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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 TRANSACTIONS
MERCHANDISE SALE AND PURCHASE FRAMEWORK AGREEMENT
WITH YANGZHOU SUNFONDA AUTOMOBILE CO., LTD.

BACKGROUND

Reference is made to the announcement of Sunfonda Group Holdings Limited dated 9 December 2019 in relation to the Original MSP Framework Agreement entered into between the Company and Yangzhou Sunfonda, a connected person of the Company, 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 during the period from 1 January 2020 to 31 December 2022.

The Board is pleased to announce that, in view of that the Original MSP Framework Agreement will expire on 31 December 2022 and in consideration of the benefits to the Company from the transaction thereunder, the Company entered into the MSP Framework Agreement with Yangzhou Sunfonda on 14 December 2022 (after trading hours) to renew and extend the transactions contemplated under the Original MSP Agreement for a term of three years from 1 January 2023 to 31 December 2025, the principal terms of which are summarized below.

THE MSP FRAMEWORK AGREEMENT

Details of the MSP Framework Agreement

Date : 14 December 2022

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 2023 to 31 December 2025
- 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 shall be equivalent to the transaction prices for direct purchase from Volkswagen Group Import (China) Co., Ltd. by the Group or Yangzhou Sunfonda, 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 Volkswagen Group Import (China) Co., Ltd. or other independent automobile dealers to the Group or Yangzhou Sunfonda, neither the Group nor Yangzhou Sunfonda will profit from any price gaps 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 2020 Audited Amount of Sales (RMB'000)	For the year ended 31 December 2021 Audited Amount of Sales (RMB'000)	For the nine months ended 30 September 2022 Audited Amount of Sales (RMB'000)
9,102	4,991	1,353

The main reasons for the difference between the actual transaction amounts and the annual caps under the Original MSP Framework Agreement were due to the different levels of impact of the COVID-19 pandemic on the whole industry chain of the automobile industry during the past three years, as well as the continuing decrease in the number of Volkswagen automobile models imported to the PRC by Volkswagen since 2019, leading to a decrease in the sales volume of imported Volkswagen automobiles and thus a decrease in the transaction amounts of sales by the Group to Yangzhou Sunfonda.

Annual Caps

For the three years ending 31 December 2023, 2024 and 2025, we estimate that the total transaction amounts of imported Volkswagen automobiles and related spare parts the Group will sell to Yangzhou Sunfonda will be as follows:

For the year ending 31 December 2023 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2024 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2025 Expected Total Transaction Amount (RMB'000)
15,000	14,000	13,000

Having considered the expected successive increase in availability of new models of imported Volkswagen automobiles in the PRC since 2023, the precise pandemic preventive and control measures in the PRC, as well as the historical transaction amounts, the Company estimated the annual cap amounts of sales by the Group to Yangzhou Sunfonda for the three years ending 31 December 2023, 2024 and 2025.

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 2020 Audited Amount of Sales (RMB'000)	For the year ended 31 December 2021 Audited Amount of Sales (RMB'000)	For the nine months ended 30 September 2022 Audited Amount of Sales (RMB'000)
5,353	1,072	1,693

The main reasons for the difference between the actual transaction amounts and the annual caps under the Original MSP Framework Agreement were due to the different levels of impact of the COVID-19 pandemic on the whole industry chain of the automobile industry during the past three years, as well as the continuing decrease in the number of Volkswagen automobile models imported to the PRC by Volkswagen since 2019, leading to a decrease in the sales volume of imported Volkswagen automobiles and thus a decrease in the transaction amounts of purchase by the Group from Yangzhou Sunfonda.

Annual Caps

For the three years ending 31 December 2023, 2024 and 2025, we estimate that the total transaction amounts of imported Volkswagen automobiles and related spare parts the Group will purchase from Yangzhou Sunfonda will be as follows:

For the year ending 31 December 2023 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2024 Expected Total Transaction Amount (RMB'000)	For the year ending 31 December 2025 Expected Total Transaction Amount (RMB'000)
12,000	11,000	10,000

Having considered the expected successive increase in availability of new models of imported Volkswagen automobiles in the PRC since 2023, the precise pandemic preventive and control measures in the PRC, as well as the historical transaction amounts, the Company estimated the annual cap amounts of purchase by the Group from Yangzhou Sunfonda for the three years ending 31 December 2023, 2024 and 2025.

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, the actual transaction quantity and amount and the expected transaction amount for the period from 2023 to 2025, 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 2023 to 2025. The transaction amount includes the transaction amount of automobiles and spare parts. The transaction prices between the Group and Yangzhou Sunfonda are equivalent to the transaction prices for direct purchase from Volkswagen Group Import (China) Co., Ltd. by the Group or Yangzhou Sunfonda 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 other independent automobile dealers.

REASONS FOR ENTERING INTO THE TRANSACTIONS

Firstly, the Group has established years of cooperation relationship with Yangzhou Sunfonda. The cooperation over the years has deepened the mutual understanding between the Group and Yangzhou Sunfonda and has thus laid a good foundation for continuing 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 or Yangzhou Sunfonda with 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 other independent automobile dealers. 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, the finance department of the Company 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 agreement; and
- The independent non-executive Directors have also reviewed the MSP Framework Agreement to ensure such agreements and the transactions contemplated thereunder, 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 99.69% 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) 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) 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 2025 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 MSP Framework Agreement from 1 January 2020 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 are on normal commercial terms or better and 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, 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 in the Board meeting.

GENERAL INFORMATION

The Company

The Company is a limited liability company incorporated in the Cayman Islands. The Company is principally engaged in the sale and service of motor vehicles in the PRC, 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
“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 transactions”	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
“MSP Framework Agreement”	the merchandise sale and purchase framework agreement entered into between the Company and Yangzhou Sunfonda on 14 December 2022 to renew and extend the transactions contemplated under the Original MSP Framework Agreement for a term of three years from 1 January 2023 to 31 December 2025
“Original MSP Framework Agreement”	the merchandise sale and purchase framework agreement entered into between the Company and 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 during the period from 1 January 2020 to 31 December 2022
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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

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

14 December 2022

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