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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 2020**

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 2020, together with the comparative figures for the corresponding period in 2019.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>For the six months ended</b>	
		<b>30 June</b>	
	<i>Notes</i>	<b>2020</b>	2019
		<i>S\$'000</i>	<i>S\$'000</i>
		<b>(unaudited)</b>	(unaudited)
<b>Revenue</b>	4	<b>60,314</b>	91,970
Cost of sales	6	<u><b>(52,339)</b></u>	<u>(81,120)</u>
<b>Gross profit</b>		<b>7,975</b>	10,850
Other income		<b>643</b>	148
Other gains/(losses) — net		<b>337</b>	(32)
Selling and distribution expenses	6	<b>(1,358)</b>	(2,107)
General and administrative expenses	6	<b>(4,482)</b>	(6,041)
Equity-settled share-based payments		<u><b>(1,479)</b></u>	<u>—</u>
<b>Operating profit</b>		<b>1,636</b>	2,818
Finance income	5	<b>16</b>	17
Finance expenses	5	<u><b>(1,069)</b></u>	<u>(1,042)</u>
Finance expenses — net		<u><b>(1,053)</b></u>	<u>(1,025)</u>
<b>Profit before income tax</b>		<b>583</b>	1,793
Income tax expense	7	<u><b>(393)</b></u>	<u>(325)</u>
<b>Profit and total comprehensive income for the period</b>		<u><b>190</b></u>	<u>1,468</u>
<b>Basic and diluted earnings per share for profit attributable to equity holders of the Company for the period (express in Singapore cents per share)</b>	8	<u><u><b>0.02</b></u></u>	<u><u>0.18</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at <b>30 June</b> <b>2020</b> <i>Notes</i> <b>S\$'000</b> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	<b>21,816</b>	22,785
Deferred income tax assets	<b>165</b>	159
Finance lease receivables	<b>22,107</b>	21,090
	<b>44,088</b>	44,034
<b>Current assets</b>		
Inventories	<b>32,702</b>	26,110
Trade and other receivables	<i>10</i> <b>16,487</b>	25,176
Finance lease receivables	<b>6,279</b>	5,990
Cash and cash equivalents	<b>8,497</b>	9,649
	<b>63,965</b>	66,925
<b>Total assets</b>	<b>108,053</b>	110,959
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserve attributable to equity holders of the Company</b>		
Share capital	<b>1,550</b>	1,550
Share premium	<b>11,864</b>	11,864
Capital reserve	<b>3,494</b>	3,494
Share options reserve	<b>1,479</b>	—
Retained earnings	<b>27,434</b>	27,244
<b>Total equity</b>	<b>45,821</b>	44,152

		As at <b>30 June 2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>12</i>	<u>28,756</u>	<u>26,161</u>
<b>Current liabilities</b>			
Trade and other payables and provision for warranty	<i>11</i>	<b>10,266</b>	11,244
Borrowings	<i>12</i>	<b>21,362</b>	27,849
Derivative financial instrument		<b>7</b>	—
Income tax liabilities		<u>1,841</u>	<u>1,553</u>
		<u>33,476</u>	<u>40,646</u>
<b>Total liabilities</b>		<u>62,232</u>	<u>66,807</u>
<b>Total equity and liabilities</b>		<u><b>108,053</b></u>	<u><b>110,959</b></u>

# **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

*For the six months ended 30 June 2020*

## **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 principal activities of the Group are sales of 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.

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited 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 2020 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 annual financial statements for the year ended 31 December 2019, 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 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform
Amendments to IFRSs	Amendments to References to Conceptual Framework in IFRS Standards

The adoption of other new and amended IFRSs does not have any material impact on the Group's condensed consolidated interim financial information 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 2020 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
IFRS 17	Insurance contracts	1 January 2023
Amendments to IFRS 3	Reference to Conceptual Framework	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
Amendments to IFRS 16	COVID-19 Related Rent Concession	1 June 2020
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

None of the standards issued but not yet applied by the Group is expected to have significant effect on the condensed consolidated interim financial information of the Group.

#### 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:

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	<b>(unaudited)</b>	(unaudited)
Sales of motor vehicles*	<b>56,355</b>	87,315
Motor vehicles related services		
— Finance commission income	<b>1,356</b>	1,789
— Insurance commission income	<b>235</b>	205
Sales of spare parts and accessories	<b>—</b>	33
	<hr/>	<hr/>
Revenue from contracts with customers under IFRS 15 recognised at point in time	<b><u>57,946</u></b>	<u>89,342</u>
Motor vehicles financing related services		
— Interest income from finance lease arrangements	<b>1,159</b>	1,095
Rental income from operating lease of motor vehicles	<b>1,209</b>	1,533
	<hr/>	<hr/>
Revenue from operating and finance lease arrangement under IFRS16	<b><u>2,368</u></b>	<u>2,628</u>
	<b><u>60,314</u></b>	<u>91,970</u>

\* 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	Total S\$'000
<b>For the six months ended</b>					
<b>30 June 2020 (unaudited)</b>					
<b>Segment revenue</b>					
Total sales	57,754	1,209	—	—	58,963
Inter-segment sales	(1,399)	—	—	—	(1,399)
External sales	56,355	1,209	—	—	57,564
Finance commission income	1,356	—	—	—	1,356
Insurance commission income	235	—	—	—	235
Interest income from finance lease arrangement	1,159	—	—	—	1,159
	<u>59,105</u>	<u>1,209</u>	<u>—</u>	<u>—</u>	<u>60,314</u>
<b>Segment profit/(loss)</b>	<b>3,337</b>	<b>110</b>	<b>(3)</b>	<b>(1,808)</b>	<b>1,636</b>
Finance expenses — net					<u>(1,053)</u>
Profit before income tax					583
Income tax expense					<u>(393)</u>
Profit for the period					<u>190</u>



	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	Total S\$'000
<b>For the six months ended</b>					
<b>30 June 2019 (unaudited)</b>					
<b>Segment revenue</b>					
Total sales	89,893	1,543	40	—	91,476
Inter-segment sales	<u>(2,578)</u>	<u>(10)</u>	<u>(7)</u>	<u>—</u>	<u>(2,595)</u>
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	<u>1,095</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,095</u>
	<u><u>90,404</u></u>	<u><u>1,533</u></u>	<u><u>33</u></u>	<u><u>—</u></u>	<u><u>91,970</u></u>
<b>Segment profit/(loss)</b>	4,579	515	(4)	(2,272)	2,818
Finance expenses — net					<u>(1,025)</u>
Profit before income tax					1,793
Income tax expense					<u>(325)</u>
Profit for the period					<u><u>1,468</u></u>

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

## Segment assets and liabilities

	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	Total S\$'000
<b>As at 30 June 2020 (unaudited)</b>					
Segment assets	<u>93,377</u>	<u>13,881</u>	<u>98</u>	<u>697</u>	<u>108,053</u>
Segment liabilities	<u>49,877</u>	<u>10,286</u>	<u>12</u>	<u>2,057</u>	<u>62,232</u>
Capital expenditure	<u>77</u>	<u>1,286</u>	<u>—</u>	<u>—</u>	<u>1,363</u>
<b>As at 31 December 2019 (audited)</b>					
Segment assets	<u>93,400</u>	<u>14,201</u>	<u>127</u>	<u>3,231</u>	<u>110,959</u>
Segment liabilities	<u>57,461</u>	<u>7,624</u>	<u>9</u>	<u>1,713</u>	<u>66,807</u>
Capital expenditure	<u>1,615</u>	<u>4,991</u>	<u>—</u>	<u>—</u>	<u>6,606</u>

Unallocated segment assets represent deferred income tax assets and investment holding company assets. Unallocated segment liabilities represent income tax liabilities and investment holding company liabilities. Capital expenditure comprises additions to property, plant and equipment.

## 5. FINANCE EXPENSES — NET

	For the six months ended	
	30 June	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
<b>Finance income</b>		
Bank interest income	<u>16</u>	<u>17</u>
<b>Finance expenses</b>		
Bank overdrafts interest	—	13
Interest expenses on bank loans	212	313
Interest expenses on block discounting financing	523	455
Interest expenses on lease liabilities	156	46
Interest expenses on hire purchase liabilities	<u>178</u>	<u>215</u>
	<u>1,069</u>	<u>1,042</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	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Cost of inventories sold	51,569	80,127
Provision for inventories write-down	13	352
Auditor's remunerations	98	95
Depreciation expense	1,860	1,548
Employee benefit expense	3,047	3,368
Rental expenses	261	173
Listing expenses	—	1,352
Legal and professional fees	217	854
Others	1,114	1,399
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses and general and administrative expenses	<b>58,179</b>	<b>89,268</b>

## 7. INCOME TAX EXPENSE

Singapore statutory income tax has been provided at the rate of 17% (2019: 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	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Singapore profits tax		
Current income tax	393	325
	<hr/>	<hr/>
Total tax expenses for the periods	<b>393</b>	<b>325</b>

## 8. BASIC AND DILUTED 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 2020 and 2019.

	For the six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Profit attributable to the equity holders of the Company ( <i>S\$'000</i> )	<u>190</u>	<u>1,468</u>
Weighted average number of ordinary shares in issue ( <i>in thousands</i> )	<u>900,000</u>	<u>834,309</u>
Basic earnings per share in Singapore cents	<u><u>0.02</u></u>	<u><u>0.18</u></u>

### (b) Diluted earnings per share

The Company's outstanding share options had no dilutive effect for the six months ended 30 June 2020 (2019: Nil) as the exercise price of those share options was higher than the average market price of shares, and therefore, 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 2020 (2019: Nil). No dividend has been paid or declared by the Company since its incorporation.

## 10. TRADE AND OTHER RECEIVABLES

	As at <b>30 June</b> <b>2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
Trade receivables	1,432	1,895
Prepayments	14,321	22,686
Other receivables	734	595
	<u>16,487</u>	<u>25,176</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.

Prepayments mainly include advances to various suppliers for purchase of inventory, prepayment for purchase of Certificates of Entitlement and prepayment for listing expenses.

As at 31 December 2019 and 30 June 2020, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at <b>30 June</b> <b>2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
Up to 3 months	826	1,256
3 to 4 months	185	72
4 months to 1 year	144	442
More than 1 year	277	125
	<u>1,432</u>	<u>1,895</u>

## 11. TRADE AND OTHER PAYABLES AND PROVISION FOR WARRANTY

	As at <b>30 June</b> <b>2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
Trade payables	<b>1,295</b>	3,686
Other payables	<b>2,229</b>	1,397
Contract liabilities	<b>4,770</b>	4,795
Accrued operating expenses	<b>1,733</b>	1,127
Provision for warranty	<b>239</b>	239
	<b><u>10,266</u></b>	<b><u>11,244</u></b>

An ageing analysis of the trade payables as at 31 December 2019 and 30 June 2020, based on the invoice date, is as follows:

	As at <b>30 June</b> <b>2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
Within 1 month	<b>983</b>	2,466
1 to 4 months	<b>172</b>	361
4 months to 1 year	<b>105</b>	567
More than 1 year	<b>35</b>	292
	<b><u>1,295</u></b>	<b><u>3,686</u></b>

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 <b>30 June</b> <b>2020</b> <i>S\$'000</i> <b>(unaudited)</b>	As at 31 December 2019 <i>S\$'000</i> (audited)
<b>Non-current</b>		
Block discounting financing ( <i>Note c</i> )	<b>19,743</b>	20,736
Lease liabilities	<b>4,893</b>	5,425
Term loan ( <i>Note e</i> )	<b>4,120</b>	—
	<u><b>28,756</b></u>	<u>26,161</u>
<b>Current</b>		
Floor inventory advances ( <i>Note a</i> )	—	713
Trust receipts ( <i>Note b</i> )	<b>5,013</b>	11,520
Block discounting financing ( <i>Note c</i> )	<b>6,427</b>	6,760
Lease liabilities	<b>1,051</b>	1,025
Hire purchase liabilities ( <i>Note d</i> )	<b>7,990</b>	7,831
Term loan ( <i>Note e</i> )	<b>881</b>	—
	<u><b>21,362</b></u>	<u>27,849</u>
	<u><b>50,118</b></u>	<u>54,010</u>

### Notes:

- (a) As at 31 December 2019, floor inventory advances were secured by certain inventories of approximately S\$26.1 million and corporate guarantee provided by the Company.
- (b) As at 31 December 2019 and 30 June 2020, trust receipts financing were secured by corporate guarantee provided by the Company.
- (c) As at 31 December 2019 and 30 June 2020, block discounting financing were secured by finance lease receivables of approximately S\$27.1 million and S\$28.4 million respectively and corporate guarantee provided by the Company.
- (d) As at 31 December 2019 and 30 June 2020, hire purchases liabilities of approximately S\$7.8 million and S\$8.0 million respectively were secured by motor vehicles and corporate guarantee provided by the Company.
- (e) As at 30 June 2020, term loan was secured 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.

During the first half of 2020, Singapore's economy has been dampened by the tension of Sino-U.S. relations as well as the outbreak of COVID-19 which affected the general consumer's purchasing sentiments. During the period from 7 April 2020 to 18 June 2020 (both days inclusive), the Group's showrooms were temporarily closed due to the safe distancing measures implemented by the Ministry of Health of Singapore to curb further spread of COVID-19. As such, during the six months ended 30 June 2020, the Group sold 487 and 217 units of new motor vehicles and pre-owned motor vehicles, respectively, representing a decrease of approximately 43.5% and 24.1%, respectively as compared with 862 and 286 units of new motor vehicles and pre-owned motor vehicles sold, respectively, in the corresponding period of 2019.

It is expected that the continued tension between US and China and the impact brought about by the outbreak of COVID-19 may continue to affect the Group's business and financial performance for the remaining year.

### **FINANCIAL REVIEW**

#### **Revenue**

The Group's revenue decreased by approximately S\$31.7 million or 34.5% from approximately S\$92.0 million for the six months ended 30 June 2019 ("PE2019") to approximately S\$60.3 million for the six months ended 30 June 2020 ("PE2020"), which was mainly attributable to the decrease in sales of motor vehicles amounted to approximately S\$30.9 million or 35.4%.

### ***Sales of motor vehicles***

The sales of motor vehicles decreased by approximately S\$30.9 million or 35.4% which was mainly attributable to the decrease in sales of new motor vehicles by approximately S\$28.7 million or 37.4%. The decrease in sales of new motor vehicles was mainly due to the decrease in units of motor vehicles sold by 375 units from 862 units for PE2019 to 487 units for PE2020 despite the average selling price of new motor vehicles sold increased from approximately S\$89,000 for PE2019 to approximately S\$99,000 for PE2020.

The sales of pre-owned motor vehicles decreased by approximately S\$2.2 million or 21.3%, which was mainly due to the decrease in units of motor vehicles sold by 69 units from 286 units for PE2019 to 217 units for PE2020 despite the average selling price of pre-owned motor vehicles sold slightly increased from S\$36,000 for PE2019 to approximately S\$38,000 for PE2020.

### ***Motor vehicle financing services***

The Group's revenue from motor vehicle financing services decreased by approximately S\$0.4 million or 13.8% from approximately S\$2.9 million for PE2019 to approximately S\$2.5 million for PE2020. The decrease was mainly due to the decrease in units of motor vehicles sold as explained above.

### ***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 PE2019 and PE2020 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 decreased by approximately S\$0.3 million or 20.0% from approximately S\$1.5 million for PE2019 to approximately S\$1.2 million for PE2020. The decrease was mainly due to special discount given to customers during the outbreak of COVID-19. The Group's number of motor vehicles being rented to customers was 119 units and 124 units as at 30 June 2019 and 2020, respectively.

### ***Sales of spare parts and accessories***

The income from sales of spare part and accessories decreased by approximately S\$33,000 or 100.0% from approximately S\$33,000 for PE2019 to approximately nil for PE2020. Due to the sales amount of spare parts and accessories for PE2019 and PE2020 were insignificant, no further analysis on the fluctuation for PE2020.

### **Cost of sales**

The Group's cost of sales decreased by approximately S\$28.8 million or 35.5% from approximately S\$81.1 million for PE2019 to approximately S\$52.3 million for PE2020. The decrease was in line with the decrease in the Group's total revenue for the period.

For PE2020, the cost of motor vehicles (and related costs) sold decreased by approximately S\$29.0 million or 36.2% from approximately S\$80.2 million for PE2019 to approximately S\$51.2 million for PE2020.

### **Gross profit and gross profit margin**

As a result of the foregoing, the Group's total gross profit decreased by approximately S\$2.9 million or 26.6% from approximately S\$10.9 million for PE2019 to approximately S\$8.0 million for PE2020, which was mainly attributable to the decrease in the sales of motor vehicles business. The overall gross profit margin increased from approximately 11.8% for PE2019 to approximately 13.2% for PE2020 which was mainly due to the increase in gross profit margin in the sales of motor vehicles business.

### ***Sales of motor vehicles***

The Group's gross profit from sales of motor vehicles decreased by approximately S\$2.0 million, or 28.6%, from approximately S\$7.1 million for PE2019 to approximately S\$5.1 million for PE2020, and the Group's gross profit margin for sales of motor vehicles was approximately 8.2% for PE2019 and approximately 9.1% for PE2020. For PE2020, the Group sold proportionately more European brands of motor vehicles as compared with PE2019, which are normally sold at a higher margin as compared to Japanese brands and hence higher overall gross profit margin.

### ***Motor vehicle financing services***

The net interest spread for PE2019 and PE2020 remained stable at approximately 4.1% and 4.3%, respectively.

### ***Leasing of motor vehicles***

The Group's gross profit from leasing of motor vehicles decreased by approximately S\$0.5 million, or 83.3%, from approximately S\$0.6 million for PE2019 to approximately S\$0.1 million for PE2020, with the Group's gross profit margin from leasing of motor vehicles decreased from approximately 39.7% for PE2019 to 9.8% for PE2020. Such decrease in gross profit margin was mainly due to the revenue from leasing of motor vehicle had decreased by approximately S\$0.3 million or 20.0%, while the costs of leasing of motor vehicles increased by approximately S\$0.2 million or 22.2%.

### ***Sales of spare parts and accessories***

The Group's gross profit from sales of spare parts and accessories decreased by approximately S\$5,000, or 100.0%, from approximately S\$5,000 for PE2019 to approximately nil for PE2020, while the Group's gross profit margin from sales of spare parts and accessories decreased from approximately 15.2% for PE2019 to nil for PE2020. Due to the gross profit from sales of spare parts and accessories were insignificant for PE2019 and PE2020, no further analysis on the fluctuation of gross profit and gross profit margin for PE2020.

### **Other income**

The Group's other income increased by approximately S\$0.5 million or 500.0% from approximately S\$0.1 million for PE2019 to approximately S\$0.6 million for PE2020. The increase was mainly due to the increase of government grants.

### **Other gains/(losses), net**

The Group's other gains/(losses), net increased by approximately S\$369,000 or 1,153.1% from a net loss of approximately S\$32,000 for PE2019 to a net gain of approximately S\$337,000 for PE2020 which was mainly due to the change of foreign exchange loss of approximately S\$59,000 for PE2019 to foreign exchange gain of approximately S\$297,000 for PE2020.

### **Selling and distribution expenses**

The Group's selling and distribution expenses decreased by approximately S\$0.7 million or 33.3% from approximately S\$2.1 million for PE2019 to approximately S\$1.4 million for PE2020. The decrease was mainly attributable to the decrease in sales commission to external parties as a result of decrease in sales of motor vehicles.

## **General and administrative expenses**

The Group's general and administrative expenses (excluding listing expenses) decreased by approximately S\$0.2 million or 4.3% from approximately S\$4.7 million for PE2019 to approximately S\$4.5 million for PE2020. The decrease was mainly attributable to the decrease in employee benefit expense.

## **Listing expenses**

In preparation of the Listing, the Group incurred Listing expenses of approximately S\$1.4 million for PE2019, while it was nil for PE2020.

## **Finance income and finance expenses**

Finance income represents bank interest income. The Group had minimal finance income for PE2020.

The Group's finance expenses remained stable for PE2019 and PE2020 which amounted to approximately S\$1.0 million and S\$1.1 million, respectively.

## **Income tax expenses**

The Group's income tax expenses increased by approximately S\$0.1 million or 33.3% from approximately S\$0.3 million for PE2019 to approximately S\$0.4 million for PE2020.

## **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\$1.3 million or 86.7% from approximately S\$1.5 million for PE2019 to approximately S\$0.2 million for PE2020 and the Group's net profit margin decreased from approximately 1.6% for PE2019 to approximately 0.3% for PE2020. The Group would have recorded a profit of approximately S\$2.8 million for PE2019 should the listing expenses be excluded. The Group's profit and total comprehensive income for the period (excluding the impact of listing expenses), decreased by approximately S\$2.6 million or 92.9% for PE2020 as compared with PE2019.

## **CAPITAL STRUCTURE**

As at 30 June 2020, the capital structure of the Group consisted of borrowings, net of cash and cash equivalents and equity of the Group, comprising share capital, share premium, capital reserve, share options reserve and retained earnings.

## LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2020, the Group's working capital was financed by internal resources, borrowings and net proceeds from the public offer and the placing (collectively, the "Share Offer") on 28 February 2019.

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, lease liabilities and hire purchase liabilities, etc.

## LIQUIDITY RATIOS

As at 30 June 2020, the Group had cash and cash equivalents of approximately S\$8.5 million (31 December 2019: approximately S\$9.6 million). The Group's current ratio, debt to equity ratio and gearing ratio are as follows:

	<b>As at 30 June 2020 (unaudited)</b>	As at 31 December 2019 (audited)
Current ratio	<b>1.9</b>	1.6
Debt to equity ratio	<b>109.4%</b>	122.3%
Gearing ratio	<b><u>47.6%</u></b>	<b><u>50.1%</u></b>

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

Debt to equity 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.

Gearing ratio equals net debt, which represents total debt net of cash and cash equivalents, over total capital as at the end of the respective date. Total capital includes total equity and net debt.

## **BORROWINGS AND PLEDGE OF ASSETS**

As at 30 June 2020, the Group had borrowings of approximately S\$50.1 million (31 December 2019: approximately S\$54.0 million). Certain borrowings were secured by certain inventories, motor vehicles, finance lease receivables and corporate guarantee provided by the Company 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 2020, the capital expenditures amounted to approximately S\$1.4 million which was used for the purchases of property, plant and equipment in Singapore (2019: approximately 2.6 million). The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 30 June 2020, the Group did not have material capital commitments (31 December 2019: nil).

## **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 2020.

## **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 2020 (31 December 2019: nil).

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2020, the Group employed a total of 82 employees (31 December 2019: 76 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 2020.



## 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 2020:

	Approximate percentage of total amounts	Actual Net Proceeds HK\$'000	Planned unutilised amounts as at 30 June 2020 HK\$'000	Utilised amounts as at 30 June 2020 HK\$'000	Unutilised amounts as at 30 June 2020 HK\$'000
Expanding the scale of the Group’s motor vehicle hire purchase financing business	45.8%	24,230	17,660	17,660	6,570
Expanding the scale of the Group’s pre-owned motor vehicle sales business	30.2%	15,974	15,974	15,974	—
Setting up a motor vehicle workshop	10.4%	5,499	5,499	—	5,499
Enhancing the Group’s branding, sales and marketing efforts	7.7%	4,062	3,062	3,062	1,000
Working capital	5.9%	3,148	2,348	2,348	800
<b>Total</b>	<b>100%</b>	<b>52,913</b>	<b>44,543</b>	<b>39,044</b>	<b>13,869</b>

The reason for the under-utilisation of the Net Proceeds was caused by the delay of setting up a motor vehicle workshop. As set out in the annual report of the Group for the year ended 31 December 2019, it was intended that the Group will set up its own motor vehicle workshop and utilise the remaining proceeds of approximately HK\$5.5 million by 2020. As Singapore’s economy has been severely affected by the outbreak of COVID-19 since the 1st quarter of 2020, the Directors will keep monitoring the market development in the remaining half of 2020 and will continue to evaluate the timing in setting up the motor vehicle workshop in order to minimise the business risks of the Group and suit the best interest of the Group.

Save as the above-mentioned, the Company intends to use the other unutilised Net Proceeds as at 30 June 2020 in the same manner (including the expected timing) and proportions as described in the Prospectus.

## **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 2020.

### **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 required standard set out in the Model Code throughout the six months ended 30 June 2020.

### **CORPORATE GOVERNANCE CODE**

During the six months ended 30 June 2020, 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 for the following deviations from code provisions A.2.1, C.2.5 and E.1.2 of the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive shall be separated and shall not be performed by the same individual. Mr. Vincent Tan currently holds both positions. Throughout the business history, Mr. Vincent Tan, as a founder and the controlling shareholder of the Group, has held the key leadership position of the Group and has been deeply involved in the formulation of corporate strategies and management of business and operations of the Group. Taking into account the consistent leadership within the Group and in order to enable more effective and efficient overall strategic planning and continuation of the implementation of such plans, the Directors, including the independent non-executive Directors consider that Mr. Vincent Tan is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Group and the shareholders as a whole.

Under code provision C.2.5 of the CG Code, the Group should have an internal audit function. The Company has no internal audit function because the Company has maintained an internal control system and its implementation has been considered effective by the audit committee and the Board. In addition, the audit committee has communicated with external auditor of the Company to understand if there is any material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company. Mr. Vincent Tan was unable to attend the annual general meeting held on 23 June 2020 due to the travel restrictions in place as a result of the COVID-19.

## **CHANGE IN DIRECTOR'S INFORMATION**

Reference is made to the announcements dated 6 July 2020 in relation to the resignation of executive Director and appointment of executive Director. Mr. Khung Poh Sun resigned as an executive Director of the Company on 6 July 2020, and Ms. Beng Lee Ser Marisa was appointed as an executive Director of the Company on the same date.

Save as disclosed above, there is no other information in respect of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## **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 2020, 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 2020 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, 31 August 2020

*As at the date of this announcement, the board of Directors comprises Mr. Tan Shuay Tarnng Vincent, Ms. Ng Hui Bin Audrey and Ms. Beng Lee Ser Marisa 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.*