credit terms in general, however, the Group is able to negotiate to extend the repayment period with the suppliers based on mutual agreement.

12. BORROWINGS

	As at 30 June 2019 S\$'000 (unaudited)	As at 31 December 2018 S\$'000 (audited)
Non-current		
Block discounting financing (Note c)	21,718	19,701
Lease liabilities	543	—
	<u>22,261</u>	<u>19,701</u>
Current		
Floor inventory advances (Note a)	2,688	4,307
Trust receipts (Note b)	7,014	12,472
Block discounting financing (Note c)	6,617	5,886
Lease liabilities (Note d)	8,498	8,194
Bank overdrafts (Note e)	1,020	776
	<u>25,837</u>	<u>31,635</u>
	<u><u>48,098</u></u>	<u><u>51,336</u></u>

Notes:

- (a) As at 31 December 2018 and 30 June 2019, floor inventory advances were secured by certain inventories of approximately S\$27.5 million and S\$26.2 million respectively and personal guarantee by the executive Director of the Group, Mr. Vincent Tan.
- (b) As at 31 December 2018 and 30 June 2019, trust receipts financing were secured by personal guarantee by the executive Director of the Group, Mr. Vincent Tan.
- (c) As at 31 December 2018 and 30 June 2019, block discounting financing were secured by finance lease receivables of approximately S\$27.1 million and S\$28.1 million respectively and personal guarantee by the executive Director of the Group, Mr. Vincent Tan.
- (d) As at 31 December 2018 and 30 June 2019, lease liabilities of approximately S\$7.5 million and S\$8.2 million were secured by motor vehicles of approximately S\$9.3 million and S\$7.7 million respectively and personal guarantee by the executive Director of the Group, Mr. Vincent Tan.
- (e) Bank overdrafts are solely denominated in Singapore dollar. As at 31 December 2018 and 30 June 2019, the bank overdrafts are secured by personal guarantee by the executive Director of the Group, Mr. Vincent Tan.

As at the date of this announcement, all such personal guarantees were fully released and replaced by corporate guarantee provided by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in selling new parallel-import motor vehicles and pre-owned motor vehicles, with the main business being the sales of brand new parallel-import motor vehicles in Singapore. Apart from the sales of motor vehicles, the Group also provides related services and products, such as (i) provision of motor vehicle financing services; (ii) provision of motor vehicle insurance agency services; and (iii) sales of motor vehicle spare parts and accessories.

The shares of the Company were successfully listed on the Main Board of the Stock Exchange (the “Listing”) by way of public offer and the placing (collectively, the “Share Offer”) on 28 February 2019.

During the six months ended 30 June 2019, the Group sold 862 and 286 units of new motor vehicles and pre-owned motor vehicles, respectively, representing a growth of approximately 2.1% and 5.5%, respectively as compared with 844 and 271 units of new motor vehicles and pre-owned motor vehicles sold, respectively, in the corresponding period of 2018, notwithstanding the tightening of Certificates of Entitlement (“COE”) quota for motor vehicles in Singapore from 2018 onwards which would affect the new motor vehicle sales in Singapore.

It is expected that the Group’s business and financial performance for the year will be subject to the magnitude of decrease in COE supply in Singapore as determined by the Land Transports Authority of Singapore and the Group’s ability to adopt appropriate business strategies to mitigate the expected downward industry trend.

FINANCIAL REVIEW

Revenue

The Group’s revenue decreased by approximately S\$1.6 million or 1.7% from approximately S\$93.6 million for the six months ended 30 June 2018 (“PE2018”) to approximately S\$92.0 million for the six months ended 30 June 2019 (“PE2019”), which was mainly attributable to the decrease in sales of motor vehicles amounted to approximately S\$1.8 million or 2.0%.

Sales of motor vehicles

The sales of motor vehicles decreased by approximately S\$1.8 million or 2.0% which was mainly attributable to the decrease in average selling price for PE2019 as compared with PE2018, from approximately S\$80,000 for PE2018 to approximately S\$76,000 for PE2019 despite the units of motor vehicles sold increased by 33 units or 3.0% from 1,115 units for PE2018 to 1,148 units for PE2019.

Motor vehicle financing services

The Group's revenue from motor vehicle financing services decreased by approximately S\$0.1 million or 3.3% from approximately S\$3.0 million for PE2018 to approximately S\$2.9 million for PE2019. There is no material fluctuation of revenue derived from in motor vehicle financing services business.

Insurance agency services

The Group's commission income from insurance companies for referral of the customers varied depending on the insurance premium under the insurance policies. The Group's commission income from insurance companies remained stable for PE2018 and PE2019 which amounted to approximately S\$0.2 million and S\$0.2 million, respectively.

Leasing of motor vehicles

The income from leasing of motor vehicles increased by approximately S\$0.3 million or 25.0% from approximately S\$1.2 million for PE2018 to approximately S\$1.5 million for PE2019. The increment was mainly attributable to more units of motor vehicles being rented out during PE2019 as compared to PE2018 as there were increasing numbers of customers who leased the vehicles to provide chauffeured services. The Group's number of motor vehicles being rented to customers was 97 units and 119 units as at 30 June 2018 and 2019, respectively.

Sales of spare parts and accessories

The income from sales of spare part and accessories decreased by approximately S\$24,000 or 42.1% from approximately S\$57,000 for PE2018 to approximately S\$33,000 for PE2019. Due to the insignificant sales amount of spare parts and accessories, there was no material fluctuation in the sales of spare parts and accessories in PE2019.

Cost of sales

The Group's cost of sales decreased by approximately S\$0.6 million or 0.7% from approximately S\$81.7 million for PE2018 to approximately S\$81.1 million for PE2019. The decrease was in line with the decrease in the Group's total revenue for the period.

For PE2019, the cost of motor vehicles (and related costs) sold decreased by approximately S\$0.8 million or 1.0% from approximately S\$81.0 million for PE2018 to approximately S\$80.2 million for PE2019.

Gross profit and gross profit margin

As a result of the foregoing, the Group's total gross profit decreased by approximately S\$1.0 million or 8.4% from approximately S\$11.9 million for PE2018 to approximately S\$10.9 million for PE2019, which was mainly attributable to the decrease in the sales of motor vehicles business. The overall gross profit margin decreased from approximately 12.7% for PE2018 to approximately 11.8% for PE2019 which was mainly due to the decrease in gross profit margin in the sales of motor vehicles business and leasing business.

Sales of motor vehicles

The Group's gross profit from sales of motor vehicles decreased by approximately S\$1.0 million, or 12.3%, from approximately S\$8.1 million for PE2018 to approximately S\$7.1 million for PE2019, and the Group's gross profit margin for sales of motor vehicles was approximately 9.1% for PE2018 and approximately 8.2% for PE2019. The decrease in gross profit margin for sales of motor vehicles was mainly contributed to that the Group sold proportionally more pre-owned motor vehicles which are normally sold at a lower margin as compared to new motor vehicles.

Motor vehicle financing services

The net interest spread for PE2018 and PE2019 remained stable at approximately 4.3% and 4.1%, respectively.

Leasing of motor vehicles

The Group's gross profit from leasing of motor vehicles increased by approximately S\$50,000, or 8.9%, from approximately S\$559,000 for PE2018 to approximately S\$609,000 for PE2019, with the Group's gross profit margin from leasing of motor vehicles decreased from approximately 48.1% for PE2018 to 39.7% for PE2019. Such decrease in gross profit margin was mainly due to the revenue from leasing of motor vehicle had increased by approximately S\$0.3 million or 25.0%, while the costs of leasing of motor vehicles increased by approximately S\$0.3 million or 50.0%.

Sales of spare parts and accessories

The Group's gross profit from sales of spare parts and accessories decreased by approximately S\$8,000, or 61.5%, from approximately S\$13,000 for PE2018 to approximately S\$5,000 for PE2019, while the Group's gross profit margin from sales of spare parts and accessories decreased from approximately 22.8% for PE2018 to 15.2% for PE2019.

Other income

The Group's other income decreased by approximately S\$106,000 or 41.7% from approximately S\$254,000 for PE2018 to approximately S\$148,000 for PE2019. The decrease was mainly due to the decrease of government grants and freight charges by approximately S\$62,000 and S\$47,000, respectively.

Other (losses)/gains, net

The Group's other (losses)/gains, net decreased by approximately S\$165,000 or 124.1% from a net gain of approximately S\$133,000 for PE2018 to a net loss of approximately S\$32,000 for PE2019 which was mainly due to the combination effect of (i) decreased in foreign exchange loss by approximately S\$25,000 or 29.8% from approximately S\$84,000 for PE2018 to S\$59,000 for PE2019; and (ii) the gain of disposal of property, plant and equipment decreased by approximately S\$190,000 or 87.6% from approximately S\$217,000 for PE2018 to approximately S\$27,000 for PE2019.

Selling and distribution expenses

The Group's selling and distribution expenses remained stable for PE2018 and PE2019 which amounted to approximately S\$2.1 million and S\$2.1 million, respectively.

General and administrative expenses

The Group's general and administrative expense (excluding listing expenses) increased by approximately S\$1.4 million or 42.4% from approximately S\$3.3 million for PE2018 to approximately S\$4.7 million for PE2019. The increase was mainly attributable to the increase in legal and professional fees and depreciation.

Listing expenses

In preparation of the Listing, the Group incurred Listing expenses of approximately S\$1.4 million for PE2019, while it was approximately S\$0.6 million for PE2018.

Finance income and finance expenses

Finance income represents bank interest income. The Group had minimal finance income for PE2019.

The Group's finance expenses increased by approximately S\$0.2 million or 25.0% from approximately S\$0.8 million for PE2018 to approximately S\$1.0 million for PE2019. The increase in finance expenses was mainly attributable to the increase in interest expenses on bank loans and lease liabilities.

Income tax expenses

The Group's income tax expenses decreased by approximately S\$0.7 million or 70.0% from approximately S\$1.0 million for PE2018 to approximately S\$0.3 million for PE2019.

Profit and total comprehensive income for the period and net profit margin

As a result of the foregoing, the Group's profit and total comprehensive income for the period decreased by approximately S\$3.0 million or 66.7% from approximately S\$4.5 million for PE2018 to approximately S\$1.5 million for PE2019 and the Group's net profit margin decreased from approximately 4.8% for PE2018 to approximately 1.6% for PE2019.

CAPITAL STRUCTURE

As at 30 June 2019, the capital structure of the Group consisted of borrowings and equity of the Group, comprising share capital, share premium, other reserves and retained earnings.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2019, the Group's working capital was financed by internal resources, borrowings and net proceeds from the Share Offer.

The Group's primary uses of cash are for purchases of motor vehicles for sale and leasing purposes and for funding of the Group's operations. The Group has financed its operations mainly by various forms of borrowings, including bank overdrafts, bank loans, floor inventory advances, trust receipts, block discounting and lease liabilities, etc.

LIQUIDITY RATIOS

As at 30 June 2019, the Group had cash and cash equivalents of approximately S\$11.2 million (31 December 2018: approximately S\$7.1 million). The Group's current ratio, gearing ratio and net debt to equity ratios are as follows:

	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Current ratio	1.7	1.2
Gearing ratio	112.9%	185.6%
Net debt to equity ratio	<u>84.3%</u>	<u>157.3%</u>

Current ratio represents the current assets over current liabilities as at the end of the respective date.

The gearing ratio is determined by dividing total debt by total equity as at the end of the respective date. Total debt includes amount due to a shareholder and borrowings.

Net debt to equity equals net debt, which represents total debt net of cash and cash equivalents, over total equity as at the end of the respective date.

BORROWINGS AND PLEDGE OF ASSETS

As at 30 June 2019, the Group had borrowings of approximately S\$48.1 million (31 December 2018: approximately S\$51.3 million). Certain borrowings were secured by certain inventories, motor vehicles, finance lease receivables and personal guarantee by the executive Director of the Group as disclosed in note 12 to the condensed consolidated interim financial information of this announcement.

The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest-bearing borrowings, which enable the Group to continue its business for the foreseeable future.

CAPITAL EXPENDITURE AND COMMITMENTS

During the six months ended 30 June 2019, the capital expenditures amounted to approximately S\$2.6 million which was used for the purchases of property, plant and equipment in Singapore. The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 30 June 2019, the Group did not have material capital commitments.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any significant investment, material acquisition and disposal of subsidiaries and affiliated companies during the six months ended 30 June 2019.

FOREIGN EXCHANGE RISK

The Group is exposed to foreign exchange risk arising from foreign currency transactions. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity.

The Group is exposed to foreign exchange risk arising from various currency exposure, primarily with respect to United States dollars, EURO dollars, British pound sterling, Japanese yen and Hong Kong dollars. The Group's exposure to other foreign exchange movements is not material.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2019 (31 December 2018: nil).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2019, the Group employed a total of 74 employees (31 December 2018: 72 employees), not including the Directors.

The remuneration package of the employee mainly includes salaries and allowances, sales commission and bonuses. The remuneration of the employees is determined by reference to prevailing market terms and in accordance with the performance, qualification and experience of each individual employee. The Company has adopted a share option scheme to reward the employees for their contribution to the Group and to provide them with incentives to further contribute to the Group.

The Group also provides in-house trainings to the staff which aim at updating their product knowledge, as well as improving their technical skills.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have plans for material investments and capital assets as at 30 June 2019.

USE OF PROCEEDS

The total net proceeds raised from the Listing (the “Net Proceeds”) were approximately HK\$52.9 million after deduction of underwriting fees and commissions and estimated expenses payable by the Group in connection with the Share Offer.

Set out below are details of the allocation of the Net Proceeds, the utilised and unutilised amounts of the Net Proceeds as at 30 June 2019:

	Approximate percentage of total amounts	Actual Net Proceeds HK\$'000	Utilised amounts as at 30 June 2019 HK\$'000	Unutilised amounts as at 30 June 2019 HK\$'000
Expanding the scale of the Group’s motor vehicle hire purchase financing business	45.8%	24,230	5,545	18,685
Expanding the scale of the Group’s pre-owned motor vehicle sales business	30.2%	15,974	4,570	11,404
Setting up a motor vehicle workshop	10.4%	5,499	—	5,499
Enhancing the Group’s branding, sales and marketing efforts	7.7%	4,062	1,062	3,000
Working capital	5.9%	3,148	748	2,400
Total	100%	52,913	11,925	40,988

For the unutilised Net Proceeds as at 30 June 2019, the Company intends to use them in the same manner and proportions as described in the Prospectus. The completion time of the use of Net Proceeds will be determined based on the future business development of the Company.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the “Scheme”) on 1 February 2019. The purpose of the Scheme is to enable the Company to grant options to eligible persons as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high calibre eligible persons and attract human resources that are valuable to the Group. The principal terms of the Scheme are summarised in the section headed “Share Option Scheme” in Appendix IV to the Prospectus.

As at 30 June 2019, no share option was outstanding under the Scheme. No share option has been granted, exercised, cancelled or lapsed under the Scheme since its adoption.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding securities transaction by Directors. The Company, having made specific enquiry, confirms that all Directors have complied with the Model Code throughout the six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, the Company has applied the principles of and complied with all the applicable code provisions set out from time to time in the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules, save and except that the Group did not have an internal audit function as per code provision C.2.5 of the CG Code.

AUDIT COMMITTEE

The Company established an audit committee on 1 February 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The audit committee consists of three independent non-executive Directors, namely, Mr. Chow Wing Tung, Mr. Hui Yan Kit and Mr. Tam Yat Kin Ken. Mr. Chow Wing Tung is the chairman of the audit committee. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Group’s financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Group.

EVENT AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which had material effect on the Group subsequent to 30 June 2019 and up to the date of this announcement.

By Order of the Board
Guan Chao Holdings Limited
Tan Shuay Tarnng Vincent
Chairman and Executive Director

Hong Kong, 29 August 2019

As at the date of this announcement, the board of Directors comprises Mr. Tan Shuay Tarnng Vincent, Ms. Ng Hui Bin Audrey and Mr. Khung Poh Sun as executive Directors; Mr. Raymond Wong as non-executive Director; and Mr. Chow Wing Tung, Mr. Hui Yan Kit and Mr. Tam Yat Kin Ken as independent non-executive Directors.