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Sunfonda Group Holdings
SUNFONDA GROUP HOLDINGS LIMITED
新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01771)

CONTINUING CONNECTED TRANSACTION
MERCHANDISE SALE AND PURCHASE FRAMEWORK AGREEMENT
WITH YANGZHOU SUNFONDA AUTOMOBILE CO., LTD.

BACKGROUND

References are made to the announcement of Sunfonda Group Holdings Limited (the “**Company**”) dated 1 December 2016 in relation to the automobile sales agreement (the “**Original Automobile Sales Agreement**”) entered into between Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (“**Shaanxi Sunfonda**”), a subsidiary of the Company, and Yangzhou Sunfonda Automobile Co., Ltd. (“**Yangzhou Sunfonda**”), a connected person of the Company, pursuant to which Shaanxi Sunfonda would sell imported Volkswagen automobiles to Yangzhou Sunfonda from 1 January 2017 to 31 December 2019, and the announcement of the Company dated 30 June 2017 in relation to the merchandise sale and purchase framework agreement (the “**Original MSP Framework Agreement**”) entered into between the Company and Yangzhou Sunfonda, pursuant to which the Company would purchase merchandise, primarily including imported Volkswagen automobiles and related spare parts from Yangzhou Sunfonda from 1 January 2017 to 31 December 2019.

The board of Directors of the Company (the “**Board**”) is pleased to announce that, in view of that the Original Automobile Sales Agreement and the Original MSP Framework Agreement will expire on 31 December 2019 and in consideration of the benefits to the Company from the transaction thereunder, the Company entered into a merchandise sale and purchase framework agreement (the “**MSP Framework Agreement**”) with Yangzhou Sunfonda on 9 December 2019, pursuant to which the Company and its subsidiaries may sell or purchase imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda from time to time. The MSP Framework Agreement will be effective for a term of three years from 1 January 2020 to 31 December 2022, the principal terms of which are summarized below.

THE MSP FRAMEWORK AGREEMENT

Details of the MSP Framework Agreement

Date	:	9 December 2019
Parties	:	Yangzhou Sunfonda The Company
Subject matter	:	The Group may sell or purchase imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda from time to time
Term	:	For a term of three years from 1 January 2020 to 31 December 2022
Pricing policy	:	The sales or purchase of imported Volkswagen automobiles and related spare parts between the Group and Yangzhou Sunfonda will help to leverage the Group's regional advantages and product diversification. The Group can flexibly allocate and transfer the inventories of different automobile models according to the sales of different stores without price difference (different hot-selling vehicle models can be easily allocated and transferred between Northwestern and Eastern China), thus further expand our market share. Pursuant to the MSP Framework Agreement, all transaction prices for the sale or purchase of imported Volkswagens automobiles and related spare parts between the Group and Yangzhou Sunfonda are equivalent to the transaction prices between the Group and Volkswagen Group Import (China) Co., Ltd., which is in line with the pricing policy of the transactions conducted by the Company with other independent automobile dealers. In the Transactions, as the transaction prices are completely the same as those offered by or to Volkswagen Group Import (China) Co., Ltd. or other independent automobile dealers, neither the Group nor Yangzhou Sunfonda will profit from any price differentiation from the MSP Framework Agreement and Transactions contemplated thereunder. Therefore, the Company believes that the pricing policy for the sales or purchase of imported Volkswagen automobiles and related spare parts between the Group and Yangzhou Sunfonda is fair and reasonable.

HISTORICAL AMOUNTS AND ANNUAL CAPS OF SALES OF IMPORTED VOLKSWAGEN AUTOMOBILES AND RELATED SPARE PARTS TO YANGZHOU SUNFONDA BY THE GROUP

Historical Amounts

For the year ended 31 December 2017 Audited Amount of Sales (RMB'000)	For the year ended 31 December 2018 Audited Amount of Sales (RMB'000)	For the year ended 30 November 2019 Audited Amount of Sales (RMB'000)
26,400	27,720	29,040

Annual Caps

For the three years ending 31 December 2020, 2021 and 2022, we estimate that the Group will sell the following units of automobiles and total transaction amount of imported Volkswagen automobiles and related spare parts to Yangzhou Sunfonda:

For the year ending 31 December 2020 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2021 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2022 Expected Total Transaction Amount (RMB'000)
14,500	16,500	19,500

HISTORICAL AMOUNTS AND ANNUAL CAPS OF PURCHASE OF IMPORTED VOLKSWAGEN AUTOMOBILES AND RELATED SPARE PARTS FROM YANGZHOU SUNFONDA BY THE GROUP

Historical Amounts

For the year ended 31 December 2017 Audited Total Transaction Amount (RMB'000)	For the year ended 31 December 2018 Audited Total Transaction Amount (RMB'000)	For the year ended 30 November 2019 Audited Total Transaction Amount (RMB'000)
9,800	11,310	12,850

Annual Caps

For the three years ending 31 December 2020, 2021 and 2022, we estimate that the Group will purchase the following units of automobiles and total transaction amount of imported Volkswagen automobiles and related spare parts from Yangzhou Sunfonda:

For the year ending 31 December 2020 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2021 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2022 Expected Total Transaction Amount (RMB'000)
14,500	16,500	19,500

The Group will pay Yangzhou Sunfonda the relevant consideration with its own funds.

Basis of Determination

Based on the sales record of imported Volkswagen automobiles across the PRC and in different regions, the annual caps for prior years, and the actual transaction quantity and amount, the Group estimates the annual caps of sales or purchase of imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda for the period from 2020 to 2022. The transaction amount includes the transaction amount of automobiles and spare parts. The automobile transaction quantity is determined with reference to the actual transaction quantity in the prior years and the expected sales volume of imported Volkswagen automobiles across the PRC in the future. The transaction prices between the Group and Yangzhou Sunfonda are equivalent to the transaction prices between the Group and Volkswagen Group Import (China) Co., Ltd. and there is no price difference between them, and the prices at which the Group sells or purchases imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda are also equivalent to the transaction prices with any independent third party.

REASONS FOR ENTERING INTO THE TRANSACTIONS

Firstly, the Group has established years of cooperation relationship with Yangzhou Sunfonda. Their cooperation over the years has deepened the mutual understanding between the Group and Yangzhou Sunfonda and has thus laid a good foundation for cooperation.

Secondly, the business in Jiangsu region, where Yangzhou Sunfonda operates, is growing rapidly with dense network of dealership outlets. Two of the Company's subsidiaries, both of which are dealers of imported Volkswagen automobiles, are located in Jiangsu region, which is also the region where Yangzhou Sunfonda is located. In the automobile sales industry, popular car models vary across different cities, the Group can broaden the automobile sales channels, increase sales volume and reduce inventory pressure through adjustment of car models. In order to avoid the negative effect of excessive inventories to the Company and its Shareholders, the Group sells a portion of imported

Volkswagen automobiles to Yangzhou Sunfonda every year. Meanwhile, in selling imported Volkswagen automobiles of the Group, the Group may purchase such models not in its inventory from the nearby Yangzhou Sunfonda to meet the immediate needs of its customers in a timely manner, thus capturing more business opportunities. Resource allocation of new automobiles and marketability of dealers differs from region to region. Such trans-regional purchases of new automobiles enables us to solve the problem of unbalanced allocation of new automobile resources, match the models we have with our marketability and maximise our profit. Regarding urgent spare parts needs for repair and maintenance purpose or spare parts temporarily unavailable from Volkswagen Group Import (China) Co., Ltd., the Group may also purchase such spare parts from Yangzhou Sunfonda to improve its spares fill rate, satisfy the supply requirements of spare parts and do repair and maintenance business quickly. Yangzhou Sunfonda is also a strong supplementary purchase channel of the Group in Jiangsu region.

Finally, the transaction prices between the Group and Yangzhou Sunfonda are equivalent to the transaction prices between the Group and Volkswagen Group Import (China) Co., Ltd. and there is no price difference between them, and the prices at which the Group sells or purchases imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda are also equivalent to the transaction prices with any independent third party. Therefore, the Company believes that the sales or purchase of imported Volkswagen automobiles and related spare parts between the Group and Yangzhou Sunfonda are in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL PROCEDURES ADOPTED FOR CONTINUING CONNECTED TRANSACTIONS

The Company has adopted the following internal control procedures to ensure the continuing connected transactions are fair and reasonable and on normal commercial terms:

- The Company has adopted and implemented a management system on connected transactions. Under this system, our finance department is responsible for conducting reviews on compliance with relevant laws, regulations, company policies and Listing Rules in respect of continuing connected transactions. In addition, the finance department, operation department, audit department, legal affairs department and other relevant departments of the Company are jointly responsible for evaluating the transaction terms under agreements governing continuing connected transactions, in particular, the fairness of the pricing terms under each agreements; and
- The independent non-executive Directors have also reviewed the MSP Framework Agreement to ensure such agreements, where applicable, are entered on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditor of the Company will also conduct an annual review on the pricing and annual caps of such agreements.

LISTING RULES IMPLICATIONS

Yangzhou Sunfonda is held as to 96.69% equity interest by Mr. Zhao Yijian (“**Mr. Zhao**”), who is the brother-in-law and the brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being Directors of the Company) respectively, and 0.31% equity interest by Ms. Zhao Bailu (“**Ms. Zhao**”), who is the daughter of another brother-in-law and the daughter of another brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being Directors of the Company) respectively, hence Mr. Zhao, Ms. Zhao and Yangzhou Sunfonda are connected persons of the Company. As a result, the MSP Framework Agreement and the Transactions contemplated thereunder constitute continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the proposed annual caps of the Transactions for the three years ending 31 December 2022 are less than 5% but at least one of the applicable percentage ratios exceeds 0.1%, the Transactions are subject to the reporting, annual review and announcement requirements, but are exempt from independent Shareholders’ approval requirements.

CONFIRMATION OF THE BOARD

The Directors (including the independent non-executive Directors) have confirmed that the transactions between the Group and Yangzhou Sunfonda under the Original Automobile Sales Agreement and the Original MSP Framework Agreement from 1 January 2017 to the date of this announcement have not exceeded and will not exceed the annual caps approved by the Board; and that the MSP Framework Agreement and the Transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Company. The terms and conditions of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the proposed annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Board has considered and approved the resolutions in relation to the MSP Framework Agreement. As Mr. Wu Tak Lam and Ms. Chiu Man, the Directors of the Company, are deemed to have material interests by virtue of their associates’ shareholding interests in Yangzhou Sunfonda, they have abstained from voting on the relevant resolutions.

GENERAL INFORMATION

The Company

The Company is a limited liability company incorporated in the Cayman Islands. The Company is a luxury and ultra-luxury automobile dealership group in Northwestern China, which has been listed on the Main Board of the Stock Exchange on 15 May 2014.

Yangzhou Sunfonda

Yangzhou Sunfonda is a company established in the PRC that principally engages in the sales and after-sales services of imported Volkswagen automobiles and related spare parts.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“%”	per cent
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“Company” or “we” or “our”	Sunfonda Group Holdings Limited (新豐泰集團控股有限公司), an exempted company incorporated under the laws of the Cayman Islands on 13 January 2011 with limited liability
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MSP Framework Agreement”	the merchandise sale and purchase framework agreement entered into between the Company and Yangzhou Sunfonda on 9 December 2019
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholder(s)”	the shareholder(s) of the Company
“Transactions”	the transactions between the Group and Yangzhou Sunfonda contemplated under the MSP Framework Agreement
“Yangzhou Sunfonda”	Yangzhou Sunfonda Automobile Co., Ltd. (揚州新豐泰汽車有限責任公司), a company incorporated in the PRC on 22 June 2011 with limited liability, and a connected person of the Company
“Shaanxi Sunfonda”	Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司), a company incorporated in the PRC with limited liability, and a subsidiary of the Company

By Order of the Board
Sunfonda Group Holdings Limited
Mr. Wu Tak Lam
Chairman

9 December 2019

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng and Ms. Chen Wei; and three independent non-executive Directors, namely, Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.