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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 2022

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 2022, together with the comparative figures for the corresponding period in 2021.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	For the six months ended	
		2022	2021
		<i>S\$'000</i>	<i>S\$'000</i>
		(unaudited)	(unaudited)
Revenue	4	91,031	125,160
Cost of sales	6	(80,020)	(109,872)
Gross profit		11,011	15,288
Other income		165	376
Other losses — net		(45)	(139)
Selling and distribution expenses	6	(2,001)	(2,177)
General and administrative expenses	6	(5,406)	(4,514)
Operating profit		3,724	8,834
Finance income	5	—	—
Finance expenses	5	(757)	(1,107)
Finance expenses — net		(757)	(1,107)
Profit before income tax		2,967	7,727
Share of profit of a joint venture		253	—
Income tax expense	7	(466)	(1,481)
Profit and total comprehensive income for the period		2,754	6,246
Earnings per share for profit attributable to equity holders of the Company for the period (expressed in Singapore cents per share)			
— Basic	8(a)	0.31	0.69
— Diluted	8(b)	0.28	0.69

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2022	As at 31 December 2021
<i>Notes</i>	<i>S\$'000</i> (unaudited)	<i>S\$'000</i> (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	28,261	21,577
Deferred income tax assets	185	227
Investment in a joint venture	744	497
Investment in associates	2,006	—
Other financial assets	100	—
Finance lease receivables	27,938	21,331
	59,234	43,632
Current assets		
Inventories	35,264	43,480
Trade and other receivables	26,052	15,230
Finance lease receivables	7,615	5,814
Cash and bank balances	6,812	6,612
	75,743	71,136
Total assets	134,977	114,768
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	43,234	40,480
	61,582	58,828
Non-controlling interest	20	20
Total equity	61,602	58,848

		As at 30 June 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
LIABILITIES			
Non-current liabilities			
Borrowings	<i>12</i>	28,471	24,663
Deferred income tax liabilities		—	132
		<u>28,471</u>	<u>24,795</u>
Current liabilities			
Trade and other payables and provision for warranty	<i>11</i>	14,043	8,822
Derivative financial liabilities		296	—
Borrowings	<i>12</i>	28,501	19,640
Income tax liabilities		2,064	2,663
		<u>44,904</u>	<u>31,125</u>
Total liabilities		<u>73,375</u>	<u>55,920</u>
Total equity and liabilities		<u>134,977</u>	<u>114,768</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2022

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 2022 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 2021, 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 2022:

IAS 16 (Amendments)	Property, Plant and Equipment — Proceeds before Intended Use
IAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract
IFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020
IFRS 3 (Amendments)	Reference to the Conceptual Framework
IFRS 16 (Amendment)	Covid-19 — Related Rent Concessions beyond 30 June 2021

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 2022 and have not been early adopted:

		Effective for annual periods beginning on or after
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
IAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 17	Insurance Contracts and the Related Amendments	1 January 2023

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	
	2022	2021
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Sales of motor vehicles*	85,265	119,076
Motor vehicles financing related services		
— Finance commission income	1,767	3,015
— Insurance commission income	533	365
Sales of spare parts and accessories	29	27
	<hr/>	<hr/>
Revenue from contracts with customers under IFRS 15 recognised at point in time	<u>87,594</u>	<u>122,483</u>
Motor vehicles financing related services		
— Interest income from finance lease arrangements	1,424	1,172
Rental income from operating lease of motor vehicles	2,013	1,505
	<hr/>	<hr/>
Revenue from operating and finance lease arrangement under IFRS 16	<u>3,437</u>	<u>2,677</u>
	<u>91,031</u>	<u>125,160</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 2022 (unaudited)					
Segment revenue					
Total sales	92,184	2,013	29	—	94,226
Inter-segment sales	(6,919)	—	—	—	(6,919)
External sales	85,265	2,013	29	—	87,307
Finance commission income	1,767	—	—	—	1,767
Insurance commission income	533	—	—	—	533
Interest income from finance lease arrangement	1,424	—	—	—	1,424
	<u>88,989</u>	<u>2,013</u>	<u>29</u>	<u>—</u>	<u>91,031</u>
Segment profit/(loss)	3,311	728	11	(326)	3,724
Finance expenses — net					(757)
Profit before income tax					2,967
Share of profit of a joint venture					253
Income tax expense					(466)
Profit for the period					<u>2,754</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 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					<u>(1,107)</u>
Profit before income tax					7,727
Income tax expense					<u>(1,481)</u>
Profit for the period					<u><u>6,246</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
As at 30 June 2022 (unaudited)					
Segment assets	<u>111,762</u>	<u>22,760</u>	<u>119</u>	<u>336</u>	<u>134,977</u>
Segment liabilities	<u>56,740</u>	<u>14,315</u>	<u>—</u>	<u>2,320</u>	<u>73,375</u>
Capital expenditure	<u>524</u>	<u>8,860</u>	<u>—</u>	<u>—</u>	<u>9,384</u>
As at 31 December 2021 (audited)					
Segment assets	<u>98,819</u>	<u>15,645</u>	<u>—</u>	<u>304</u>	<u>114,768</u>
Segment liabilities	<u>44,495</u>	<u>8,463</u>	<u>—</u>	<u>2,962</u>	<u>55,920</u>
Capital expenditure	<u>725</u>	<u>4,669</u>	<u>—</u>	<u>—</u>	<u>5,394</u>

Unallocated segment assets represent deferred income tax assets and other corporate assets. Unallocated segment liabilities represent income tax liabilities and other corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

5. FINANCE EXPENSES — NET

	For the six months ended 30 June	
	2022	2021
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Finance income		
Interest income on late payment	<u>—</u>	<u>—</u>
Finance expenses		
Interest expenses on bank loans	(73)	(321)
Interest expenses on block discounting financing	(447)	(507)
Interest expenses on lease liabilities	(55)	(135)
Interest expenses on hire purchase liabilities	(182)	(144)
	<u>(757)</u>	<u>(1,107)</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	
	2022	2021
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Cost of inventories sold	78,869	109,106
Auditor's remunerations	106	91
Depreciation expense	1,724	1,561
Employee benefit expense	5,167	4,103
Rental expenses	230	218
Advertising and marketing expenses	326	355
Sales commission to external parties	362	217
Legal and professional fees	42	52
Bank charges	108	42
Forfeiture of trade deposit paid	—	245
Other operating expenses	493	573
	<u>87,427</u>	<u>116,563</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 2022 (2021: 17%).

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

	For the six months ended	
	30 June	
	2022	2021
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Singapore profits tax		
— Current income tax	<u>466</u>	<u>1,481</u>
Total tax expenses for the periods	<u>466</u>	<u>1,481</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 2022 and 2021.

	For the six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)
Profit attributable to the equity holders of the Company (S\$'000)	<u>2,754</u>	<u>6,246</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>0.31</u></u>	<u><u>0.69</u></u>

(b) Diluted earnings per share

2021

There were one type of potential dilutive ordinary shares outstanding share options for the six months ended 30 June 2021. The Company's share options are not included in the calculation of the diluted earnings per share because they are anti-dilutive for the period ended presented. Hence, the diluted earnings per share is the same as basic earnings per share.

2022

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has only one category dilutive potential ordinary share (share options).

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the period) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

Net profit attributable to the equity holders of the Company (S\$'000)	2,754
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	900,000
Add: share options ('000)	<u>90,000</u>
Weighted average number of ordinary shares outstanding for diluted earnings per share ('000)	990,000
Diluted earnings per share in Singapore cents	<u><u>0.28</u></u>

9. DIVIDENDS

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

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
Current		
Trade receivables	5,019	1,202
Less: Provision for impairment of trade receivables — third parties	<u>(36)</u>	<u>(36)</u>
Trade receivables — net	4,983	1,166
Prepayments	19,246	13,323
Other receivables	1,882	800
Less: Provision for impairment of other receivables — third parties	<u>(59)</u>	<u>(59)</u>
Other receivables — net	<u>1,823</u>	<u>741</u>
	<u>26,052</u>	<u>15,230</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 2022 and 31 December 2021, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at 30 June 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
Up to 3 months	3,844	1,035
3 to 4 months	410	48
4 months to 1 year	681	68
More than 1 year	<u>48</u>	<u>15</u>
	<u>4,983</u>	<u>1,166</u>

11. TRADE AND OTHER PAYABLES AND PROVISION FOR WARRANTY

	As at 30 June 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
Trade payables	2,229	1,244
Other payables	3,426	897
Contract liabilities	5,487	3,700
Accrued operating expenses	2,493	2,789
Provision for warranty	408	192
	<u>14,043</u>	<u>8,822</u>

An ageing analysis of the trade payables as at 30 June 2022 and 31 December 2021, based on the invoice date, is as follows:

	As at 30 June 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
Within 1 month	1,815	939
1 to 4 months	386	131
4 months to 1 year	28	169
More than 1 year	—	5
	<u>2,229</u>	<u>1,244</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 2022 <i>S\$'000</i> (unaudited)	As at 31 December 2021 <i>S\$'000</i> (audited)
Non-current		
Block discounting financing (<i>Note c</i>)	24,780	18,941
Lease liabilities	2,683	3,076
Term loan (<i>Note e</i>)	1,008	2,646
	<u>28,471</u>	<u>24,663</u>
Current		
Revolving credit facility (<i>Note a</i>)	1,003	1,001
Trust receipts (<i>Note b</i>)	4,328	2,123
Block discounting financing (<i>Note c</i>)	8,343	6,378
Lease liabilities	893	990
Hire purchase liabilities (<i>Note d</i>)	11,795	8,154
Term loan (<i>Note e</i>)	2,139	994
	<u>28,501</u>	<u>19,640</u>
	<u>56,972</u>	<u>44,303</u>

Notes:

- (a) Revolving credit facility was secured by leasehold properties of approximately S\$1.0 million and S\$0.9 million respectively and contained repayable on demand clauses.
- (b) Trust receipts financing were secured by corporate guarantee provided by the Company.
- (c) Block discounting financing were secured by finance lease receivables of approximately S\$27.1 million and S\$35.6 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 2022, the Group sold 327 and 235 units of new motor vehicles and pre-owned motor vehicles, respectively, representing a decrease of approximately 58.9% and 21.4%, respectively, as compared with 795 and 299 units of new motor vehicles and pre-owned motor vehicles sold, respectively, for the corresponding period in 2021. Therefore, the revenue decreased by approximately S\$34.2 million, and such decrease was mainly attributable to the decreased demand from customers. The revenue for the six months ended 30 June 2021 (“**PE2021**”) was exceptionally good because of the recovery of the adverse impact by COVID-19 as the pandemic remained under control in Singapore during PE2021.

The decrease in revenue for the PE2022 was also driven by the increase in Certificate of Entitlement (“**COE**”) price due to the tightening of COE quota which led to a lower market demand.

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 decreased by approximately S\$34.2 million or 27.3% from approximately S\$125.2 million for PE2021 to approximately S\$91.0 million for the six months ended 30 June 2022 (“**PE2022**”), which was mainly attributable to the decrease in sales of motor vehicles amounted to approximately S\$33.8 million or 28.4%.

Sales of motor vehicles

The sales of motor vehicles decreased by approximately S\$33.8 million or 28.4% which was mainly attributable to the decrease in sales of new motor vehicles by approximately S\$36.9 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 468 units from 795 units for PE2021 to 327 units for PE2022 despite the average selling price of new motor vehicles sold increased from approximately S\$124,000 for PE2021 to approximately S\$189,000 for PE2022.

The sales of pre-owned motor vehicles increased by approximately S\$3.1 million or 15.2%, which was mainly due to the increase in the average selling price of pre-owned motor vehicles sold from S\$68,000 for PE2021 to approximately S\$100,000 for PE2022.

Motor vehicle financing services

The Group's revenue from motor vehicle financing services decreased by approximately S\$1.0 million or 23.8% from approximately S\$4.2 million for PE2021 to approximately S\$3.2 million for PE2022. 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 PE2021 and PE2022 which amounted to approximately S\$0.4 million and S\$0.5 million, respectively.

Leasing of motor vehicles

The income from leasing of motor vehicles increased by approximately S\$0.5 million or 33.3% from approximately S\$1.5 million for PE2021 to approximately S\$2.0 million for PE2022. The increment was mainly attributable to more units of motor vehicles being rented out during PE2022 as compared to PE2021 as there were increasing numbers of customers who leased the vehicles for chauffeured services. The Group's number of motor vehicles being rented to customers was 132 units and 200 units as at 30 June 2021 and 2022, respectively.

Sales of spare parts and accessories

The income from sales of spare part and accessories increased by approximately S\$2,000 or 7.4% from S\$27,000 for PE2021 to approximately S\$29,000 for PE2022.

Cost of sales

The Group's cost of sales decreased by approximately S\$29.9 million or 27.2% from approximately S\$109.9 million for PE2021 to approximately S\$80.0 million for PE2022. The decrease was in line with the decrease in the Group's total revenue for the period.

For PE2022, the cost of motor vehicles (and related costs) sold decreased by approximately S\$30.4 million or 28.0% from approximately S\$108.7 million for PE2021 to approximately S\$78.3 million for PE2022.

Gross profit and gross profit margin

As a result of the foregoing, the Group's total gross profit decreased by approximately S\$4.3 million or 28.1% from approximately S\$15.3 million for PE2021 to approximately S\$11.0 million for PE2022, which was mainly attributable to the decrease in the sales of motor vehicles business. The overall gross profit margin remained stable at approximately 12.2% for PE2021 and approximately 12.1% for PE2022.

Sales of motor vehicles

The Group's gross profit from sales of motor vehicles decreased by approximately S\$3.4 million, or 33.0%, from approximately S\$10.3 million for PE2021 to approximately S\$6.9 million for PE2022, and the Group's gross profit margin for sales of motor vehicles was approximately 8.7% for PE2021 and approximately 8.0% for PE2022. The decrease in gross profit margin for sales of motor vehicles was mainly contributed to that the Group sold proportionally more pre-owned motor vehicles which are normally sold at a lower margin as compared to new motor vehicles.

Motor vehicle financing services

The net interest spread for PE2022 increased by approximately 1.5% from approximately 4.4% for PE2021 to approximately 5.9% for PE2022, as a result of a decrease of approximately 0.8% in the average interest expense and a increase of approximately 0.7% in the average yield on finance lease receivables.

Leasing of motor vehicles

The Group's gross profit from leasing of motor vehicles remained stable at approximately S\$0.4 million for PE2021 and approximately S\$0.4 million for PE2022.

Sales of spare parts and accessories

The Group recorded a gross loss from sales of spare parts and accessories of approximately S\$5,000 for PE2021 whereas a gross profit of approximately S\$11,000 for PE2022.

Other income

The Group's other income decreased by approximately S\$0.2 million or 50% from approximately S\$0.4 million for PE2021 to approximately S\$0.2 million for PE2022. The decrease was mainly due to the decrease of government grants.

Other losses — net

The Group's other losses — net decreased by approximately S\$94,000 or 67.6% from a net loss of approximately S\$139,000 for PE2021 to a net loss of approximately S\$45,000 for PE2022, which was mainly due to the combination effect of (i) the disposal of property, plant and equipment recorded loss of approximately S\$45,000 for PE2021 to gain of approximately S\$151,000 for PE2022; and (ii) fair value loss of approximately S\$136,000 on forward contract was recognised for PE2022.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately S\$0.2 million or 9.1% from approximately S\$2.2 million for PE2021 to approximately S\$2.0 million for PE2022. The decrease was mainly attributable to the decrease in sales commission to the salespersons as a result of the decrease in sales of motor vehicles.

General and administrative expenses

The Group's general and administrative expenses increased by approximately S\$0.9 million or 20.0% from approximately S\$4.5 million for PE2021 to approximately S\$5.4 million for PE2022. The increase was mainly attributable to the increase in employee benefit expenses by approximately S\$1.1 million for PE2022.

Finance income and finance expenses

Finance income represents interest income on late payment. The Group had minimal finance income for PE2022.

The Group's finance expenses decreased by approximately S\$0.3 million or 27.3% from approximately S\$1.1 million for PE2021 to approximately S\$0.8 million for PE2022. The decrease was mainly due to the decrease in interest expenses on bank loans by approximately S\$0.2 million.

Income tax expenses

The Group's income tax expenses decreased by approximately S\$1.0 million or 66.7% from approximately S\$1.5 million for PE2021 to approximately S\$0.5 million for PE2022, which was mainly due to the decrease in taxable profit from the Group's operation in Singapore.

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

As a result of the foregoing, the Group's profit and total comprehensive income for the period decreased by approximately S\$3.4 million or 54.8% from approximately S\$6.2 million for PE2021 to approximately S\$2.8 million for PE2022 and the Group's net profit margin decreased from approximately 5.0% for PE2021 to approximately 3.0% for PE2022. Such decrease in profit for PE2022 was primarily due to the decrease in gross profit by approximately S\$4.3 million and offset by the decrease in income tax expenses by approximately S\$1.0 million.

CAPITAL STRUCTURE

As at 30 June 2022, 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 2022, 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 2022, the Group had cash and bank balances of approximately S\$6.8 million (31 December 2021: approximately S\$6.6 million). The Group's current ratio, debt to equity ratio and gearing ratio are as follows:

	As at 30 June 2022 (unaudited)	As at 31 December 2021 (audited)
Current ratio	1.7	2.3
Debt to equity ratio	92.5%	75.3%
Gearing ratio	44.9%	39.0%

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 2022, the Group had borrowings of approximately S\$57.0 million (31 December 2021: approximately S\$44.3 million). Certain borrowings were secured by certain inventories, leasehold properties, 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 2022, the capital expenditures amounted to approximately S\$9.4 million which was used for the purchases of property, plant and equipment in Singapore (31 December 2021: approximately 5.4 million). The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 30 June 2022, the Group did not have material capital commitments (31 December 2021: 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 2022.

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 2022.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2022 (31 December 2021: nil).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2022, the Group employed a total of 89 employees (31 December 2021: 100 employees), excluding the Directors. Employee benefit expense (including directors' emoluments) of approximately S\$5.2 million incurred for the six months ended 30 June 2022 (2021: S\$4.1 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" of this announcement, the Group did not have plans for material investments and capital assets as at 30 June 2022.

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 2022:

	Approximate percentage of total amounts	Actual Net Proceeds <i>HK\$'000</i>	Planned unutilised amounts as at 30 June 2021 <i>HK\$'000</i>	Utilised amounts as at 30 June 2021 <i>HK\$'000</i>	Unutilised amounts as at 30 June 2021 <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	—
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 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 2022.

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 2022.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2022, 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 2022, 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 2022 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 2022

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.