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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 2021

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 2021, together with the comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
	<i>Notes</i>	2021 S\$'000 (unaudited)	2020 S\$'000 (unaudited)
Revenue	4	125,160	60,314
Cost of sales	6	(109,872)	(52,339)
Gross profit		15,288	7,975
Other income		376	643
Other (losses)/gains — net		(139)	337
Selling and distribution expenses	6	(2,177)	(1,358)
General and administrative expenses	6	(4,514)	(5,961)
Operating profit		8,834	1,636
Finance income	5	—	16
Finance expenses	5	(1,107)	(1,069)
Finance expenses — net		(1,107)	(1,053)
Profit before income tax		7,727	583
Income tax expense	7	(1,481)	(393)
Profit and total comprehensive income for the period		6,246	190
Basic and diluted earnings per share for profit attributable to equity holders of the Company for the period (expressed in Singapore cents per share)	8	0.69	0.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2021 <i>S\$'000</i> (unaudited)	As at 31 December 2020 <i>S\$'000</i> (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	19,750	20,795
Deferred income tax assets	249	246
Finance lease receivables	22,127	21,764
	42,126	42,805
Current assets		
Inventories	41,785	33,973
Trade and other receivables	<i>10</i> 25,207	21,081
Finance lease receivables	6,285	5,889
Cash and bank balances	5,915	6,818
	79,192	67,761
Total assets	121,318	110,566
EQUITY		
Capital and reserves attributable to owners of the Company		
Share capital	1,550	1,550
Share premium	11,864	11,864
Capital reserve	3,494	3,494
Share based payment reserve	1,440	1,440
Retained earnings	36,740	30,494
Total equity	55,088	48,842

		As at 30 June 2021 <i>S\$'000</i> (unaudited)	As at 31 December 2020 <i>S\$'000</i> (audited)
LIABILITIES			
Non-current liabilities			
Borrowings	<i>12</i>	<u>26,780</u>	<u>29,458</u>
Current liabilities			
Trade and other payables and provision for warranty	<i>11</i>	11,766	10,978
Borrowings	<i>12</i>	26,334	19,572
Income tax liabilities		<u>1,350</u>	<u>1,716</u>
		<u>39,450</u>	<u>32,266</u>
Total liabilities		<u>66,230</u>	<u>61,724</u>
Total equity and liabilities		<u>121,318</u>	<u>110,566</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

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 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 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 2021 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 2020, 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 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
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

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 2021 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to IFRS 3	Reference to Conceptual Framework	1 January 2022
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
Annual improvements project	Annual Improvements to IFRS Standards 2018–2020	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
IFRS 10 and IAS 28 (2011) (Amendments)	Sale or Contribution of Assets Between an Investor and its Associates 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 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 in Singapore. An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021 <i>S\$'000</i> (unaudited)	2020 <i>S\$'000</i> (unaudited)
Sales of motor vehicles*	119,076	56,355
Motor vehicles financing related services		
— Finance commission income	3,015	1,356
— Insurance commission income	365	235
Sales of spare parts and accessories	27	—
Revenue from contracts with customers under IFRS 15 recognised at point in time	<u>122,483</u>	<u>57,946</u>
Motor vehicles financing related services		
— Interest income from finance lease arrangements	1,172	1,159
Rental income from operating lease of motor vehicles	1,505	1,209
Revenue from operating and finance lease arrangement under IFRS 16	<u>2,677</u>	<u>2,368</u>
	<u>125,160</u>	<u>60,314</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
For the six months ended					
30 June 2021 (unaudited)					
Segment revenue					
Total sales	119,483	1,505	27	—	121,015
Inter-segment sales	(407)	—	—	—	(407)
External sales	119,076	1,505	27	—	120,608
Finance commission income	3,015	—	—	—	3,015
Insurance commission income	365	—	—	—	365
Interest income from finance lease arrangement	1,172	—	—	—	1,172
	<u>123,628</u>	<u>1,505</u>	<u>27</u>	<u>—</u>	<u>125,160</u>
Segment profit/(loss)	8,690	482	27	(365)	8,834
Finance expenses — net					(1,107)
Profit before income tax					7,727
Income tax expense					(1,481)
Profit for the period					<u>6,246</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>	Unallocated <i>S\$'000</i>	Total <i>S\$'000</i>
For the six months ended					
30 June 2020 (unaudited)					
Segment revenue					
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>
Segment profit/(loss)	3,337	110	(3)	(1,808)	1,636
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>

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
As at 30 June 2021 (unaudited)					
Segment assets	<u>108,222</u>	<u>12,777</u>	<u>17</u>	<u>302</u>	<u>121,318</u>
Segment liabilities	<u>56,918</u>	<u>7,772</u>	<u>—</u>	<u>1,540</u>	<u>66,230</u>
Capital expenditure	<u>357</u>	<u>644</u>	<u>—</u>	<u>—</u>	<u>1,001</u>
As at 31 December 2020 (audited)					
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>

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	
	2021	2020
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Finance income		
Interest income on late payment	<u>—</u>	<u>16</u>
Finance expenses		
Interest expenses on bank loans	321	212
Interest expenses on block discounting financing	507	523
Interest expenses on lease liabilities	135	156
Interest expenses on hire purchase liabilities	144	178
	<u>1,107</u>	<u>1,069</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	
	2021	2020
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Cost of inventories sold	109,082	51,569
Provision for inventories write-down	24	13
Auditor's remunerations	91	98
Depreciation expense	1,561	1,860
Employee benefit expense	4,103	4,526
Rental expenses	218	261
Legal and professional fees	52	217
Others operating expenses	1,432	1,114
	<u>116,563</u>	<u>59,658</u>

7. INCOME TAX EXPENSE

Singapore statutory income tax has been provided at the rate of 17% on the estimated assessable profit during the six months ended 30 June 2021 (2020: 17%).

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

	For the six months ended	
	30 June	
	2021	2020
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Singapore profits tax		
Current income tax	<u>1,481</u>	<u>393</u>
Total tax expenses for the periods	<u><u>1,481</u></u>	<u><u>393</u></u>

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 2021 and 2020.

	For the six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Profit attributable to the equity holders of the Company (S\$'000)	<u>6,246</u>	<u>190</u>
Weighted average number of ordinary shares in issue ('000)	<u>900,000</u>	<u>900,000</u>
Basic earnings per share in Singapore cents	<u><u>0.69</u></u>	<u><u>0.02</u></u>

(b) Diluted earnings per share

There were no potential dilutive ordinary shares outstanding for the six months ended 30 June 2021 and 2020. 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 periods ended presented. Hence, the diluted earnings per share is the same as basic earnings per share.

9. DIVIDENDS

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

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 S\$'000 (unaudited)	As at 31 December 2020 S\$'000 (audited)
Current		
Trade receivables	2,806	866
Less: Provision for impairment of trade receivables — third parties	<u>(57)</u>	<u>(57)</u>
Trade receivables — net	2,749	809
Prepayments	22,062	19,815
Other receivables	<u>396</u>	<u>457</u>
	<u>25,207</u>	<u>21,081</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 and prepayment for purchase of Certificates of Entitlement.

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at 30 June 2021 S\$'000 (unaudited)	As at 31 December 2020 S\$'000 (audited)
Up to 3 months	2,342	634
3 to 4 months	175	66
4 months to 1 year	197	80
More than 1 year	<u>35</u>	<u>29</u>
	<u>2,749</u>	<u>809</u>

11. TRADE AND OTHER PAYABLES AND PROVISION FOR WARRANTY

	As at 30 June 2021 <i>S\$'000</i> (unaudited)	As at 31 December 2020 <i>S\$'000</i> (audited)
Trade payables	1,605	2,419
Other payables	1,468	966
Contract liabilities	7,818	5,628
Accrued operating expenses	675	1,765
Provision for warranty	200	200
	<u>11,766</u>	<u>10,978</u>

An ageing analysis of the trade payables as at 31 December 2020 and 30 June 2021, based on the invoice date, is as follows:

	As at 30 June 2021 <i>S\$'000</i> (unaudited)	As at 31 December 2020 <i>S\$'000</i> (audited)
Within 1 month	1,007	1,889
1 to 4 months	311	316
4 months to 1 year	253	110
More than 1 year	34	104
	<u>1,605</u>	<u>2,419</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 2021 S\$'000 (unaudited)	As at 31 December 2020 S\$'000 (audited)
Non-current		
Block discounting financing (<i>Note c</i>)	19,560	21,278
Lease liabilities	3,996	4,546
Term loan (<i>Note e</i>)	3,224	3,634
	<u>26,780</u>	<u>29,458</u>
Current		
Floor inventory advances (<i>Note a</i>)	2,724	—
Trust receipts (<i>Note b</i>)	9,923	4,333
Block discounting financing (<i>Note c</i>)	6,139	6,678
Lease liabilities	1,088	1,061
Hire purchase liabilities (<i>Note d</i>)	5,557	6,524
Term loan (<i>Note e</i>)	903	976
	<u>26,334</u>	<u>19,572</u>
	<u><u>53,114</u></u>	<u><u>49,030</u></u>

Notes:

- (a) As at 31 December 2020 and 30 June 2021, floor inventory advances were secured by certain inventories of approximately S\$28.1 million and S\$1.7 million respectively and corporate guarantee provided by the Company.
- (b) As at 31 December 2020 and 30 June 2021, trust receipts financing were secured by corporate guarantee provided by the Company.
- (c) As at 31 December 2020 and 30 June 2021, block discounting financing were secured by finance lease receivables of approximately S\$27.7 million and S\$28.4 million respectively and corporate guarantee provided by the Company.
- (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.

During the first half of 2021, the Group sold 795 and 299 units of new motor vehicles and pre-owned motor vehicles, respectively, representing an increase of approximately 63.2% and 37.8%, respectively, as compared with 487 and 217 units of new motor vehicles and pre-owned motor vehicles sold, respectively, for the corresponding period in 2020. such increase was mainly attributable to the increase in revenue as a result of increased demand from customers. This was mainly driven by the recovery from the adverse impact brought by COVID-19 in 2021 as the pandemic remained under control in Singapore, compared to the closure of the Group's showrooms for more than two months in the first half of 2020 due to the safe distancing measures implemented by the Ministry of Health of Singapore to curb further spread of COVID-19.

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 by exercising effective cost control, upholding quality service to customers and maintaining good relationships with major suppliers and to strengthen its market position as the leading parallel-import dealer in Singapore.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately S\$64.9 million or 107.6% from approximately S\$60.3 million for the six months ended 30 June 2020 ("PE2020") to approximately S\$125.2 million for the six months ended 30 June 2021 ("PE2021"), which was mainly attributable to the increase in sales of motor vehicles amounted to approximately S\$62.7 million or 111.2%.

Sales of motor vehicles

The sales of motor vehicles increased by approximately S\$62.7 million or 111.2% which was mainly attributable to the increase in sales of new motor vehicles by approximately S\$50.5 million or 104.8%. The increase in sales of new motor vehicles was mainly due to the increase in units of motor vehicles sold by 308 units from 487 units for PE2020 to 795 units for PE2021 and the average selling price of new motor vehicles sold increased from approximately S\$99,000 for PE2020 to approximately S\$124,000 for PE2021.

The sales of pre-owned motor vehicles increased by approximately S\$12.2 million or 148.8%, which was mainly due to the increase in units of motor vehicles sold by 82 units from 217 units for PE2020 to 299 units for PE2021 and the average selling price of pre-owned motor vehicles sold increased from S\$38,000 for PE2020 to approximately S\$68,000 for PE2021.

Motor vehicle financing services

The Group's revenue from motor vehicle financing services increased by approximately S\$1.7 million or 68.0% from approximately S\$2.5 million for PE2020 to approximately S\$4.2 million for PE2021. The increase was mainly due to the increase 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 PE2020 and PE2021 which amounted to approximately S\$0.2 million and S\$0.4 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 PE2020 to approximately S\$1.5 million for PE2021. The increase was mainly due to special discount given to customers during the outbreak of COVID-19 during PE2020. The Group's number of motor vehicles being rented to customers was 124 units and 132 units as at 30 June 2020 and 2021, respectively.

Sales of spare parts and accessories

The income from sales of spare part and accessories increased by approximately S\$27,000 or 100.0% from nil for PE2020 to approximately S\$27,000 for PE2021.

Cost of sales

The Group's cost of sales increased by approximately S\$57.6 million or 110.1% from approximately S\$52.3 million for PE2020 to approximately S\$109.9 million for PE2021. The increase was in line with the increase in the Group's total revenue for the period.

For PE2021, the cost of motor vehicles (and related costs) sold increased by approximately S\$57.5 million or 112.3% from approximately S\$51.2 million for PE2020 to approximately S\$108.7 million for PE2021.

Gross profit and gross profit margin

As a result of the foregoing, the Group's total gross profit increased by approximately S\$7.3 million or 91.3% from approximately S\$8.0 million for PE2020 to approximately S\$15.3 million for PE2021, which was mainly attributable to the increase in the sales of motor vehicles business. The overall gross profit margin decreased from approximately 13.2% for PE2020 to approximately 12.2% for PE2021 which was mainly due to the decrease 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 increased by approximately S\$5.2 million, or 102.0%, from approximately S\$5.1 million for PE2020 to approximately S\$10.3 million for PE2021, and the Group's gross profit margin for sales of motor vehicles was approximately 9.1% for PE2020 and approximately 8.7% for PE2021. For PE2021, the Group sold proportionately more Japanese brands of motor vehicles as compared with PE2020, which are normally sold at a lower margin as compared to European brands and hence lower overall gross profit margin.

Motor vehicle financing services

The net interest spread for PE2020 and PE2021 remained stable at approximately 4.3% and 4.4%, respectively.

Leasing of motor vehicles

The Group's gross profit from leasing of motor vehicles increased by approximately S\$0.3 million, or 300.0%, from approximately S\$0.1 million for PE2020 to approximately S\$0.4 million for PE2021, with the Group's gross profit margin from leasing of motor vehicles increased from approximately 9.8% for PE2020 to 27.3% for PE2021. Such increase 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 remained at approximately S\$1.1 million for PE2020 and PE2021.

Sales of spare parts and accessories

The Group's gross loss from sales of spare parts and accessories increased by approximately S\$5,000, or 100.0%, from nil for PE2020 to approximately S\$5,000 for PE2021.

Other income

The Group's other income decreased by approximately S\$0.2 million or 33.3% from approximately S\$0.6 million for PE2020 to approximately S\$0.4 million for PE2021. The decrease was mainly due to the decrease of government grants.

Other (losses)/gains, net

The Group's other (losses)/gains, net decreased by approximately S\$0.4 million or 133.3% from a net gain of approximately S\$0.3 million for PE2020 to a net loss of approximately S\$0.1 million for PE2021 which was mainly due to the change of foreign exchange gain of approximately S\$0.3 million for PE2020 to foreign exchange loss of approximately S\$0.1 million for PE2021.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately S\$0.8 million or 57.1% from approximately S\$1.4 million for PE2020 to approximately S\$2.2 million for PE2021. The increase was mainly attributable to the increase in sales commission to the salespersons as a result of the increase in sales of motor vehicles.

General and administrative expenses

The Group's general and administrative expenses decreased by approximately S\$1.5 million or 25.0% from approximately S\$6.0 million for PE2020 to approximately S\$4.5 million for PE2021. The decrease was mainly attributable to the equity-settled share-based payments of approximately S\$1.5 million for PE2020.

Finance income and finance expenses

Finance income represents bank interest income. The Group had minimal finance income for PE2021.

The Group's finance expenses remained stable for PE2020 and PE2021 which amounted to approximately S\$1.1 million and S\$1.1 million, respectively.

Income tax expenses

The Group's income tax expenses increased by approximately S\$1.1 million or 275.0% from approximately S\$0.4 million for PE2020 to approximately S\$1.5 million for PE2021.

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 increased by approximately S\$6.0 million or 3,000.0% from approximately S\$0.2 million for PE2020 to approximately S\$6.2 million for PE2021 and the Group's net profit margin increased from approximately 0.3% for PE2020 to approximately 5.0% for PE2021. Such increase in profit for FY2021 was primarily due to the (i) increase in gross profit by approximately S\$7.3 million; (ii) decrease in general and administrative expenses of approximately S\$1.5 million and offset by the (iii) increase in selling and distribution expenses by approximately S\$0.8 million and (iv) increase in income tax expenses by approximately S\$1.1 million.

CAPITAL STRUCTURE

As at 30 June 2021, 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 the six months ended 30 June 2021, 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 loans, floor inventory advances, trust receipts, block discounting, lease liabilities, hire purchase liabilities and term loan, etc.

LIQUIDITY RATIOS

As at 30 June 2021, the Group had cash and bank balances of approximately S\$5.9 million (31 December 2020: approximately S\$6.8 million). The Group's current ratio, debt to equity ratio and gearing ratio are as follows:

	As at 30 June 2021 (unaudited)	As at 31 December 2020 (audited)
Current ratio	2.0	2.1
Debt to equity ratio	96.4%	100.4%
Gearing ratio	<u>46.1%</u>	<u>46.4%</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 bank balances, 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 2021, the Group had borrowings of approximately S\$53.1 million (31 December 2020: approximately S\$49.0 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 2021, the capital expenditures amounted to approximately S\$1.0 million which was used for the purchases of property, plant and equipment in Singapore (2020: approximately 1.4 million). The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 30 June 2021, the Group did not have material capital commitments (31 December 2020: 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 2021.

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 Sterling pound, Japanese yen and Hong Kong dollars. The Group's exposure to other foreign exchange movements is not material. No hedging activities had been made by the Group during the six months ended 30 June 2021.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2021 (31 December 2020: nil).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2021, the Group employed a total of 93 employees (31 December 2020: 79 employees), not including the Directors. Employee benefit expense of approximately S\$4.1 million incurred for the six months ended 30 June 2021 (2020: S\$4.5 million).

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 and the plan for setting up the motor vehicle workshop as disclosed in the section headed “Use of Proceeds” for this announcement, the Group did not have plans for material investments and capital assets as at 30 June 2021.

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 2021:

	Approximate percentage of total amounts	Actual Net Proceeds HK\$'000	Planned unutilised amounts as at 30 June 2021 HK\$'000	Utilised amounts as at 30 June 2021 HK\$'000	Unutilised amounts as at 30 June 2021 HK\$'000
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	—
Total	100%	52,913	52,913	47,414	5,499

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 2020, 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.

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 2021.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, 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 and C.2.5 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.

CHANGE IN DIRECTOR’S INFORMATION

There is no 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 2021, 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 2021 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 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.