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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)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

The board (“**Board**”) of Directors (the “**Directors**”) of Guan Chao Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019.

The financial information set out in this preliminary announcement below does not constitute the Group's consolidated financial statements for the year ended 31 December 2020 but represents an extract from those financial statements. The consolidated financial statements have been reviewed by the audit committee of the Company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

	<i>Notes</i>	<b>2020</b> <i>S\$'000</i>	2019 <i>S\$'000</i>
<b>Revenue</b>	3	<b>160,872</b>	186,971
Cost of sales	5	<u>(142,463)</u>	<u>(166,027)</u>
<b>Gross profit</b>		<b>18,409</b>	20,944
Other income		<b>1,111</b>	496
Other gains — net		<b>283</b>	88
Selling and distribution expenses	5	<b>(4,015)</b>	(5,039)
General and administrative expenses	5	<b>(9,451)</b>	(9,948)
Provision for impairment of trade receivables		<u>(172)</u>	<u>(52)</u>
<b>Operating profit</b>		<b>6,165</b>	6,489
Finance income	4	<b>16</b>	17
Finance expenses	4	<u>(2,075)</u>	<u>(2,296)</u>
Finance expenses — net		<u>(2,059)</u>	<u>(2,279)</u>
<b>Profit before income tax</b>		<b>4,106</b>	4,210
Income tax expense	6	<u>(856)</u>	<u>(1,204)</u>
<b>Profit and total comprehensive income for the year</b>		<u><b>3,250</b></u>	<u>3,006</u>
<b>Basic and diluted earnings per share for profit attributable to equity holders of the Company for the year (expressed in Singapore cents per share)</b>	8	<u><b>0.36</b></u>	<u>0.35</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>S\$'000</i>	2019 <i>S\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>20,795</b>	22,785
Deferred income tax assets		<b>246</b>	159
Finance lease receivables		<b>21,764</b>	21,090
		<hr/> <b>42,805</b>	<hr/> 44,034
<b>Current assets</b>			
Inventories		<b>33,973</b>	26,110
Trade and other receivables	9	<b>21,081</b>	25,176
Finance lease receivables		<b>5,889</b>	5,990
Cash and bank balances		<b>6,818</b>	9,649
		<hr/> <b>67,761</b>	<hr/> 66,925
<b>Total assets</b>		<hr/> <b>110,566</b>	<hr/> 110,959
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserve attributable to owners 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 based payment reserve		<b>1,440</b>	—
Retained earnings		<b>30,494</b>	27,244
		<hr/> <b>48,842</b>	<hr/> 44,152
<b>Total equity</b>		<hr/> <b>48,842</b>	<hr/> 44,152

	<i>Notes</i>	<b>2020</b> <i>S\$'000</i>	2019 <i>S\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>11</i>	<u>29,458</u>	<u>26,161</u>
<b>Current liabilities</b>			
Trade and other payables and provision for warranty	<i>10</i>	<b>10,978</b>	11,244
Borrowings	<i>11</i>	<b>19,572</b>	27,849
Income tax liabilities		<u>1,716</u>	<u>1,553</u>
		<u>32,266</u>	<u>40,646</u>
<b>Total liabilities</b>		<u>61,724</u>	<u>66,807</u>
<b>Total equity and liabilities</b>		<u><u>110,566</u></u>	<u><u>110,959</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 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 ("**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 consolidated financial statements are presented in thousands of units of Singapore Dollar ("**S\$'000**") unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are to be included in the 2020 annual report. The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the 2020 annual report.

**(i) *New and amended standards and interpretations effective in 2020***

The Group has adopted the followings new and amended standards and interpretations for the first time for the accounting period beginning on 1 January 2020:

Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting
IFRS 7, IFRS 9 and IAS 39	Interest rate benchmark reform — amendment to IFRS 7, IFRS 9 and IAS 39
Amendments to IFRS 16	Covid-19 — Related rent concessions

The adoption of the new and amended IFRSs does not have any material impact on the Group's consolidated financial statements for the current period.

**(ii) *New and amended standards and interpretations that are not yet effective and have not been early adopted by the Group***

Amendments to IFRS 3	Reference to conceptual framework <sup>1</sup>
Amendments to IAS 1	Classification of liabilities as current or non-current <sup>1</sup>
Amendments to IAS 16	Property, plant and equipment — Proceeds before intended use <sup>1</sup>
Amendments to IAS 37	Onerous contracts — Cost of fulfilling a contract <sup>1</sup>
Annual improvements project	Annual improvements to IFRS standards 2018-2020 <sup>1</sup>
IFRS 17 (Amendments)	Insurance contracts <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint ventures <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> Effective date to be determined

The adoption of these new standards, amendments and interpretations is not expected to have significant impact on the consolidated financial statements of the Group.

### 3. 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 in Singapore. An analysis of revenue is as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>S\$'000</i></b>	<i>S\$'000</i>
Sales of motor vehicles*	<b>151,507</b>	177,524
Motor vehicles financing related services		
— Finance commission income	<b>3,568</b>	3,700
Insurance commission income	<b>579</b>	401
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>155,654</b>	181,658
Motor vehicles financing related services		
— Interest income from finance lease arrangements	<b>2,474</b>	2,284
Rental income from operating lease of motor vehicles	<b>2,744</b>	3,029
	<hr/>	<hr/>
Revenue from operating and finance lease arrangement under IFRS16	<b>5,218</b>	5,313
	<hr/>	<hr/>
	<b><u>160,872</u></b>	<b><u>186,971</u></b>

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

The Group has revenue related contract liabilities (receipts in advance from customers) as at the end of each year as disclosed in Note 10. Receipts in advance from customers as at the end of each of the year will be recognised as revenue in the next year of sales.

## Segment revenue and results

	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>	Consolidated <i>S\$'000</i>
<b>For the year ended 31 December 2020</b>				
<b>Segment revenue</b>				
Total sales	152,616	2,744	—	155,360
Inter-segment sales	(1,109)	—	—	(1,109)
External sales	151,507	2,744	—	154,251
Finance commission income	3,568	—	—	3,568
Insurance commission income	579	—	—	579
Interest income from finance lease arrangement	2,474	—	—	2,474
	<u>158,128</u>	<u>2,744</u>	<u>—</u>	<u>160,872</u>
<b>Segment profit</b>	5,685	478	2	6,165
Finance expenses — net				(2,059)
Profit before income tax				4,106
Income tax expense				(856)
Profit for the year				<u>3,250</u>



	<b>Sales of motor vehicles and provision of related services <i>S\$'000</i></b>	<b>Rental income from operating lease of motor vehicles <i>S\$'000</i></b>	<b>Sales of spare parts and accessories <i>S\$'000</i></b>	<b>Consolidated <i>S\$'000</i></b>
<b>For the year ended 31 December 2019</b>				
<b>Segment revenue</b>				
Total sales	182,285	3,050	40	185,375
Inter-segment sales	<u>(4,761)</u>	<u>(21)</u>	<u>(7)</u>	<u>(4,789)</u>
External sales	177,524	3,029	33	180,586
Finance commission income	3,700	—	—	3,700
Insurance commission income	401	—	—	401
Interest income from finance lease arrangement	<u>2,284</u>	<u>—</u>	<u>—</u>	<u>2,284</u>
	<u><u>183,909</u></u>	<u><u>3,029</u></u>	<u><u>33</u></u>	<u><u>186,971</u></u>
<b>Segment profit/(loss)</b>	5,758	741	(10)	6,489
Finance expenses — net				<u>(2,279)</u>
Profit before income tax				4,210
Income tax expense				<u>(1,204)</u>
Profit for the year				<u><u>3,006</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	Consolidated S\$'000
<b>As at 31 December 2020</b>					
Segment assets	<u>97,052</u>	<u>13,210</u>	<u>—</u>	<u>304</u>	<u>110,566</u>
Segment liabilities	<u>52,426</u>	<u>7,388</u>	<u>—</u>	<u>1,910</u>	<u>61,724</u>
Capital expenditure	<u>842</u>	<u>1,872</u>	<u>—</u>	<u>—</u>	<u>2,714</u>
<b>As at 31 December 2019</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.

#### 4. FINANCE EXPENSES — NET

	Year ended 31 December	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
<b>Finance income</b>		
Interest income on late payment	<u>16</u>	<u>17</u>

Interest income on late payment relates to interest imposed on a customer for late payment of its overdue balances.

	Year ended 31 December	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
<b>Finance expenses</b>		
Bank overdrafts interest	—	15
Interest expenses on bank loans	254	489
Interest expenses on block discounting financing	1,221	940
Interest expenses on lease liabilities	300	555
Interest expenses on hire purchase liabilities	<u>300</u>	<u>297</u>
	<u>2,075</u>	<u>2,296</u>

## 5. EXPENSES BY NATURE

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

	Year ended 31 December	
	2020	2019
	S\$'000	S\$'000
Cost of inventories sold	140,961	164,472
Reversal of provision for inventories write-down	—	(51)
Auditor's remunerations*		
— current year	190	199
Depreciation expense	3,345	3,356
Employee benefit expense	7,912	7,041
Rental expenses	550	111
Advertising and marketing expenses	618	927
Sales commission to external parties	281	581
Travelling and entertainment expenses	126	260
Pre-delivery inspection expenses	393	368
Listing expenses	—	1,352
Legal and professional fees	700	823
Bank charges	220	467
Forfeiture of trade deposit paid	—	128
Insurance	38	120
Office expenses	188	217
Donations	1	95
Other operating expenses	406	548
	<u>155,929</u>	<u>181,014</u>

\* The amounts wholly relate to audit service.

## 6. INCOME TAX EXPENSE

Singapore statutory income tax has been provided at the rate of 17% on the estimated assessable profit during the year ended 31 December 2020 (2019: 17%).

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

	Year ended 31 December	
	2020	2019
	S\$'000	S\$'000
Singapore profits tax		
Current income tax	1,035	912
(Over)/under-provision in prior years	(92)	320
Deferred tax credit	(87)	(28)
	<u>          </u>	<u>          </u>
Total tax expenses for the years	<u>856</u>	<u>1,204</u>

## 7. DIVIDENDS

The Company has neither declared nor paid any dividends since its incorporation.

## 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 years ended 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
Profit attributable to equity holders of the Company (S\$'000)	<u>3,250</u>	<u>3,006</u>
Weight average number of ordinary shares in issue ('000)	<u>900,000</u>	<u>866,954</u>
Basic earnings per share in Singapore cents	<u>0.36</u>	<u>0.35</u>

**(b) Diluted earnings per share**

There were no potential dilutive ordinary shares outstanding for the years ended 31 December 2020 and 2019. The Company's share options are not included in the calculation of the diluted earnings per share because they are anti-dilutive for the financial years ended presented. Hence, the diluted earnings per share is the same as basic earning per share.

**9. TRADE AND OTHER RECEIVABLES**

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>S\$'000</b>	<b>S\$'000</b>
<b>Current</b>		
Trade receivables	<b>866</b>	1,947
Less: Provision for impairment of trade receivables — third parties	<b>(57)</b>	(52)
Trade receivables — net	<b>809</b>	1,895
Prepayments	<b>19,815</b>	22,686
Other receivables	<b>457</b>	595
Total	<b><u>21,081</u></b>	<b><u>25,176</u></b>

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 and prepayment for purchase of Certificates of Entitlement.

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

	As at 31 December	
	2020	2019
	S\$'000	S\$'000
Up to 3 months	634	1,256
3 to 4 months	66	72
4 months to 1 year	80	442
More than 1 year	29	125
	<u>809</u>	<u>1,895</u>

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

	As at 31 December	
	2020	2019
	S\$'000	S\$'000
Trade payables	2,419	3,686
Other payables	966	1,397
Contract liabilities ( <i>Note a</i> )	5,628	4,795
Accrued operating expenses	1,765	1,127
Provision for warranty	200	239
	<u>10,978</u>	<u>11,244</u>

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

	As at 31 December	
	2020	2019
	S\$'000	S\$'000
Within 1 month	1,889	2,466
1 to 4 months	316	361
4 months to 1 year	110	567
More than 1 year	104	292
	<u>2,419</u>	<u>3,686</u>

(a) **Contract liabilities**

*Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	<b>2020</b>	2019
	<i>S\$'000</i>	<i>S\$'000</i>
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Sales of motor vehicles	<u><u>4,795</u></u>	<u><u>10,250</u></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.

**11. BORROWINGS**

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<i>S\$'000</i>	<i>S\$'000</i>
<b>Non-current</b>		
Block discounting financing ( <i>Note c</i> )	<b>21,278</b>	20,736
Lease liabilities	<b>4,546</b>	5,425
Term loan ( <i>Note e</i> )	<b>3,634</b>	—
	<u><b>29,458</b></u>	<u>26,161</u>
<b>Current</b>		
Floor inventory advances ( <i>Note a</i> )	—	713
Trust receipts ( <i>Note b</i> )	<b>4,333</b>	11,520
Block discounting financing ( <i>Note c</i> )	<b>6,678</b>	6,760
Lease liabilities	<b>1,061</b>	1,025
Hire purchase liabilities ( <i>Note d</i> )	<b>6,524</b>	7,831
Term loan ( <i>Note e</i> )	<b>976</b>	—
	<u><b>19,572</b></u>	<u>27,849</u>
	<u><u><b>49,030</b></u></u>	<u><u>54,010</u></u>



*Notes:*

- (a) Floor inventory advances were secured by certain inventories and corporate guarantee provided by the Company.
- (b) Trust receipts financing were secured by corporate guarantee provided by the Company.
- (c) Block discounting financing were secured by finance lease receivables and corporate guarantee provided by the Company. Block discounting financing contains a repayable on demand clause. However, the Group had received confirmation letters from its major bank confirming that it waived its rights to demand immediate repayment of the block discounting financing granted for a period of 12 months from 31 December 2020 and 2019. Therefore, the Group classified certain portion of the block discounting as at 31 December 2020 and 2019 as non-current.
- (d) Hire purchase liabilities were bank loans secured by motor vehicles and corporate guarantee by the Company. Although the Group was contractually required to make periodic instalments over several years, the Group presented certain hire purchase liabilities as current given that these arrangements contained repayable on demand clauses.
- (e) 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.

In 2020, Singapore's economy has been dampened mainly by the tension of Sino-U.S. relations as well as the outbreak of COVID-19 which affected the general consumer's purchasing sentiments. Due to the safe distancing measures implemented by the Ministry of Health of Singapore to curb further spread of COVID-19, the Group's showrooms were temporarily closed during the period from 7 April 2020 to 18 June 2020 (both days inclusive). As a result of the challenging operating environment, the sales generated from the Business for the year ended 31 December 2020 ("**FY2020**") dropped as compared with corresponding period of 2019. During FY2020, the Group sold 1,210 and 501 units of new motor vehicles and pre-owned motor vehicles, respectively, representing a decrease of approximately 25.7% and 17.3%, respectively, as compared with 1,628 and 606 units of new motor vehicles and pre-owned motor vehicles sold, respectively, for the year ended 31 December 2019 ("**FY2019**").

#### **Business Outlook**

The impact brought about by the outbreak of COVID-19 remains uncertain and may continue to pose a challenge on the Group's business and financial performance going forward. The management of the Group will continue to use its best endeavour to adopt appropriate business strategies leveraging its market position as the leading parallel-import dealer in Singapore.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue decreased by approximately S\$26.1 million or 14.0% from approximately S\$187.0 million for FY2019 to approximately S\$160.9 million for FY2020, which was mainly attributable to the decrease in sales of motor vehicles amounted to approximately S\$26.0 million or 14.6%.

### **Sales of motor vehicles**

The sales of motor vehicles decreased by approximately S\$26.0 million or 14.6% which was mainly attributable to the decrease in sales of new motor vehicles by approximately S\$22.9 million or 15.0%. The decrease in sales of new motor vehicles was mainly due to the decrease in units of motor vehicles sold by 418 units from 1,628 units for FY2019 to 1,210 units for FY2020, despite the increase in average selling price of new motor vehicles sold for FY2020 as compared with FY2019, from approximately S\$93,000 for FY2019 to approximately S\$107,000 for FY2020.

The sales of pre-owned motor vehicles decreased by approximately S\$3.2 million or 12.3%, which was mainly due to the decrease in the units of motor vehicles sold by 105 units for FY2020.

### **Motor vehicle financing services**

The Group's revenue from motor vehicle financing services remained stable at approximately S\$6.0 million and S\$6.0 million for FY2019 and FY2020 respectively. 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 FY2019 and FY2020 which amounted to approximately S\$0.4 million and S\$0.6 million, respectively.

### **Leasing of motor vehicles**

The income from leasing of motor vehicles decreased by approximately S\$0.3 million or 10.0% from approximately S\$3.0 million for FY2019 to approximately S\$2.7 million for FY2020. 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 114 units and 132 units as at 31 December 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 FY2019 to nil for FY2020.

### **Cost of sales**

The Group's cost of sales decreased by approximately S\$23.5 million or 14.2% from approximately S\$166.0 million for FY2019 to approximately S\$142.5 million for FY2020. The decrease was mainly due to the decrease in cost of motor vehicles (and related costs) sold in FY2020.

For FY2020, the cost of motor vehicles (and related costs) sold decreased by approximately S\$23.5 million or 14.4% from approximately S\$163.7 million for FY2019 to approximately S\$140.2 million for FY2020 and was in line with the decrease in sales of motor vehicles.

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

As a result of the foregoing, the Group's total gross profit decreased by approximately S\$2.5 million or 12.0% from approximately S\$20.9 million for FY2019 to approximately S\$18.4 million for FY2020, which was mainly attributable to the decrease in the gross profit from sales of motor vehicles business. The overall gross profit margin remained stable at approximately 11.2% for FY2019 and approximately 11.4% for FY2020.

### **Sales of motor vehicles**

The Group's gross profit from sales of motor vehicles decreased by approximately S\$2.5 million, or 18.1% from approximately S\$13.8 million for FY2019 to approximately S\$11.3 million for FY2020, and the Group's gross profit margin for sales of motor vehicles was approximately 7.8% for FY2019 and approximately 7.5% for FY2020. The decrease in gross profit margin for sales of motor vehicles was mainly contributed to the increase of COE premium due to decrease in COE quota imposed by the Land Transports Authority of Singapore and lead to increase in cost of motor vehicles sold during the year ended 31 December 2020.

### **Motor vehicle financing services**

The net interest spread for FY2019 and FY2020 remained stable at approximately 4.8% and 4.7%, respectively.

### **Leasing of motor vehicles**

The Group's gross profit from leasing of motor vehicles decreased by approximately S\$0.2 million or 28.6%, from approximately S\$0.7 million for FY2019 to approximately S\$0.5 million for FY2020, with the Group's gross profit margin from leasing of motor vehicles decreased from approximately 25.2% for FY2019 to 16.8% for FY2020. 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 10.0%, while the costs of leasing of motor vehicles remained stable at approximately S\$2.3 million and S\$2.3 million for FY2019 and FY2020 respectively.

### **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 FY2019 to nil for FY2020, while the Group's gross profit margin from sales of spare parts and accessories decreased from approximately 15.2% for FY2019 to nil for FY2020.

### **Other income**

The Group's other income increased by approximately S\$0.6 or 120.0% from approximately S\$0.5 million for FY2019 to approximately S\$1.1 million for FY2020. The increase was mainly due to the increase of government grants by approximately S\$0.8 million under Job Support Scheme ("JSS") which is a temporary scheme introduced in the Singapore Budget 2020 to help enterprises to retain local employees.

### **Other gains, net**

The Group's other gains, net increased by approximately S\$0.2 or 200.0% from approximately S\$0.1 million for FY2019 to approximately S\$0.3 million for FY2020 which was mainly due to the combination effect of (i) foreign exchange losses of approximately S\$0.2 million for FY2019 to foreign exchange gains of approximately S\$0.4 million for FY2020; and (ii) the disposal of property, plant and equipment recorded from gain of approximately S\$0.3 million for FY2019 to loss of approximately S\$0.1 million for FY2020.

### **Selling and distribution expenses**

The Group's selling and distribution expenses decreased by approximately S\$1.0 million or 20.0% from approximately S\$5.0 million for FY2019 to approximately S\$4.0 million for FY2020. The decrease was mainly due to the decrease in advertising and marketing expenses and sales commission to external parties and salespersons for FY2020.

## **General and administrative expenses**

The Group's general and administrative expense decreased by approximately S\$0.5 million or 5.1% from approximately S\$9.9 million for FY2019 to approximately S\$9.4 million for FY2020. The decrease was mainly attributable to the decrease of legal and professional fees and travelling and entertainment expenses and bank charges for FY2020.

## **Listing expenses**

In preparation of the Listing, the Group incurred Listing expenses of approximately S\$1.4 million for FY2019, while it was nil for FY2020.

## **Finance income and finance expenses**

Finance income represents bank interest income. The Group had minimal finance income for FY2020.

The Group's finance expenses remained stable at approximately S\$2.3 million and S\$2.1 million for FY2019 and FY2020 respectively.

## **Income tax expenses**

The Group's income tax expenses decreased by approximately S\$0.3 million or 25.0% from approximately S\$1.2 million for FY2019 to approximately S\$0.9 million for FY2020, which was mainly due to the decrease in taxable profit from the Group's operation in Singapore.

## **Profit and total comprehensive income for the year and net profit margin**

As a result of the foregoing, the Group's profit and total comprehensive income for the year increased by approximately S\$0.3 million or 10.0% from approximately S\$3.0 million for FY2019 to approximately S\$3.3 million for FY2020 and the Group's net profit margin increased from approximately 1.6% for FY2019 to approximately 2.0% for FY2020. Such increase in profit for FY2020 was primarily due to the (i) increase in other income by approximately S\$0.6 million; (ii) decrease in selling and distribution costs of approximately S\$1.0 million; (iii) decrease in general and administrative expenses of approximately S\$0.5 million and offset by the decrease in gross profit by approximately S\$2.5 million.

## Other Financial Information (Non-IFRS measures)

To supplement the consolidated financial statements presented in accordance with IFRS, the Company also uses non-IFRS measures, namely EBITDA and adjusted EBITDA, as an additional financial measure, which are not required by or presented in accordance with IFRS. The Company believes that such non-IFRS measures facilitate comparisons of operating performance from period to period by eliminating potential impacts of items that the management does not consider to be indicative of the operating performance. The Company believes that such measures provide useful information to investors and others in understanding and evaluating the consolidated results of operations in the same manner as it helps the management. However, the presentation of EBITDA and adjusted EBITDA may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Company's results of operations or financial conditions as reported under IFRS.

	For the year ended	
	31 December	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
Reconciliation of operating profit to EBITDA and adjusted EBITDA:		
Operating profit	6,165	6,489
Add:		
Depreciation	<u>3,345</u>	<u>3,356</u>
<b>EBIDTA</b>	<b>9,510</b>	9,845
Add:		
Equity-settled share-based payments	1,440	—
Listing expenses	—	1,352
Less:		
Government grants under JSS	<u>(809)</u>	<u>—</u>
<b>Adjusted EBIDTA</b>	<b><u>10,141</u></b>	<b><u>11,197</u></b>

## CAPITAL STRUCTURE

As at 31 December 2020, the capital structure of the Group consisted of borrowings and equity of the Group, comprising share capital, share premium, capital reserve, share based payment reserve and retained earnings.

## LIQUIDITY AND FINANCIAL RESOURCES

During FY2020, 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 loans, floor inventory advances, trust receipts, block discounting, lease liabilities, hire purchase liabilities and term loan, etc.

## LIQUIDITY RATIOS

As at 31 December 2020, the Group had cash and bank balances of approximately S\$6.8 million (2019: approximately S\$9.6 million). The Group's current ratio, debt to equity ratio and gearing ratio ratios are as follows:

	As at 31 December	
	2020	2019
Current ratio	2.1	1.6
Debt to equity ratio	100.4%	122.3%
Gearing ratio	<u>46.4%</u>	<u>50.1%</u>

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 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 31 December 2020, the Group had borrowings of approximately S\$49.0 million (2019: approximately S\$54.0 million). Certain borrowings were secured by certain inventories, motor vehicles, finance lease receivables and corporate guarantee provide by the Company as disclosed in note 11 to the consolidated 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 FY2020, the capital expenditures amounted to approximately S\$2.7 million which was used for the purchases of property, plant and equipment in Singapore (2019: approximately S\$6.6 million). The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 31 December 2020, 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 year ended 31 December 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 31 December 2020 (2019: nil).

## **EMPLOYEE AND REMUNERATION POLICY**

As at 31 December 2020, the Group employed a total of 79 employees (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 dated 13 February 2019 (the “**Prospectus**”) and the plan for setting up the motor vehicle workshop as disclosed in the section headed “Use of Proceeds” of this announcement, the Group did not have plans for material investments and capital assets as at 31 December 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 31 December 2020:

	Approximate percentage of total amounts	Actual Net Proceeds <i>HK\$'000</i>	Planned utilised amounts as at 31 December 2020 <i>HK\$'000</i>	Utilised amounts as at 31 December 2020 <i>HK\$'000</i>	Unutilised amounts as at 31 December 2020 <i>HK\$'000</i>
Expanding the scale of the Group’s motor vehicle hire purchase financing business	45.8%	24,230	24,230	24,230	—
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	4,062	4,062	—
Working capital	5.9%	3,148	3,148	3,148	—
<b>Total</b>	<b>100%</b>	<b>52,913</b>	<b>52,913</b>	<b>47,414</b>	<b>5,499</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 were prudent for the business expansion and that the plan for setting up the motor vehicle workshop has been further delayed to 2021.

## **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 year ended 31 December 2020.

### **SHARE OPTION SCHEME**

The Company has adopted the share option scheme (the "**Share Option Scheme**") on 1 February 2019. The purpose of the Share Option 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 31 December 2020, there were 90,000,000 share options granted by the Company under the Share Option Scheme which were valid and outstanding, representing approximately 10% of the issued share capital of the Company as at the date of this announcement. The share options are exercisable for a period of ten years from 8 April 2020 (the "**Option Period**") and expiring at the close of business on the last day of the Option Period or at the expiry of the Scheme, whichever is earlier. The share options have vested on 8 April 2020.

No share options were exercised, cancelled or lapsed under the Share Option Scheme during the period from the date of grant to 31 December 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) 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 year ended 31 December 2020.

## CORPORATE GOVERNANCE CODE

During the year ended 31 December 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.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient minimum public float under the Listing Rules during the year ended 31 December 2020 and up to the date of this announcement.

## **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 audited consolidated financial statements of the Group for FY2020, including the accounting principles and practices adopted by the Group.

## **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's external auditor, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Company for FY2020 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 31 March 2021

*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.*