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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

During the period from 1 January 2022 to 30 June 2022, the Group has recorded:

- Operating revenue of RMB5,156.4 million, which was down by 15.8% from the same period in 2021, including:
 - Sales volume of new vehicles down by 17.8% to 14,363 units, and revenue from the sales of new vehicles down by 16.0% to RMB4,431.2 million;
 - Revenue from after-sales services down by 15.2% to RMB542.1 million; and
 - Revenue from the sales of used cars down by 12.3% to RMB183.1 million.
- Gross profit of RMB416.5 million, which was down by 13.8% from the same period in 2021.
- Gross profit margin was 8.1% (same period in 2021: 7.9%), of which gross profit margin of sales of new automobiles was 3.9% (same period in 2021: 3.7%).
- Profit before tax for the Period decreased by 58.0% to RMB123.1 million (same period in 2021: RMB292.8 million, including the one-off investment gains of approximately RMB145.2 million arising from the disposal of the equity investment in a company which was not engaged in main business, accounting for approximately 49.6% of the profit before tax for the same period in 2021).
- Profit attributable to owners of the parent for the Period was down by 64.7% to RMB77.8 million (same period in 2021: RMB220.6 million).
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent decreased to RMB0.13 for the Period as compared to RMB0.37 for the same period in 2021. The board of directors of the Company resolved to declare an interim dividend of HK\$0.04 (equivalent to approximately RMB0.03) per ordinary share for the six months ended 30 June 2022 (same period in 2021: HK\$0.05 (equivalent to approximately RMB0.04)).

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sunfonda Group Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”, “**we**”, “**our**” or “**Sunfonda**”) for the six months ended 30 June 2022 (the “**Period**”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
	<i>Notes</i>		
Revenue	4(a)	5,156,442	6,124,511
Cost of sales and services	5(b)	<u>(4,739,970)</u>	<u>(5,641,241)</u>
Gross profit		416,472	483,270
Other income and gains, net	4(b)	116,342	236,802
Selling and distribution expenses		(232,133)	(242,779)
Administrative expenses		<u>(128,426)</u>	<u>(136,735)</u>
Profit from operations		172,255	340,558
Finance costs	6	<u>(49,194)</u>	<u>(47,765)</u>
Profit before tax	5	123,061	292,793
Income tax expense	7	<u>(45,236)</u>	<u>(72,174)</u>
Profit for the period		<u>77,825</u>	<u>220,619</u>
Attributable to:			
Owners of the parent		<u>77,825</u>	<u>220,619</u>
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic and diluted (RMB)		<u>0.13</u>	<u>0.37</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
PROFIT FOR THE PERIOD	<u>77,825</u>	<u>220,619</u>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>2,415</u>	<u>(19,243)</u>
Total comprehensive income for the period, net of tax	<u>80,240</u>	<u>201,376</u>
Attributable to:		
Owners of the parent	<u>80,240</u>	<u>201,376</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		30 June 2022	31 December 2021
		Unaudited	Audited
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,566,707	1,469,011
Right-of-use assets		741,913	722,542
Intangible assets		10,266	10,677
Prepayments		30,440	28,295
Goodwill		10,284	10,284
Deferred tax assets		35,028	30,124
		<hr/>	<hr/>
Total non-current assets		2,394,638	2,270,933
CURRENT ASSETS			
Inventories	<i>10</i>	1,320,083	1,054,373
Trade receivables	<i>11</i>	38,716	30,671
Prepayments, other receivables and other assets	<i>12</i>	985,146	1,180,612
Amounts due from a related party		5,219	5,810
Financial assets at fair value through profit or loss		3,381	3,552
Pledged bank deposits		431,507	364,623
Cash in transit		22,529	4,782
Short-term deposits		86,576	127,579
Cash and cash at banks		907,621	836,227
		<hr/>	<hr/>
Total current assets		3,800,778	3,608,229
CURRENT LIABILITIES			
Bank loans and other borrowings	<i>13</i>	1,928,871	1,546,245
Trade and bills payables	<i>14</i>	696,033	632,264
Other payables and accruals		371,614	375,323
Lease liabilities		27,194	21,559
Income tax payable		12,855	31,398
		<hr/>	<hr/>
Total current liabilities		3,036,567	2,606,789
		<hr/>	<hr/>
NET CURRENT ASSETS		764,211	1,001,440
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,158,849	3,272,373
		<hr/>	<hr/>

		30 June 2022	31 December 2021
		Unaudited	Audited
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	<i>13</i>	582,035	760,774
Lease liabilities		72,121	51,291
Deferred tax liabilities		26,399	21,487
		<hr/>	<hr/>
Total non-current liabilities		680,555	833,552
		<hr/>	<hr/>
NET ASSETS		2,478,294	2,438,821
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		377	377
Reserves		2,477,917	2,438,444
		<hr/>	<hr/>
Total equity		2,478,294	2,438,821
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the parent								
	Share capital	Share premium	Capital reserve	Statutory reserve	Merger reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	377	161,202	118,045	156,505	157,947	11,390	35,604	1,797,751	2,438,821
Profit for the period	-	-	-	-	-	-	-	77,825	77,825
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,415	-	2,415
Total comprehensive income for the period	-	-	-	-	-	-	2,415	77,825	80,240
Final 2021 dividend declared	-	(40,800)	-	-	-	-	-	-	(40,800)
Equity-settled share award expense	-	-	-	-	-	33	-	-	33
At 30 June 2022 (Unaudited)	<u>377</u>	<u>120,402</u>	<u>118,045</u>	<u>156,505</u>	<u>157,947</u>	<u>11,423</u>	<u>38,019</u>	<u>1,875,576</u>	<u>2,478,294</u>

	Attributable to owners of the parent								
	Share capital	Share premium	Capital reserve	Statutory reserve	Merger reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	377	229,842	118,045	121,006	157,947	11,396	32,276	1,487,399	2,158,288
Profit for the period	-	-	-	-	-	-	-	220,619	220,619
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(19,243)	-	(19,243)
Total comprehensive income for the period	-	-	-	-	-	-	(19,243)	220,619	201,376
Final 2020 dividend declared	-	(42,240)	-	-	-	-	-	-	(42,240)
Equity-settled share award expense	-	-	-	-	-	(132)	-	-	(132)
At 30 June 2021 (Unaudited)	<u>377</u>	<u>187,602</u>	<u>118,045</u>	<u>121,006</u>	<u>157,947</u>	<u>11,264</u>	<u>13,033</u>	<u>1,708,018</u>	<u>2,317,292</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

		For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
	<i>Notes</i>		
Operating activities			
Profit before tax		123,061	292,793
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	78,737	77,698
Depreciation of right-of-use assets	5(c)	20,521	14,230
Amortisation of intangible assets	5(c)	411	783
Interest income	4(b)	(3,473)	(2,116)
Net (gain)/loss on disposal of items of property, plant and equipment	4(b)	(8,450)	5,952
Equity-settled share award expense	5(a)	33	(132)
Fair value gains, net:			
Financial products	4(b)	170	–
Accrual/(reversal) of impairment of inventories		6,076	(3,723)
Gain on disposal of equity investment	4(b)	–	(145,204)
Finance costs	6	49,194	47,765
		266,280	288,046
(Increase)/decrease in inventories		(271,786)	21,520
(Increase)/decrease in trade receivables		(8,045)	2,688
Decrease in prepayments, other receivables and other assets		155,618	50,512
Decrease in amounts due from a related party		591	1,190
(Increase)/decrease in pledged bank deposits		(66,884)	22,675
Increase in cash in transit		(17,747)	(8,310)
Increase/(decrease) in trade and bills payables		63,769	(128,586)
(Decrease)/increase in other payables and accruals		(5,855)	359
Cash generated from operations		115,941	250,094
Tax paid		(63,770)	(30,671)
Net cash generated from operating activities		52,171	219,423

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(222,189)	(168,521)
Proceeds from disposal of items of property, plant and equipment	60,740	61,998
Purchase of intangible assets	–	(256)
Interest received	3,473	2,116
Proceeds from disposal of equity investment designated at fair value through profit or loss	40,000	24,008
Decrease/(increase) of time deposits of maturity over three months	<u>2,010</u>	<u>(24,146)</u>
Net cash used in investing activities	<u>(115,966)</u>	<u>(104,801)</u>
Financing activities		
Proceeds from bank loans and other borrowings	3,677,773	4,138,698
Repayment of bank loans and other borrowings	(3,472,531)	(4,115,276)
Principal portion of lease payments	(18,374)	(8,207)
Interest paid for bank loan and other borrowings	(50,932)	(48,739)
Dividends paid	<u>(40,800)</u>	<u>(42,240)</u>
Net cash generated from/(used in) financing activities	95,136	(75,764)
Net increase in cash and cash equivalents	31,341	38,858
Cash and cash equivalents at the beginning of each period	931,300	743,542
Effect of foreign exchange rate changes, net	<u>1,060</u>	<u>(1,213)</u>
Cash and cash equivalent at the end of each period	<u>963,701</u>	<u>781,187</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	907,621	755,354
Short-term deposits with maturity less than 3 months	<u>56,080</u>	<u>25,833</u>
	<u>963,701</u>	<u>781,187</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. CORPORATE INFORMATION

Sunfonda Group Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 13 January 2011 as an exempted Company with limited liability under the Companies Act of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 May 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the sale and service of motor vehicles in Mainland China.

In the opinion of the directors of the Company (the “**Directors**”), the ultimate holding company of the Company is Golden Speed Enterprises Limited, which is incorporated in the British Virgin Islands (“**BVI**”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3,	<i>Reference to the Conceptual Framework</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

The revised standards have had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since all of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue. No major customer segment information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns and trade discounts, where applicable.

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Types of goods or service		
Revenue from the sale of motor vehicles	4,614,389	5,484,891
Others	<u>542,053</u>	<u>639,620</u>
Total revenue from contracts with customers	<u><u>5,156,442</u></u>	<u><u>6,124,511</u></u>
Timing of revenue recognition		
At a point in time	<u><u>5,156,442</u></u>	<u><u>6,124,511</u></u>

(b) Other income and gains, net

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Commission income	85,970	89,842
Logistics and storage income	12,629	13,411
Government grants	1,313	1,841
Interest income	3,473	2,116
Gain on disposal of equity investment	–	145,204
Net gain/(loss) on disposal of items of property, plant and equipment	8,450	(5,952)
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– Financial product	(170)	–
Others	<u>4,677</u>	<u>(9,660)</u>
	<u><u>116,342</u></u>	<u><u>236,802</u></u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	117,403	127,323
Equity-settled share award expense	33	(132)
Other welfare	26,933	23,652
	<u>144,369</u>	<u>150,843</u>
(b) Cost of sales and services		
Cost of sales of motor vehicles	4,433,088	5,281,697
Others*	306,882	359,544
	<u>4,739,970</u>	<u>5,641,241</u>
* There were employee benefit expenses of RMB23,930,000 (six months ended 30 June 2021: RMB29,829,000) included in the cost of sales and services.		
(c) Other items		
Depreciation and impairment of property, plant and equipment	78,737	77,698
Depreciation of right-of-use assets	20,521	14,230
Amortisation of intangible assets	411	783
Advertisement and business promotion expenses	34,500	43,896
Lease expenses	3,736	2,596
Bank charges	2,193	2,589
Office expenses	19,294	19,049
Logistics expenses	12,054	7,853
Net (gain)/loss on disposal of items of property, plant and equipment	<u>(8,450)</u>	<u>5,952</u>

6. FINANCE COSTS

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Interest on bank borrowings and other borrowings	46,503	46,625
Interest expense on lease liabilities	<u>2,691</u>	<u>1,140</u>
	<u>49,194</u>	<u>47,765</u>

7. INCOME TAX

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Current Mainland China corporate income tax	45,228	51,949
Deferred tax	<u>8</u>	<u>20,225</u>
	<u>45,236</u>	<u>72,174</u>

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the BVI is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for the Mainland China subsidiaries is 25% from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

8. DIVIDENDS

On 30 August 2022, the board of directors declared an interim dividend of HK\$0.04 (six months ended 30 June 2021: HK\$0.05 per ordinary share) per ordinary share, amounting to a total of HK\$24,000,000 (six months ended 30 June 2021: amounting to a total of HK\$30,000,000).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the six months ended 30 June 2022 is based on the profit for the period attributable to owners of parent, and the weighted average number of ordinary shares of 600,000,000 in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during those periods.

	For the six months ended 30 June 2022 Unaudited RMB'000	For the six months ended 30 June 2021 Unaudited RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>77,825</u>	<u>220,619</u>
	For the six months ended 30 June 2022	For the six months ended 30 June 2021
Shares		
Weighted average number of ordinary shares in issue during the period	<u>600,000,000</u>	<u>600,000,000</u>
Earnings per share		
Basic and diluted (RMB)	<u>0.13</u>	<u>0.37</u>

10. INVENTORIES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Motor vehicles	1,230,034	969,210
Spare parts	<u>90,049</u>	<u>85,163</u>
	<u>1,320,083</u>	<u>1,054,373</u>

As at 30 June 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB561,230,000 (31 December 2021: RMB555,131,000) were pledged as security for the Group's bank loans and other borrowings (note 13(a)).

As at 30 June 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB208,439,000 (31 December 2021: RMB344,617,000) were pledged as security for the Group's bills payable (note 14).

11. TRADE RECEIVABLES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Trade receivables	<u>38,716</u>	<u>30,671</u>

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Within 3 months	34,691	27,707
More than 3 months but less than 1 year	1,389	657
Over 1 year	<u>2,636</u>	<u>2,307</u>
Total	<u>38,716</u>	<u>30,671</u>

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Prepayments and deposits to suppliers	613,132	772,418
Vendor rebate receivables	227,098	207,035
VAT recoverable ⁽ⁱ⁾	61,928	78,763
Others	<u>82,988</u>	<u>122,396</u>
Total	<u>985,146</u>	<u>1,180,612</u>

Note:

- (i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Financial assets included in prepayments, other receivables and other assets	<u>310,086</u>	<u>329,431</u>

13. BANK LOANS AND OTHER BORROWINGS

	30 June 2022		31 December 2021	
	Unaudited		Audited	
	Effective	Amount	Effective	Amount
	interest rate	<i>RMB'000</i>	interest rate	<i>RMB'000</i>
	(%)		(%)	
CURRENT:				
Bank loans	3.3-5.8	1,547,794	3.6-5.8	1,152,576
Other borrowings	1.3-8.5	<u>381,077</u>	1.7-8.6	<u>393,669</u>
		<u>1,928,871</u>		<u>1,546,245</u>
NON-CURRENT:				
Bank loans	3.5-5.9	<u>582,035</u>	3.5-5.9	<u>760,774</u>
		<u>2,510,906</u>		<u>2,307,019</u>
Bank loans and other borrowings represent:				
– secured loans (a)		<u>1,901,600</u>		<u>1,798,885</u>
– unsecured loans		<u>609,306</u>		<u>508,134</u>
		<u>2,510,906</u>		<u>2,307,019</u>

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Analysed into:		
Bank loans repayable		
Within one year	1,547,794	1,152,576
In the second year	331,998	541,250
In the third to fifth years, inclusive	95,777	191,324
Over fifth years	154,260	28,200
	<u>2,129,829</u>	<u>1,913,350</u>
Other borrowings repayable		
Within one year	381,077	393,669
Total	<u>2,510,906</u>	<u>2,307,019</u>

- (a) As at 30 June 2022, certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB561,230,000 (31 December 2021: RMB555,131,000) (note 10);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB355,020,000 (31 December 2021: RMB369,103,000);
 - (iii) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB258,349,000 (31 December 2021: RMB192,321,000);
 - (iv) mortgages over the Group's construction in progress, which had an aggregate carrying value of approximately RMB284,762,000 (31 December 2021: RMB221,372,000);
 - (v) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately RMB118,741,000 (31 December 2021: nil) and US\$8,630,000 (equivalent to RMB57,919,000) (31 December 2021: US\$8,630,000 (equivalent to RMB55,025,000));
 - (vi) As at 31 December 2021, mortgages over the Group's deposits, which had an aggregate carrying value of RMB2,257,500.
- (b) Except for the secured bank loan amounting to HK\$78,400,000 (equivalent to RMB67,047,000) (31 December 2021: HK\$178,400,000 (equivalent to RMB145,860,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

14. TRADE AND BILLS PAYABLES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Trade payables	102,276	62,897
Bills payable	593,757	569,367
	<hr/>	<hr/>
Trade and bills payables	696,033	632,264
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Within 3 months	653,443	620,579
3 to 6 months	38,302	7,963
6 to 12 months	736	718
Over 12 months	3,552	3,004
	<hr/>	<hr/>
Total	696,033	632,264
	<hr/> <hr/>	<hr/> <hr/>

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90-180 days terms.

As at 30 June 2022, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB208,439,000 (31 December 2021: RMB344,617,000) (note 10).

As at 30 June 2022, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB246,643,000 (31 December 2021: RMB226,011,000).

15. CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities.

16. COMMITMENTS

Capital commitments

Capital commitments of the Group at the reporting date not provided for in these financial statements are as follows:

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Contracted, but not provided for Buildings	<u>126,858</u>	<u>127,589</u>

17. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's Economy Overcame Current Difficulties and Maintained Growth Under Policy Stimulus, and Key Areas Covered by the Network of the Group Achieved Overall Stable and Positive Economic Performance

In the first half of 2022, the international economic environment became more complex and severe, the pandemic resurged in multiple places across China, and unexpected factors impacted enterprises and people's livelihood head-on, which put significant downward pressure on the economy in the second quarter. However, since May 2022, as the efficient co-ordination of pandemic prevention and control and the economic and social development continuously delivered results in China, economic operation has gradually stabilised and rebounded, market prices have been basically stable, people's well-being have been strongly and effectively safeguarded, high-quality development has continued, and the overall social situation has remained stable. According to data released by the National Bureau of Statistics of China, the gross domestic product (the "GDP") for the first half of the year amounted to RMB56,264.2 billion, representing a year-on-year increase of 2.5% at constant prices. The total retail sales of consumer goods were RMB21,043.2 billion, representing a year-on-year decrease of 0.7%. Among which, automobile consumption amounted to RMB2,118.1 billion, representing a year-on-year decrease of 5.7%, and accounting for 10% of the total retail sales of consumer goods, indicating that its contribution to China's economic development became increasingly prominent.

In order to promote automobile consumption and support the development of the automobile industry, China has successively issued a series of targeted policies to drive automobile consumption. In May 2022, the Ministry of Finance and the State Taxation Administration jointly issued a notice on reduction of purchase tax for certain passenger vehicles. In July 2022, 16 departments including the Ministry of Commerce, the Ministry of Industry and Information Technology, the Ministry of Housing and Urban-Rural Development and other departments jointly promulgated "Several Measures for Activating Automobile Circulation and Expanding Automobile Consumption" to further stimulate the automobile consumption market. With the effective control of the pandemic and the effective implementation of various policies and measures, automobile consumption is expected to achieve rapid growth in the second half of 2022, which will play a positive role in stabilising the macroeconomic situation.

The economic operation of Shaanxi Province, the key area covered by the Group's sales network, has shown a trend of improvement in both quality and efficiency, which could be reflected in the fact that the regional GDP increased by 4.2% year on year at comparable prices in the first half of 2022. In June 2022, the Shaanxi Provincial Department of Commerce issued the "2022 Subsidy Plan for Automobile Installment Consumption in Shaanxi Province" and other policies to further stimulate market vitality, release the potential of automobile consumption, promote automobile consumption replenishment, and meet the needs of consumption upgrades. With the gradual relaxation of the pandemic prevention and control measures, the actual GDP growth rate of Jiangsu Province, another major area within the coverage of the Group's network, was 1.6% in the first half of 2022. In June 2022, Jiangsu Province issued the "Implementation Opinions on Further Unleashing Consumption Potential to Promote Acceleration of Consumption Recovery and High-Quality Development" and other policies to further encourage consumption of major durables such as automobiles and home appliances. Certain policies such as phased half rate of the vehicle purchase tax, and providing subsidies and tax incentives for the purchase of new energy vehicles, have been effectively implemented, automobile production and sales enterprises are encouraged to surrender part of the profits to consumers, and financial institutions are promoted to enhance credit support for automobile consumption by reducing down payment and loan interest rates and extending repayment term, to promote the stabilisation and recovery of automobile consumption by taking multiple measures simultaneously.

Automobile Consumption Continued Resilient Growth, and the Production and Sales Volume of Passenger Vehicles were Higher than the Same Period of the Previous Year; the Overall Sales of Luxury Cars Remained Generally Stable, and the Transformation to Electrification Achieved Success

The automobile industry, as an important pillar industry of the Chinese economy, covers a long industrial chain and has a strong driving effect, and also is the top priority for stabilising economic growth. Since May 2022, the Party Central Committee and the State Council have launched a series of policies and measures to stabilise the growth of automobile industry and promote automobile consumption in a timely manner in response to the changing situation, while the consumption promotion policies issued by local governments also mainly focus on automobile consumption. Since the implementation of the policy of halving the passenger vehicle purchase tax for one month, a total amount of RMB7.1 billion in vehicle purchase tax has been reduced for 1.097 million vehicles around the country. In the medium and long term, China's automobile market is generally in the late stage of popularisation, and residents' consumption demand for automobiles is still strong, coupled with the industry bonuses brought by industrial transformation and consumption upgrades, which sufficiently ensure the stable growth of automobile consumption.

According to data released by the China Association of Automobile Manufacturers, in the first half of 2022, domestic production and sales volume of passenger vehicles generally showed a U-shaped trend. From January to February 2022, the production and sales volume increased steadily, but fell rapidly due to the impact of the pandemic after the Spring Festival, followed by gradual recovery since June 2022. In the first half of the year, the total production and sales volume were 10.434 million units and 10.355 million units, respectively, representing a year-on-year increase of 6% and 3.4%, respectively. Among which, domestic production and sales volume of passenger vehicles in June 2022 were 2.239 million units and 2.222 million units, respectively, representing a year-on-year increase of 43.6% and 41.2%, respectively.

Affected by the pandemic, the demand for new purchase and replacement slowed down in the luxury car market, with an overall slight year-on-year decrease of 1.2%, basically remaining stable. Driven by automobile consumption stimulus policies since June 2022, sales volume increased by 41.9% year on year. To actively adapt to national policies and market demands, luxury car manufacturers have constantly carried out transformation to electrification, and have achieved initial success at present as evidenced by the gradual increase in the sales volume of new energy vehicles. In view of the current strategies of traditional luxury brands, the electric vehicle business will become a new profit growth point for luxury car manufacturers and also a key area for their future competition. The industry believes that with the expansion of the product lines, the sales volume of luxury electric vehicles is expected to witness a significant increase.

China's Automobile Ownership Volume Continued to Grow, and New Energy Vehicles and Used Cars Will Further Release the Potential of Automobile Consumption

According to the statistics of the Ministry of Public Security of China, as at the end of June 2022, China's motor vehicle ownership volume reached 406 million units, of which the automobile ownership volume was 310 million units, and the new energy vehicle ownership volume accounted for 3.23% of the total number of automobiles, representing an increase of 27.8% as compared with that as at the end of 2021. Both production and sales volume increased by 1.2 times year on year, and the market share reached 21.6%, continuing to maintain rapid growth. Among which, the sales volume of new energy passenger vehicles accounted for 24.0% of the total sales volume of passenger vehicles. Looking ahead to the second half of the year, stimulated by the continuous implementation and effectiveness of the "Package of Policies for Solidly Stabilising the Economy" issued by the State Council, market consumer confidence will also significantly return, and new energy vehicles will sustain a rapid growth momentum.

As at the end of June 2022, there were 81 cities with automobile ownership volume of more than 1 million units in China, representing a year-on-year increase of 7 cities. 37 cities had automobile ownership volume of more than 2 million units, and 20 cities had more than 3 million units. Specifically, Beijing had an automobile ownership volume of more than 6 million units, Chengdu and Chongqing each had an automobile ownership volume of more than 5 million units, and Suzhou, Shanghai, Zhengzhou, Xi'an and Wuhan each had an automobile ownership volume of more than 4 million units.

As mentioned in the “Notice on Several Measures for Activating Automobile Circulation and Expanding Automobile Consumption”, unreasonable restrictions on used car dealership will be gradually lifted, and enterprises with clearly registered domiciles and business premises will be allowed to carry out used car sales business. Since 1 August 2022, the restrictions on transfer and registration of motor vehicles that meet the National Fifth Stage Vehicle Emission Standards will be completely abolished, and with effect from 1 October 2022, separate endorsement management and review and issuance of temporary license plates will be implemented when automobile sales companies apply for transfer and registration, which will further release the potential of automobile consumption.

BUSINESS REVIEW

In the first half of 2022, the Group realised operating income and gross operating profit of RMB5,156.4 million and RMB416.5 million, respectively. While optimising the brand network layout in superior regions, the Group continued to improve operating efficiency.

The Operating Efficiency of New Automobile Sales Business Continued to Improve, and New Energy Vehicles Achieved Outstanding Performance

The Group occupies a relatively large market share in Xi’an market. Despite the impact of the lockdown measures for the pandemic prevention and control in Xi’an in January 2022, thanks to the joint efforts of the Group, the sales volume of new vehicles was 14,363 units in the first half of 2022, in particular, the sales volume of the BMW brand and the GAC Toyota brand increased significantly. The Group has planned the sales of new energy vehicles as an important strategic direction for the Group this year. In the first half of the year, through the establishment of a special sales team for new energy vehicles, and holding sharing sessions and training on new energy vehicles, etc., the Group’s sales volume of new energy vehicles increased by 43.8% in the first half of 2022.

The Group continued to adopt the prior order management method and continuously carried out guidance, follow-up and inspection for different brands and different stores. At present, the Group’s order coverage rate is at a good level in the industry, and the inventory ratio falls within a reasonable range, resulting in an improved gross profit margin of new automobiles. In the first half of 2022, the gross profit margin of new automobiles of the Group was 3.9%, representing a year-on-year increase of 0.2 percentage points. In terms of new automobile derivative business, the financial penetration rate continued to increase in the first half of 2022, with 2.6 percentage points growth as compared with the same period last year.

The Group integrated existing customer groups and focused on enhancing circle marketing by constantly strengthening existing customers’ recognition of Sunfonda. Through data monitoring, the retention and referral of existing customers has been significantly improved, and the referral rate has increased by 4 percentage points. Affected by the lockdown measures adopted during the pandemic, the number of inbound customers from offline channels decreased, but the Group focused on new media sales such as live streaming in Douyin and platform operation in Xiaohongshu, resulting in increased orders.

Starting from 1 June 2022, the Group has executed the national subsidy policy, according to which the purchase tax of any passenger vehicle with a price not higher than RMB300,000 and a displacement of 2.0 liters or below will be charged at half rate, in which about 60% of the Group's vehicle models are involved. The sales teams of dealership stores have centrally issued invitations for return visits to all potential customers in the first half of the year, to inform customers of the current purchase tax policy and local subsidy policies. In addition, due to the targeted pandemic control in Xi'an, the terminal sales volume obviously increased in June 2022, representing an increase of more than 20% from May 2022.

Continued to Improve After-sales Service Efficiency and Customer Experience to Further Increase the Output Value of Single Vehicle

Since 2022, the recurring pandemic and the complex and changeable pandemic prevention and control policies in various places have affected automobile travel, and the volume of motor vehicle maintenance business has severely reduced due to the pandemic. In terms of service pattern, convenience has become the first demand of customers. Centering on customer needs, each store has vigorously carried out backup car services and door-to-door pick-up and delivery services. The digital service level and channel control efficiency in the after-sales market have become more and more important. The Group organised and established a customer management center, in which a digital platform was introduced, to strengthen customer solicitation, and improve solicitation efficiency, thereby the after-sales input volume remained flat as compared with the same period last year.

During the pandemic, the Group quickly changed the way of insurance renewal at each store by implementing online insurance renewal. As a result, number of renewed policies increased by 36% year on year, and the amount of premium increased by 35% year on year. In the process of further strengthening business cooperation with insurance companies, the continuous increase of total premiums also ensured the stable growth of the after-sales sheet metal spray business. On the other hand, the Group continuously promoted the implementation of prior technical diagnosis to strengthen the technical advantages of services, properly enhanced the electromechanical business, and also improved customer experience simultaneously to create a technology-leading brand image of Sunfonda.

In terms of decoration business, aiming at meeting the personalised needs of customers, the Group focused on improving the penetration rate of upgraded products, fully exploited the business opportunities arising from the second recommendation of decoration, and effectively seized the opportunity to expand profits of decoration and focus on selling interior and exterior decoration refitting items. In the future, the Group will also continue to strengthen the capabilities of the front-line team for marketing derivative products, and reinforce the marketing promotion of decoration, so as to better demonstrate the diversified service concept of the enterprise.

The Used Car Business Embraced Market Development Opportunities, and the Replacement Rate Continued to Increase, Which Will be a Future Growth Driver

With the implementation of various favorable policies for used cars and the gradual relaxation of “obstacles” such as various restrictive policies, the consumption potential of used cars has been further released. The used car market system and related supporting services will be gradually enhanced and improved, and the domestic automobile market will enter the peak period of replacement, which will bring huge opportunities for the development of used car market.

In 2022, the Group continued to strengthen and optimise the systematization of used cars, and further expanded the evaluation rate, so as to explore the vehicle replacement demand of retained customers and expand the business of the development of in-use vehicles. The sales of used cars were conducted through platform auctions and retail under same brands to further enhance turnover efficiency and improve profits of used cars. The Group launched the Sunfonda brand certified used cars, while expanding the retail size of used cars under same brands, the Group also provided users with one-stop services such as application for licence plate, transfer, finance, insurance, insurance renewal, decoration, etc., to improve the operating quality of used cars. In 2022, the Group realised a trading volume of 3,213 used cars, of which 1,131 units were sold through dealership.

Achieved “Best Customer Experience” and Continuously Improved Profit Margins in Adherence to Customer-Centric Principle

The customer relationship management (CRM) department is an important bridge for the Group to connect with customers. In light of the development and changes of the current market environment, the Group has transformed its philosophy from being oriented to understand customer needs to being customer-centric in order to achieve “best customer experience”. On the basis of the original CRM, the Group has integrated customer touchpoints to maximise the touchpoint value, has promoted the improvement of remote customer experience by combining online and offline methods in the three key aspects of personnel, process and system, and has implemented flat management to improve the efficiency of internal and external communication. In the first half of the year, the Group carried out organisational structure reform by integrating and upgrading relevant functions of the original CRM department and business departments, to jointly focus on the management of customer lifetime cycle. The Group has applied the customer management system to conduct process optimisation of the touchpoints in the customer lifetime cycle, which run through the management of the Group in the whole customer lifetime cycle, and has performed the four functions of customer data management, satisfaction management, customer care, and clue invitation management through “screening-invitation-transfer-control-maintenance”. Through close cooperation with business departments, the Group has promoted the development of sales, after-sales and derivative businesses through the application of customer data, so as to sustain profit improvement.

Focused on Core Brands and Key Regions to Constantly Conduct Network Layout

As at 30 June 2022, the Group had 42 sale points in operation, of which 30 were sale points for luxury brands. The main business of the Group covered 15 cities across 8 provinces, municipalities and autonomous regions in Mainland China, as shown in the figure below:



In the first half of 2022, in line with the new normal in the market under the impact of the pandemic, the Group actively and steadily promoted the brand network development plan. One Porsche and two BMW brand 4S stores newly authorised in the second half of 2021 are expected to be put into operation in the fourth quarter of this year. On the other hand, in the first half of 2022, the Group newly obtained the first authorisation of the BMW motorcycle brand and the authorisation of GAC Toyota in Lanzhou, Gansu Province. The authorisation of new GAC Toyota store in Lanzhou further expanded the number of sale points in Lanzhou, as well as the influence of GAC Toyota brand of Sunfonda Group in Gansu market.

In line with the development plan of key brands, the Group adapted to the trend of consumption upgrading to continuously strengthen the network layout of luxury brands in advantageous regions and key cities by constantly promoting the expansion of brand outlets in Central China and northwest region, and actively sought more dealership authorisation of branded automobiles, to provide support for target cities to exploit their advantages in the future.

FINANCIAL REVIEW

Revenue

Revenue for the Period was RMB5,156.4 million, representing a decrease of RMB968.1 million or 15.8% as compared to that for the corresponding period in 2021. The decrease was mainly due to the fact that some regions where some of the Group's operating networks are located implemented strict prevention and control measures due to the outbreak of the COVID-19 pandemic, which affected the sales schedule and operating income for the Period. Of which, revenue from the sales of new automobiles was RMB4,431.2 million, representing a decrease of RMB845.0 million or 16.0% as compared to that for the corresponding period in 2021. Revenue from after-sales services was RMB542.1 million, representing a decrease of RMB97.5 million or 15.2% as compared to that for the corresponding period in 2021. In addition, revenue from the sales of used cars was RMB183.1 million, representing a decrease of RMB25.6 million or 12.3% as compared to that for the corresponding period in 2021. A substantial portion of the revenue of the Group was generated from sales of new automobiles, accounting for 85.9% of the revenue for the Period (same period in 2021: 86.1%). Besides, revenue generated from after-sales services business accounted for 10.5% of the revenue for the Period (same period in 2021: 10.4%). Revenue of the Group was mainly derived from our operations in the PRC.

The following table sets forth a breakdown of the Group's revenue and relevant information for the periods indicated:

	For the six months ended 30 June/unaudited					
	2022			2021		
	Amount	Sales	Average	Amount	Sales	Average
	(RMB'000)	volume	selling	(RMB'000)	volume	selling
		(Unit)	price		(Unit)	price
			(RMB'000)	(RMB'000)		(RMB'000)
Sales of new vehicles						
Luxury and ultra-luxury brands	3,596,380	9,452	380	4,576,035	12,663	361
Mid-end market brands	834,864	4,911	170	700,140	4,814	145
Sub-total/average	4,431,244	14,363	309	5,276,175	17,477	302
Sales of used cars	183,145	1,131	162	208,716	1,462	143
After-sales services	542,053			639,620		
Total	5,156,442			6,124,511		

Cost of Sales and Services

Cost of sales and services for the Period was RMB4,739.9 million, representing a decrease of RMB901.3 million or 16.0% as compared to that for the corresponding period in 2021. Cost of sales of new automobiles for the Period was RMB4,257.6 million, representing a decrease of RMB824.6 million or 16.2% as compared to that for the corresponding period in 2021. Cost of after-sales services for the Period was RMB306.9 million, representing a decrease of RMB52.6 million or 14.6% as compared to that for the corresponding period in 2021. In addition, cost of sales of used cars for the Period was RMB175.4 million, representing a decrease of RMB24.1 million or 12.1% as compared to that for the corresponding period in 2021.

Gross Profit

Gross profit for the Period was RMB416.5 million, representing a decrease of RMB66.8 million or 13.8% as compared to that for the corresponding period in 2021. Of which, gross profit of sales of new automobiles was RMB173.6 million, representing a decrease of RMB20.4 million or 10.5% as compared to that for the corresponding period in 2021; gross profit of after-sales services business was RMB235.2 million, representing a decrease of RMB44.9 million or 16.0% as compared to that for the corresponding period in 2021. Gross profit of after-sales services for the Period accounted for 56.5% of the total gross profit (corresponding period in 2021: 58.0%). Gross profit of sales of used cars was RMB7.7 million, representing a decrease of RMB1.5 million or 16.3% as compared to that for the corresponding period in 2021.

Gross profit margin for the Period was 8.1% (corresponding period in 2021: 7.9%).

Other Net Income and Gains

Other net income and gains mainly consist of commission income from automobile sales on commission, insurance agency and automobile financing agency businesses, logistics and storage income, net gains from disposal of property, plant and equipment, and interest income.

Other net income and gains for the Period amounted to RMB116.3 million, representing a decrease of RMB120.5 million as compared with RMB236.8 million for the corresponding period in 2021. The decrease was mainly due to the one-off investment gains of approximately RMB145.2 million recorded for the corresponding period in 2021 arising from the proceeds from disposal of the equity investment in a company which was not engaged in main business.

Selling and Distribution Expenses

Selling and distribution expenses for the Period amounted to RMB232.1 million, representing a decrease of 4.4% as compared with RMB242.8 million for the corresponding period in 2021, mainly due to the decrease in advertising and promotion expenses and sales staff salaries arising from the decrease in the sales of automobiles. As a percentage of revenue, the selling and distribution expenses increased as compared with the corresponding period last year, increased from 4.0% for the corresponding period last year to 4.5% for the Period, up by 0.5 percentage points.

Administrative Expenses

Administrative expenses for the Period amounted to RMB128.4 million, representing a decrease of 6.1% as compared with RMB136.7 million for the corresponding period in 2021, mainly due to the decrease in compensation of management personnel. As a percentage of revenue, the administrative expenses increased as compared with the corresponding period last year, increased from 2.2% for the corresponding period last year to 2.5% for the Period, representing an increase of 0.3 percentage points.

Finance Costs

Finance costs for the Period amounted to RMB49.2 million, representing an increase of 2.9% as compared with RMB47.8 million for the same period in 2021. The increase was mainly due to the increase in the scale of inventory financing.

Profit before Tax

As a result of the foregoing, profit before tax for the Period amounted to RMB123.1 million, representing a decrease of 58.0% as compared with RMB292.8 million for the corresponding period in 2021.

Income Tax Expense

Income tax expense for the Period amounted to RMB45.2 million, representing a decrease of 37.4% as compared with RMB72.2 million for the corresponding period in 2021. The effective income tax rate of the Group for the Period was approximately 36.7% (corresponding period in 2021: 24.7%).

Profit for the Period

As a result of the foregoing, profit for the Period was RMB77.8 million, representing a decrease of 64.7% as compared with RMB220.6 million for the corresponding period in 2021.

Profit for the Period Attributable to Owners of the Parent

For the Period, profit for the period attributable to owners of the parent was RMB77.8 million, representing a decrease of 64.7% as compared with RMB220.6 million for the corresponding period in 2021.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the Period, the Group's net cash inflow generated from operating activities was RMB52.2 million, as compared with its net cash inflow generated from operating activities of RMB219.4 million for the six months ended 30 June 2021. The decrease in net cash inflow from operating activities was mainly attributable to the slowdown in new automobile sales due to the impact of the pandemic and the year-on-year increase in the scale of new automobile purchases.

For the Period, the Group's net cash outflow for investing activities was RMB116.0 million, as compared with its net cash outflow for investing activities of RMB104.8 million for the six months ended 30 June 2021. The increase in net cash outflow for investing activities was mainly attributable to the steady progress of project investment as scheduled.

For the Period, the Group's net cash inflow for financing activities was RMB95.1 million, as compared with its net cash outflow for financing activities of RMB75.8 million for the six months ended 30 June 2021. The increase in the net cash inflow for financing activities was mainly attributable to the increase in net inflows of proceeds from bank loans and other borrowings for the Period.

Net Current Assets

As at 30 June 2022, the Group's net current assets amounted to RMB764.2 million, as compared to its net current assets of RMB1,001.4 million as at 31 December 2021.

Inventories

The Group's inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 30 June 2022, the Group's inventories amounted to RMB1,320.1 million, representing an increase of 25.2% as compared with RMB1,054.4 million as at 31 December 2021, which was mainly attributable to the centralised arrival of products in May and June and the increased stocking up in newly opened stores due to the impact of the pandemic.

In the first half of 2022, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 180 days) were 45.8 days, representing an increase as compared with 33.7 days in 2021, mainly attributable to the increase in the amount of inventories as at the end of the Period as compared with the end of 2021.

Bank Loans and Other Borrowings

As at 30 June 2022, the Group's bank loans and other borrowings were RMB2,510.9 million, representing an increase of 8.8% as compared with RMB2,307.0 million as at 31 December 2021.

The following table sets forth the Group's bank loans and other borrowings as at the dates indicated:

	30 June 2022		31 December 2021	
	Unaudited		Audited	
	Effective	Amount	Effective	Amount
	interest rate	RMB'000	interest rate	RMB'000
	(%)		(%)	
CURRENT				
Bank loans	3.3-5.8	1,547,794	3.6-5.8	1,152,576
Other borrowings	1.3-8.5	381,077	1.7-8.6	393,669
Sub-total		<u>1,928,871</u>		<u>1,546,245</u>
NON-CURRENT				
Bank loans	3.5-5.9	582,035	3.5-5.9	760,774
Total		<u>2,510,906</u>		<u>2,307,019</u>
Among which:				
Secured loans		1,901,600		1,798,885
Unsecured loans		609,306		508,134
Total		<u>2,510,906</u>		<u>2,307,019</u>

As at 30 June 2022, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 46.2% (31 December 2021: 44.8%). Net debt includes bank loans and other borrowings, trade and bills payables and other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits.

Pledge of Assets

As at 30 June 2022, certain of the Group's bank loans were secured by charges or pledges over our assets. The Group's assets subject to these charges or pledges as at 30 June 2022 consisted of: (i) inventories amounting to RMB561.2 million; (ii) buildings amounting to RMB355.0 million; (iii) land use rights amounting to RMB258.3 million; (iv) construction in progress amounting to RMB284.8 million; and (v) pledged bank deposits amounting to US\$8.6 million (equivalent to RMB57.9 million) and RMB118.7 million. As at 30 June 2022, certain of the Group's inventories amounting to RMB208.4 million and pledged bank deposits amounting to RMB246.6 million were pledged as securities for bills payable.

Capital Expenditures and Significant Investments Held

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. During the Period, the Group's total capital expenditures were RMB222.2 million, representing an increase of approximately RMB53.4 million as compared with RMB168.8 million for the six months ended 30 June 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures.

Contingent Liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policies

As at 30 June 2022, the Group had 3,614 employees. Staff cost of the Group decreased by 2.3% from RMB172.2 million for the six months ended 30 June 2021 to RMB168.3 million for the Period, which was mainly attributable to the decrease in performance-based bonus paid to employees as a result of the decrease in sales volume and gross profit of sales. The Group is committed to providing a good working environment, diversified training programs and attractive compensation packages to the employees, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contributions to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to maintain the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manage its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and team building. Regular training in respect of business skills, expertise and professional attributes have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

FUTURE STRATEGY AND PROSPECTS

To Actively Deploy New Energy Vehicle Business, and Certain Projects under Construction such as “FUN TIME LANE” are being Carried Out in an Orderly Manner

In addition to one Porsche and two BMW 4S stores which are expected to be put into operation in the fourth quarter of 2022, to solidify the Group's leading position in Northwestern China, the Group will further strengthen communication with major dominant automobile manufacturers and continually plan the future development of the new energy vehicle business.

Through innovatively creating the “FUN TIME LANE” automobile fashion street zone project which integrates automobile sales with multiple business patterns such as catering, leisure and entertainment, the Group has opened a venue for automobile culture players. In the first half of 2022, the Group actively promoted the entry of automobile brands, and acquired the authorisation of a BMW upgrade store in Lanzhou “FUN TIME LANE”, and the authorisation for the establishment of Mercedes-Benz’s new standard sales showroom in Xi’an “FUN TIME LANE” which is in the investment promotion stage. The main building bodies of the two “FUN TIME LANE” projects have been capped, and are currently in the installation stage, which are expected to be put into operation in the summer of 2023.

To Explore Diversified Marketing Models to Expand the Group’s Brand Influence

Since the consumer group is getting younger, new marketing methods are emerging, and consumption habits are changing, traditional marketing methods have been unable to meet the digital, personalised and diversified consumption needs of the new generation of users. In 2022, the Group intensified the systematic improvement of new media operation and transformation. As of now, the Group has set up new media marketing teams, and implemented a sound performance management system at more than half of its stores. Meanwhile, all brand stores of the Group have opened their Xiaohongshu accounts to conduct precise operation to cover a wider range of user touchpoints. In addition, the Group has continuously increased its investment in marketing activities at the group level. Currently, the Group holds a public relations event every month at the group level, which can further improve the customer satisfaction through the grafting of customer activities in different sectors and the interconnection of customer systems of both parties, so as to enlarge its customer base, and expand the market share and brand influence of the Group.

To Adhere to Digitally-Empowered Precise Service by Launch of Online Management and Service System

The Group has continuously strengthened refined management and fully implemented digital intelligent system. As at the end of June 2022, the Group’s self-developed “Sunfonda Group Membership Center” mini program has accumulated 288,000 registered users, through which the Group provides transparent systematic services, such as online consultation and complaint, after-sales follow-up, customer feedback collection, complaint handling and result monitoring, provide data program support for the Group’s data center, and support customer management system and other projects to actively push clues. Subsequently, the Group will plan to integrate high-quality service resources to provide customers with personalised full-cycle services. In order to better serve customers, the Group established a digital empowerment center in the first half of 2022, in which through the combination of software and hardware, big data analysis and other technologies, a “Smart Customer Management System” has been launched in accordance with the Group’s strategy based on customer needs. With personnel, systems and processes at the core, the Group has established one-to-one customer service system, to optimise customer service processes, integrate customer needs across different departments, connect up sales and after-sales systems, and improve customer experience in multiple dimensions. Through full analysis of its own user database, the Group can proactively provide services to customers in different business scenarios such as first maintenance, regular maintenance, recall, and warranty expiration, in which the system sends clues to store managers through the program, contacts within a limited time, and supervises the

service process, so as to ensure that customers enjoy the intimate, timely and meticulous services of the managers at every stage of the vehicle life cycle. As at the end of June 2022, 20 stores have been successively admitted into the system, and the system will be launched and put into operation across the whole group in the second half of the year.

In the second half of the year, the Group's digital empowerment center will launch an online card and coupon marketing system relying on its existing business and based on the customer base of the membership center, which will deploy its own product resources and local excellent suppliers to introduce electronic cards and coupons with various rights and interests to the members of the Group, and actively expand customer-oriented life and entertainment scenarios under the existing automobile service system.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare the distribution to shareholders of the Company of an interim dividend of HK\$0.04 (equivalent to approximately RMB0.03) per ordinary share for the Period in an aggregate amount of RMB20.5 million.

The interim dividend will be paid on Monday, 26 September 2022 to shareholders whose names appear on the register of members of the Company at the close of market on Wednesday, 14 September 2022. Therefore, the register of members of the Company will be closed from Friday, 9 September 2022 to Wednesday, 14 September 2022 (both days inclusive). In order to be entitled to the interim dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Thursday, 8 September 2022.

CORPORATE GOVERNANCE

The Board believes effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders. The Company's corporate governance practices are based on the principles and code provisions as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Board is of the view that, during the Period, the Company has complied with the code provisions set out in the CG Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL LITIGATION AND ARBITRATION

During the Period, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

EVENT AFTER THE PERIOD

There was no significant subsequent event undertaken by the Group after 30 June 2022 that need to be disclosed under the Listing Rules.

AUDIT COMMITTEE

The audit committee under the Board (the “**Audit Committee**”) has reviewed the accounting standards and practices that the Company adopted, and discussed matters related to risk management, internal control and financial reporting. The Audit Committee has no disagreement with the accounting treatment adopted by the Company. The Audit Committee has reviewed the Company’s 2022 interim report and the announcement of interim results and unaudited condensed consolidated financial statements for the Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company’s website (www.sundonda.com.cn).

The Company’s 2022 interim report will be dispatched to the shareholders of the Company and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

ACKNOWLEDGEMENT

The Board would like to take this opportunity to express its sincere gratitude to the management team and all employees of the Group for their contributions to the Group, as well as to every customer, business partner and shareholder of the Company for their continuous support over the years! Looking ahead, the Group will forge ahead, strive to promote business growth and bring greater and long-term returns to shareholders of the Company.

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

30 August 2022

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.