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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 2023

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 2023, together with the comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended	
		30 June	
	<i>Notes</i>	2023	2022
		<i>S\$'000</i>	<i>S\$'000</i>
		(unaudited)	(unaudited)
Revenue	4	112,213	91,031
Cost of sales	6	<u>(97,899)</u>	<u>(80,020)</u>
Gross profit		14,314	11,011
Other income		135	165
Other gains/(losses) — net		1,964	(45)
Selling and distribution expenses	6	(2,087)	(2,001)
General and administrative expenses	6	<u>(5,488)</u>	<u>(5,406)</u>
Operating profit		8,838	3,724
Finance income	5	54	—
Finance expenses	5	<u>(1,569)</u>	<u>(757)</u>
Finance expenses — net		<u>(1,515)</u>	<u>(757)</u>
Profit before income tax		7,323	2,967
Share of profit of joint ventures		225	253
Share of profit of an associate		29	—
Income tax expense	7	<u>(1,179)</u>	<u>(466)</u>
Profit and total comprehensive income for the period		<u>6,398</u>	<u>2,754</u>
Earnings per share for profit attributable to equity holders of the Company for the period (expressed in Singapore cents per share)			
— Basic	8(a)	0.71	0.31
— Diluted	8(b)	<u>0.65</u>	<u>0.28</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2023	As at 31 December 2022
	<i>Notes</i>	<i>S\$'000</i> (unaudited)	<i>S\$'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		32,469	32,725
Financial assets at fair value through other comprehensive income		100	100
Deferred income tax assets		325	373
Prepayments	<i>10</i>	—	33
Finance lease receivables		41,473	35,575
Investments in joint ventures		959	948
Investment in an associate		2,225	1,977
		<hr/> 77,551	<hr/> 71,731
Current assets			
Inventories		38,726	46,862
Trade and other receivables and prepayments	<i>10</i>	17,413	24,472
Cash and bank balances		12,167	5,525
Finance lease receivables		9,308	8,370
		<hr/> 77,614	<hr/> 85,229
Total assets		<hr/> 155,165	<hr/> 156,960

		As at 30 June 2023 <i>S\$'000</i> (unaudited)	As at 31 December 2022 <i>S\$'000</i> (audited)
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		51,902	45,504
		<u>70,250</u>	<u>63,852</u>
Non-controlling interest		<u>—</u>	<u>—</u>
Total equity		<u>70,250</u>	<u>63,852</u>
LIABILITIES			
Non-current liabilities			
Borrowings	12	55,116	32,781
Deferred income tax liabilities		228	228
		<u>55,344</u>	<u>33,009</u>
Current liabilities			
Trade and other payables and provision for warranty	11	9,585	15,588
Borrowings	12	17,626	42,356
Derivative financial liabilities		187	503
Income tax liabilities		2,173	1,652
		<u>29,571</u>	<u>60,099</u>
Total liabilities		<u>84,915</u>	<u>93,108</u>
Total equity and liabilities		<u><u>155,165</u></u>	<u><u>156,960</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

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 2023 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 2022, 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 2023:

IFRS 17	Insurance Contracts
IAS 8 (Amendments)	Definition of Accounting Estimates
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
IAS 12 (Amendments)	International Tax Reform — Pillar Two Model Rules
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies

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 Group has not early adopted those new standards, amendments to standards and interpretations which have been issued but are not yet effective. The Group is in the process of assessing their impact 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	
	2023 <i>S\$'000</i> (unaudited)	2022 <i>S\$'000</i> (unaudited)
Sales of motor vehicles*	105,461	85,265
Motor vehicles financing related services		
— Finance commission income	1,547	1,767
— Insurance commission income	432	533
Sales of spare parts and accessories	1	29
	<hr/>	<hr/>
Revenue from contracts with customers under IFRS 15 recognised at point in time	107,441	87,594
Motor vehicles financing related services		
— Interest income from finance lease arrangements	2,026	1,424
Rental income from operating lease of motor vehicles	2,746	2,013
	<hr/>	<hr/>
Revenue from operating and finance lease arrangement under IFRS 16	4,772	3,437
	<hr/>	<hr/>
	<u>112,213</u>	<u>91,031</u>

* 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 of the period as disclosed in Note 11. Receipts in advance from customers as at the end of each of the period will be recognised as revenue in the next year of sales.

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 2023 (unaudited)					
Segment revenue					
Total sales	109,953	2,795	1	—	112,749
Inter-segment sales	(4,492)	(49)	—	—	(4,541)
External sales	105,461	2,746	1	—	108,208
Finance commission income	1,547	—	—	—	1,547
Insurance commission income	432	—	—	—	432
Interest income from finance lease arrangement	2,026	—	—	—	2,026
	<u>109,466</u>	<u>2,746</u>	<u>1</u>	<u>—</u>	<u>112,213</u>
Segment profit/(loss)	6,974	2,201	—	(337)	8,838
Finance expenses — net					<u>(1,515)</u>
Profit before income tax					7,323
Share of profit of joint ventures					225
Share of profit of an associate					29
Income tax expense					<u>(1,179)</u>
Profit for the period					<u><u>6,398</u></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 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					<u>(757)</u>
Profit before income tax					2,967
Share of profit of joint ventures					253
Income tax expense					<u>(466)</u>
Profit for the period					<u><u>2,754</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 2023 (unaudited)					
Segment assets	<u>125,619</u>	<u>28,943</u>	<u>52</u>	<u>551</u>	<u>155,165</u>
Segment liabilities	<u>60,433</u>	<u>21,771</u>	<u>—</u>	<u>2,711</u>	<u>84,915</u>
Capital expenditure	<u>327</u>	<u>5,625</u>	<u>—</u>	<u>—</u>	<u>5,952</u>
As at 31 December 2022 (audited)					
Segment assets	<u>127,591</u>	<u>28,682</u>	<u>—</u>	<u>687</u>	<u>156,960</u>
Segment liabilities	<u>70,760</u>	<u>20,280</u>	<u>—</u>	<u>2,068</u>	<u>93,108</u>
Capital expenditure	<u>1,388</u>	<u>19,362</u>	<u>—</u>	<u>—</u>	<u>20,750</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	
	2023	2022
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Finance income		
Interest income on late payment (<i>Note</i>)	<u>54</u>	<u>—</u>
Finance expenses		
Interest expenses on bank loans	(150)	(73)
Interest expenses on block discounting financing	(991)	(447)
Interest expenses on lease liabilities	(48)	(55)
Interest expenses on hire purchase liabilities	<u>(380)</u>	<u>(182)</u>
	<u>(1,569)</u>	<u>(757)</u>
Finance expenses — net	<u>(1,515)</u>	<u>(757)</u>

Note:

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

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	
	2023	2022
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Cost of inventories sold	95,864	78,869
Auditor's remunerations for audit services	128	106
Depreciation expense	2,482	1,724
Employee benefit expense	5,158	5,167
Rental expenses	381	230
Advertising and marketing expenses	165	326
Sales commission to external parties	496	362
Travelling and entertainment expenses	94	80
Legal and professional fees	37	42
Bank charges	100	108
Forfeiture of trade deposit paid	25	—
Insurance	22	12
Office expenses	93	99
Other operating expenses	429	302
	<u>105,474</u>	<u>87,427</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 2023 (2022: 17%).

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

	For the six months ended	
	30 June	
	2023	2022
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Singapore profits tax		
— Current tax expense	<u>1,179</u>	<u>466</u>
Total tax expenses for the period	<u><u>1,179</u></u>	<u><u>466</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 2023 and 2022.

	For the six months ended	
	30 June	
	2023	2022
	(unaudited)	(unaudited)
Profit attributable to the equity holders of the Company (<i>S\$'000</i>)	<u>6,398</u>	<u>2,754</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>0.71</u></u>	<u><u>0.31</u></u>

(b) Diluted earnings per share

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) (2022: same).

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.

	For the six months ended	
	30 June	
	2023	2022
	(unaudited)	(unaudited)
Net profit attributable to the equity holders of the Company (<i>S\$'000</i>)	<u>6,398</u>	<u>2,754</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (<i>'000</i>)	900,000	900,000
Add: share options (<i>'000</i>)	<u>90,000</u>	<u>90,000</u>
Weighted average number of ordinary shares outstanding for diluted earnings per share (<i>'000</i>)	990,000	990,000
Diluted earnings per share in Singapore cents	<u><u>0.65</u></u>	<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 AND PREPAYMENTS

	As at 30 June 2023 <i>S\$'000</i> (unaudited)	As at 31 December 2022 <i>S\$'000</i> (audited)
Non-current		
Prepayments	—	33
Current		
Trade receivables	4,765	3,803
Less: Provision for impairment of trade receivables — third parties	(36)	(39)
Trade receivables — net	4,729	3,764
Prepayments	11,936	19,282
Amount due from joint ventures	203	1,055
Other receivables	648	479
Less: Provision for impairment of other receivables — third parties	(103)	(108)
Other receivables — net	545	371
	<u>17,413</u>	<u>24,472</u>
Total	<u>17,413</u>	<u>24,505</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.

The amounts due from joint ventures are unsecured, interest-free, and repayable on demand.

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at 30 June 2023 S\$'000 (unaudited)	As at 31 December 2022 S\$'000 (audited)
Up to 3 months	3,997	3,724
3 to 4 months	600	12
4 months to 1 year	86	19
More than 1 year	46	9
	<u>4,729</u>	<u>3,764</u>

11. TRADE AND OTHER PAYABLES AND PROVISION FOR WARRANTY

	As at 30 June 2023 <i>S\$'000</i> (unaudited)	As at 31 December 2022 <i>S\$'000</i> (audited)
Trade payables	1,425	2,510
Other payables	2,070	987
Amounts due to joint ventures	—	399
Contract liabilities	3,116	8,335
Accrued operating expenses	2,194	2,859
Provision for warranty	780	498
	<u>9,585</u>	<u>15,588</u>

The amounts due to joint ventures are unsecured, interest-free, and repayable on demand.

An ageing analysis of the trade payables as at 30 June 2023 and 31 December 2022, based on the invoice date, is as follows:

	As at 30 June 2023 <i>S\$'000</i> (unaudited)	As at 31 December 2022 <i>S\$'000</i> (audited)
Within 1 month	183	2,299
1 to 4 months	112	211
4 months to 1 year	642	—
More than 1 year	488	—
	<u>1,425</u>	<u>2,510</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 2023 <i>S\$'000</i> (unaudited)	As at 31 December 2022 <i>S\$'000</i> (audited)
Non-current		
Block discounting financing (<i>Note b</i>)	38,204	30,316
Lease liabilities	506	827
Hire purchase liabilities (<i>Note c</i>)	15,276	—
Term loan (<i>Note d</i>)	1,130	1,638
	<u>55,116</u>	<u>32,781</u>
Current		
Trust receipts (<i>Note a</i>)	—	2,275
Block discounting financing (<i>Note b</i>)	9,740	9,951
Lease liabilities	993	846
Hire purchase liabilities (<i>Note c</i>)	5,875	19,443
Term loan (<i>Note d</i>)	1,018	1,012
Borrowings secured by inventories (<i>Note e</i>)	—	8,829
	<u>17,626</u>	<u>42,356</u>
	<u>72,742</u>	<u>75,137</u>

Notes:

- (a) Trust receipts financing were secured by corporate guarantee provided by the Company.
- (b) Block discounting financing were secured by finance lease receivables of approximately S\$50.8 million and S\$43.9 million respectively and corporate guarantee provided by the Company.
- (c) 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.
- (d) Term loan was secured by corporate guarantee provided by the Company.
- (e) Borrowings secured by inventories were secured by certain inventories and 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 2023, the Group sold 388 and 202 units of new motor vehicles and pre-owned motor vehicles, respectively, as compared with 327 and 235 units of new motor vehicles and pre-owned motor vehicles sold, respectively, for the corresponding period in 2022. Therefore, the revenue increased by approximately S\$21.2 million, and such increase was mainly attributable to the increased demand from customers. This was mainly driven by the increase in units of motor vehicles sold and the increase in average selling price of motor vehicles.

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\$21.2 million or 23.3% from approximately S\$91.0 million for the six months ended 30 June 2022 (“**PE2022**”) to approximately S\$112.2 million for the six months ended 30 June 2023 (“**PE2023**”), which was mainly attributable to the increase in sales of motor vehicles amounted to approximately S\$20.2 million or 23.7%.

Sales of motor vehicles

The sales of motor vehicles increased by approximately S\$20.2 million or 23.7% which was mainly attributable to the increase in sales of new motor vehicles by approximately S\$17.9 million or 22.5%. The increase in sales of new motor vehicles was mainly due to the increase in units of motor vehicles sold by 61 units from 327 units for PE2022 to 388 units for PE2023 and the average selling price of new motor vehicles sold increased from approximately S\$189,000 for PE2022 to approximately S\$205,000 for PE2023.

The sales of pre-owned motor vehicles increased by approximately S\$2.3 million or 8.9%, which was mainly due to the increase in the average selling price of pre-owned motor vehicles sold from S\$100,000 for PE2022 to approximately S\$128,000 for PE2023.

Motor vehicle financing services

The Group's revenue from motor vehicle financing services increased by approximately S\$0.4 million or 11.1% from approximately S\$3.2 million for PE2022 to approximately S\$3.6 million for PE2023. 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 PE2022 and PE2023 which amounted to approximately S\$0.5 million and S\$0.4 million, respectively.

Leasing of motor vehicles

The income from leasing of motor vehicles increased by approximately S\$0.7 million or 25.9% from approximately S\$2.0 million for PE2022 to approximately S\$2.7 million for PE2023. The increment was mainly attributable to an increase in motor vehicles with higher value being leased to corporate customers during PE2023 versus motor vehicles with lower value being leased to private hire drivers. The Group's number of motor vehicles being rented to customers was 200 units and 179 units as at 30 June 2022 and 2023, respectively.

Sales of spare parts and accessories

The income from sales of spare part and accessories decreased by approximately S\$28,000 or 96.6% from S\$29,000 for PE2022 to approximately S\$1,000 for PE2023.

Cost of sales

The Group's cost of sales increased by approximately S\$17.9 million or 22.4% from approximately S\$80.0 million for PE2022 to approximately S\$97.9 million for PE2023. The increase was in line with the increase in the Group's total revenue for the period.

For PE2023, the cost of motor vehicles (and related costs) sold increased by approximately S\$16.9 million or 21.6% from approximately S\$78.3 million for PE2022 to approximately S\$95.2 million for PE2023.

Gross profit and gross profit margin

As a result of the foregoing, the Group's total gross profit increased by approximately S\$3.3 million or 30.0% from approximately S\$11.0 million for PE2022 to approximately S\$14.3 million for PE2023, which was mainly attributable to the increase in the sales of motor vehicles business. The overall gross profit margin remained stable at approximately 12.1% for PE2022 and approximately 12.8% for PE2023.

Gross profit and gross profit margin from sales of motor vehicles

The Group's gross profit from sales of motor vehicles increased by approximately S\$3.1 million, or 44.9%, from approximately S\$6.9 million for PE2022 to approximately S\$10.0 million for PE2023, and the Group's gross profit margin for sales of motor vehicles was approximately 8.0% for PE2022 and approximately 9.5% for PE2023. The increase in gross profit margin for sales of motor vehicles was mainly contributed to that the Group sold proportionally more new motor vehicles which are normally sold at a higher margin as compared to pre-owned motor vehicles.

Gross profit and gross profit margin from motor vehicle financing services

The net interest spread for PE2023 decreased by approximately 2.2% from approximately 5.9% for PE2022 to approximately 3.7% for PE2023, as a result of an increase of approximately 1.6% in the average interest expense and a decrease of approximately 0.6% in the average yield on finance lease receivables.

Gross profit and gross profit margin from leasing of motor vehicles

The Group's gross profit from leasing of motor vehicles remained stable at approximately S\$0.4 million for PE2022 and approximately S\$0.3 million for PE2023.

Gross profit and gross profit margin from sales of spare parts and accessories

The Group recorded a gross profit from sales of spare parts and accessories of approximately S\$11,000 for PE2022 and a gross profit of approximately S\$1,000 for PE2023.

Other income

The Group's other income decreased by approximately S\$0.1 million or 50.0% from approximately S\$0.2 million for PE2022 to approximately S\$0.1 million for PE2023. The decrease was mainly due to the decrease of government grants.

Other gains/(losses) — net

The Group recorded net losses of approximately S\$45,000 for PE2022 to net gains of approximately S\$1,964,000 for PE2023, which was mainly due to the combination effect of (i) the disposal of property, plant and equipment recorded a gain of approximately S\$151,000 for PE2022 to a gain of approximately S\$1,922,000 for PE2023; and (ii) fair value loss on derivative instruments of approximately S\$136,000 for PE2022 to fair value gain of approximately S\$274,000 for PE2023.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately S\$0.1 million or 5.0% from approximately S\$2.0 million for PE2022 to approximately S\$2.1 million for PE2023. 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 and offset by the decrease of advertising and marketing expenses.

General and administrative expenses

The Group's general and administrative expenses remained stable at approximately S\$5.4 million for PE2022 and approximately S\$5.5 million for PE2023.

Finance income and finance expenses

Finance income represents interest income on late payment. The Group had minimal finance income for PE2023.

The Group's finance expenses increased by approximately S\$0.8 million or 100.0% from approximately S\$0.8 million for PE2022 to approximately S\$1.6 million for PE2023. The increase was mainly due to the increase in interest expenses on block discounting financing by approximately S\$0.5 million.

Income tax expenses

The Group's income tax expenses increased by approximately S\$0.7 million or 140.0% from approximately S\$0.5 million for PE2022 to approximately S\$1.2 million for PE2023, which was mainly due to the increase 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 increased by approximately S\$3.6 million or 128.6% from approximately S\$2.8 million for PE2022 to approximately S\$6.4 million for PE2023 and the Group's net profit margin increased from approximately 3.0% for PE2022 to approximately 5.7% for PE2023. Such increase in profit for PE2023 was primarily due to the (i) increase in gross profit by approximately S\$3.3 million; (ii) increase in other gains/(losses) — net by approximately S\$2.0 million and offset by the (iii) increase in finance expenses-net by approximately S\$0.8 million and (iv) increase in income tax expense by approximately S\$0.7 million.

CAPITAL STRUCTURE

As at 30 June 2023, 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 2023, 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, borrowings secured by inventories, trust receipts, block discounting financing, lease liabilities, hire purchase liabilities and term loan, etc.

LIQUIDITY RATIOS

As at 30 June 2023, the Group had cash and bank balances of approximately S\$12.2 million (31 December 2022: approximately S\$5.5 million). The Group's current ratio, debt to equity ratio and gearing ratio are as follows:

	As at 30 June 2023 (unaudited)	As at 31 December 2022 (audited)
Current ratio	2.6	1.4
Debt to equity ratio	103.5%	117.7%
Gearing ratio	<u>46.3%</u>	<u>52.2%</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 2023, the Group had borrowings of approximately S\$72.7 million (31 December 2022: approximately S\$75.1 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 2023, the capital expenditures amounted to approximately S\$6.0 million which was used for the purchases of property, plant and equipment in Singapore (31 December 2022: approximately 20.8 million). The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings.

As at 30 June 2023, the Group did not have material capital commitments (31 December 2022: 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 2023.

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.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2023 (31 December 2022: nil).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, the Group employed a total of 89 employees (31 December 2022: 93 employees), excluding the Directors. Employee benefit expense (including directors' emoluments) of approximately S\$5.2 million incurred for the six months ended 30 June 2023 (2022: S\$5.2 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 2023.

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 2023:

	Approximate percentage of total amounts	Actual Net Proceeds HK\$'000	Planned unutilised amounts as at 30 June 2023 HK\$'000	Utilised amounts as at 30 June 2023 HK\$'000	Unutilised amounts as at 30 June 2023 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 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 2023.

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 2023.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2023, 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 2023, 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 2023 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 2023

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.