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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2022

During the year ended 31 December 2022, the Group has recorded:

- Operating revenue of RMB10,923.7 million, which was down by 6.1% from the same period in 2021, including:
    - Sales volume of new vehicles down by 0.8% to 31,949 units, and revenue from the sales of new vehicles down by 6.0% to RMB9,418.0 million;
    - Revenue from after-sales services down by 8.6% to RMB1,141.4 million; and
    - Revenue from the sales of used cars down by 0.8% to RMB364.3 million, and the transaction volume of used cars was 6,982 units, representing a year-on-year decrease of 1.4%, of which 2,321 units were sold on commission.
- Gross profit of RMB715.7 million, which was down by 27.9% from the same period in 2021.
- Gross profit margin was 6.6% (2021: 8.5%), of which gross profit margin of sales of new vehicles was 2.3% (2021: 4.4%).
- Profit before tax for the Period decreased by 72.2% to RMB129.4 million (2021: RMB466.3 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 31.1% of the profit before tax for 2021).

Profit attributable to owners of the parent for the Period was down by 76.5% to RMB81.3 million (2021: RMB345.9 million).

Basic and diluted earnings per share attributable to ordinary equity holders of the parent amounted to RMB0.14 for the Period (2021: RMB0.58). The board of directors of the Company recommended a final dividend of HK$0.02 (equivalent to approximately RMB0.02) per ordinary share for the year ended 31 December 2022. Together with the interim dividend for the six months ended 30 June 2022 of HK$0.04 (equivalent to RMB0.03) which was paid on 26 September 2022, the total dividends proposed for the year ended 31 December 2022 were HK$0.06 (equivalent to RMB0.05) per ordinary share (the year ended 31 December 2021: HK$0.13 (equivalent to RMB0.11) per ordinary share).

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunfonda Group Holdings Limited (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the "**Group**" or "**Sunfonda Group**") for the year ended 31 December 2022 (the "**Period**"), together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

		2022	2021
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4(a)*	**10,923,678**	11,639,221
Cost of sales and services	*5(b)*	**(10,207,944)**	(10,645,937)
Gross profit		**715,734**	993,284
Other income and gains, net	*4(b)*	**281,205**	360,082
Selling and distribution expenses		**(507,486)**	(521,868)
Administrative expenses		**(252,676)**	(271,467)
Profit from operations		**236,777**	560,031
Finance costs		**(107,377)**	(93,705)
Profit before tax	*5*	**129,400**	466,326
Income tax expense	*6*	**(48,135)**	(120,475)
Profit for the year		**81,265**	345,851
Attributable to:			
Owners of the parent		**81,265**	345,851
Earnings per share attributable to ordinary equity holders of the parent	*8*		
Basic and diluted (RMB)		**0.14**	0.58

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	2021
	RMB'000	*RMB'000*
Profit for the year	**81,265**	345,851
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**6,071**	3,328
Other comprehensive income/(loss) for the year, net of tax	**6,071**	3,328
Total comprehensive income for the year	**87,336**	349,179
Attributable to:		
Owners of the parent	**87,336**	349,179

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,702,459**	1,469,011
Right-of-use assets		**726,249**	722,542
Intangible assets		**10,145**	10,677
Prepayments		**47,162**	28,295
Goodwill		**10,284**	10,284
Deferred tax assets		**41,729**	30,124
Total non-current assets		**2,538,028**	2,270,933
CURRENT ASSETS			
Inventories	*9*	**1,346,879**	1,054,373
Trade receivables	*10*	**37,641**	30,671
Prepayments, deposits and other receivables		**866,524**	1,180,612
Amount due from a related party		**5,090**	5,810
Financial assets at fair value through profit or loss		**3,065**	3,552
Pledged bank deposits		**388,139**	364,623
Cash in transit		**17,198**	4,782
Short-term deposits		**84,920**	127,579
Cash and cash at banks		**626,003**	836,227
Total current assets		**3,375,459**	3,608,229
CURRENT LIABILITIES			
Bank loans and other borrowings		**2,119,677**	1,546,245
Trade and bills payables	*11*	**481,310**	632,264
Other payables and accruals		**355,798**	375,323
Lease liabilities		**28,685**	21,559
Income tax payable		**13,171**	31,398
Total current liabilities		**2,998,641**	2,606,789
NET CURRENT ASSETS		**376,818**	1,001,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,914,846**	3,272,373

	2022	2021
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	**361,456**	760,774
Lease liabilities	**66,288**	51,291
Deferred tax liabilities	**24,287**	21,487
Total non-current liabilities	**452,031**	833,552
NET ASSETS	**2,462,815**	2,438,821
EQUITY		
Equity attributable to owners of the parent		
Share capital	**377**	377
Reserves	**2,462,438**	2,438,444
Total equity	**2,462,815**	2,438,821

1. CORPORATE AND GROUP INFORMATION

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 Group is 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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the 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 areas

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 in accordance with HKFRS 8 *Operating Segments* is presented.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information in accordance with HKFRS 8 *Operating Segments* is presented.

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.

	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers		
(i) Disaggregated revenue information		
Types of goods or services		
Revenue from sale of motor vehicles	**9,782,305**	10,390,576
Revenue from after-sales services	**1,141,373**	1,248,645
Total revenue from contracts with customers	**10,923,678**	11,639,221
Timing of revenue recognition		
At a point in time	**10,923,678**	11,639,221

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of motor vehicles

Each sale of motor vehicles is a single performance obligation. The transaction price for a vehicle sale is determined with the customer at the time of sale. The performance obligation is satisfied upon delivery of the motor vehicles. The Group generally receive payment directly from the customer at the time of sale or from the third-party financial institutions within 30 days following the sale.

After-sales services

Each after-sales service related to repairs and maintenance under manufacturer warranties or customer-paid repairs and maintenance is a single performance obligation. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardised hourly labour rates. The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion. The Group generally receives payment on the delivery date for the customer-paid repairs and maintenance services and within two to three months for repairs and maintenance services under manufacturer warranties or covered by insurance companies.

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the reporting periods and recognised from performance obligations satisfied in previous periods:

	2022	2021
	RMB'000	*RMB'000*
Sale of motor vehicles	**129,100**	135,761
After-sales services	**63,764**	48,040
Total contract liabilities	**192,864**	183,801

(b) Other income and gains, net:

	2022 *RMB'000*	2021 *RMB'000*
Commission income	**214,334**	166,061
Logistics and storage income	**22,066**	25,675
Interest income	**9,072**	6,322
Advertisement support received from motor vehicle manufacturers	**4,508**	1,640
Net gain/(loss) on disposal of items of property, plant and equipment	**15,810**	(1,226)
Government grants	**2,099**	3,470
Gain on disposal of equity investment*	**–**	145,204
Gain on disposal of a subsidiary	**–**	10,827
Fair value gain/(loss), net:		
Financial assets at fair value through profit or loss – mandatorily classified as such, including those held for trading	**(487)**	102
Others	**13,803**	2,007
	281,205	360,082

* Gain on disposal of equity investment represents the gain from the disposal of Xi'an Qinrui Real Estate Co., Ltd.'s 25% equity interest.

5. PROFIT BEFORE TAX

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

(a) Employee benefit expense (including directors' and chief executive's remuneration)

	2022 *RMB'000*	2021 *RMB'000*
Wages and salaries	**247,943**	275,892
Equity-settled share award expense	**18**	(6)
Other welfare	**54,436**	49,905
	302,397	325,791

(b) Cost of sales and services

	2022	2021
	RMB'000	*RMB'000*
Cost of sales of motor vehicles	**9,545,247**	9,936,802
Others*	**662,697**	709,135
	10,207,944	10,645,937

* Employee benefit expenses of RMB50,722,000 (2021: RMB67,670,000) were included in the cost of sales and services.

(c) Other items

	2022	2021
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**163,566**	159,347
Depreciation of right-of-use assets	**43,076**	29,393
Amortisation of intangible assets	**796**	1,111
Auditors' remuneration		
– statutory audit service	**2,280**	2,280
Advertising and business promotion expenses	**73,323**	86,657
Lease expense	**5,288**	3,329
Bank charges	**4,845**	4,817
Accural/(Reversal) of impairment of inventories	**4,182**	(7,151)
Net (gain)/loss on disposal of items of property, plant and equipment	**(15,810)**	1,226

6. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2022	2021
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**56,940**	98,332
Deferred tax	**(8,805)**	22,143
	48,135	120,475

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% from1 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.

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022	2021
	RMB'000	*RMB'000*
Profit before tax	**129,400**	466,326
Tax at the applicable tax rate (25%)	**32,350**	116,582
Preferential tax rate reduction	**(3,507)**	(2,541)
Adjustment in respect of current tax of previous periods	**(57)**	(547)
Expenses not deductible for tax	**17,658**	5,568
Tax losses utilised from previous periods	**(800)**	(2,888)
Tax losses recognised from previous periods	**(295)**	(5,134)
Tax losses not recognised	**2,936**	5,535
Effect of withholding tax at 5% (2021: 10%) on the distributable profits of the Group's PRC subsidiaries	**(150)**	3,900
Tax charges	**48,135**	120,475

7. DIVIDENDS

	2022	2021
	RMB'000	*RMB'000*
Interim – HK4.0 cents (2021: HK5.0 cents) per ordinary share	**21,120**	26,400
Proposed final – HK2.0 cents (2021: HK8.0 cents) per ordinary share	**10,719**	39,245
	31,839	65,645

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2021: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculations of basic and diluted earnings per share are based on:

	2022	2021
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**81,265**	345,851

	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year	**600,000,000**	600,000,000
Earnings per share		
Basic and diluted (RMB)	**0.14**	0.58

9. INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Motor vehicles (at cost or at net realisable value)	**1,247,220**	969,210
Spare parts (at cost)	**99,659**	85,163
	1,346,879	1,054,373

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB644,603,000 (2021: RMB555,131,000) were pledged as security for the Group's bank loans and other borrowings.

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB169,339,000 (2021: RMB344,617,000) were pledged as security for the Group's bills payable.

10. TRADE RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**37,641**	30,671

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:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**36,113**	27,707
More than 3 months but less than 1 year	**422**	657
Over 1 year	**1,106**	2,307
	37,641	30,671

As at 31 December 2022, no provision for impairment of trade receivables was accrued.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

11. TRADE AND BILLS PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**84,838**	62,897
Bills payable	**396,472**	569,367
Trade and bills payables	**481,310**	632,264

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

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**331,989**	620,579
3 to 6 months	**140,838**	7,963
6 to 12 months	**364**	718
Over 12 months	**8,119**	3,004
	481,310	632,264

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90 to180 days terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2022, Economic Development Improved in Both Quantity and Quality, and Was Highlighted with Overall Operational Resilience

In 2022, under the strong leadership of the Central Committee of the Communist Party of China with Chairman Xi Jinping at its core, all regions and departments in China conscientiously implemented the decisions and arrangements of the Party's Central Committee and the State Council, adhered to the general principle of pursuing progress while ensuring stability, and efficiently balanced pandemic prevention and control with economic and social development. According to preliminary calculations, the annual gross domestic product (the "**GDP**") of China amounted to approximately RMB121,020.7 billion, representing a year-on-year increase of 3.0% at constant prices calculation. Translated at the annual average exchange rate, China's GDP was approximately US$18.0 trillion, ranking second in the world. The total retail sales of consumer goods for 2022 amounted to approximately RMB43,973.3 billion, representing a year-on-year decrease of 0.2%. Among which, the retail sales of automobile consumables were approximately RMB4,577.2 billion, representing a year-on-year increase of 0.7%.

Shaanxi Province, where the Group's main business is located, has made remarkable achievements in economic and social development. In 2022, Shaanxi's GDP was approximately RMB3,277.268 billion, representing a year-on-year increase of 4.3% at constant prices calculation, and ranking 14th in China. In 2022, the automobile industry chain in Shaanxi has been rapidly expanded and extended, and the automobile industry has become the main engine for Shaanxi's industrial economic growth in 2022. In 2022, the total retail sales of consumer goods in Shaanxi amounted to approximately RMB1,040.161 billion, representing a year-on-year increase of 1.5%. Among which, the retail sales of consumer goods of enterprises (entities) above designated size were approximately RMB537.767 billion, representing a year-on-year increase of 4.0%, and the demand for upgraded goods rebounded. The annual retail sales of urban consumer goods were approximately RMB907.127 billion, representing a year-on-year increase of 0.8%.

According to preliminary calculations, in Jiangsu Province, another place where the Group's main business is located, the GDP reached approximately RMB12,287.56 billion in 2022, representing a year-on-year increase of 2.8% at constant prices calculation, and stepping up to a new level calculated by RMB1 trillion. Among the top ten industries in terms of increase value of the province, the automobile industry grew by 14.8%, and maintained a double-digit growth throughout the year. In 2022, the total retail sales of consumer goods in Jiangsu amounted to approximately RMB4,275.21 billion, representing a year-on-year increase of 0.1%. By commodity category and value, automobile consumption remained stable, and the annual retail sales of automobile commodities above designated size increased by 2.8% year on year; while the consumption prices of Jiangsu residents for the year increased by 2.2% year on year.

Review of China's Automobile Market in 2022

In 2022, the automobile market also encountered unprecedented barriers in production, transportation, sales and after-sales service due to the disruption of logistics transportation and real economic activities caused by COVID-19 pandemic. China has launched a series of policies and measures which are favourable to the automobile industry to promote the recovery of market confidence. Chen Shihua, deputy secretary-general of the China Association of Automobile Manufacturers ("**CAAM**"), said: "The preferential policy for the purchase tax of fuel vehicles was implemented for the third time in 2022, which has obviously stimulated passenger vehicle consumption. The sales volume of passenger vehicles rose significantly in June 2022; and in December 2022 when the policy expired, it directly contributed to the 'year-end increase' in sales volume." At the same time, Chen Shihua also pointed out that local policies to stimulate automobile consumption, such as the issuance of vehicle purchase coupons and other measures, also played a very important role in the end consumption of passenger vehicles.

In 2022, automobile production and sales increased while maintaining stability, and major economic indicators continued to improve, showing strong development resilience and playing an important role in stabilising industrial economic growth. From the perspective of annual development, according to the data released by CAAM, automobile production and sales in 2022 reached 27.021 million units and 26.864 million units, respectively, representing a year-on-year increase of 3.4% and 2.1%, respectively, and the growth trend of last year continued. Among which, passenger vehicles achieved rapid growth driven by certain policies for stabilising growth and promoting consumption, contributing significantly to the slight increase of the year. The production and sales volume of passenger vehicles was 23.836 million units and 23.563 million units, respectively, representing a year-on-year increase of 11.2% and 9.5%, respectively.

According to the statistics of the Ministry of Public Security of China, China's motor vehicle ownership volume reached 417 million units in 2022, of which the automobile ownership volume was 319 million units, accounting for 76.59% of the total number of motor vehicles, and representing an increase of 17.52 million units or 5.81% as compared with that of 2021. There were 84 cities with an automobile ownership volume of more than 1 million units in China, representing a year-on-year increase of 5 cities. 39 cities each had an automobile ownership volume of more than 2 million units, and 21 cities each had more than 3 million units. Among which, Beijing, Chengdu, Chongqing and Shanghai each had more than 5 million units, Suzhou, Zhengzhou, Xi'an and Wuhan each had more than 4 million units, and 13 cities including Shenzhen, Dongguan, Tianjin, Hangzhou, Qingdao, Guangzhou, Foshan, Ningbo, Shijiazhuang, Linyi, Changsha, Jinan and Nanjing each had more than 3 million units.

Fuel Vehicle Consumption Was Upgraded, and New Energy Vehicles Continued to Grow Explosively

In 2022, the passenger vehicle market showed very obvious characteristics of consumption upgrading and structural adjustment. Data show that in terms of traditional fuel passenger vehicles, consumption structure presents a development trend of consumption upgrading. Sales volume of passenger vehicles priced at RMB200,000 – RMB250,000, RMB300,000 – RMB350,000 and more than RMB500,000 all achieved positive growth year on year, among which sales volume of passenger vehicles priced at more than RMB500,000 achieved the biggest growth.

Mainland China is the most important passenger vehicle market in the world. In order to adapt to the market development trend, in addition to consolidating their advantages in high-end market, luxury brand automobile manufacturers also entered the field of electrification by launching a variety of products in 2022, obviously accelerating the progress of comprehensive electrification in an active manner.

According to the official sales data released by Porsche, the Porsche brand delivered 309,884 vehicles to customers worldwide in 2022, representing an increase of 3% as compared with 2021. Of which, Porsche delivered 93,286 new vehicles in the Chinese market, which still maintained its position as the largest single sales market in the world. As at the end of 2022, Porsche has introduced a total of 21 battery electric and plug-in hybrid models in the Chinese market, launched Porsche's "Premium Charging" service at 122 Porsche Centres in 29 cities in China, and established 117 premium charging stations in 20 cities. In addition, 43 "destination charging stations" have been set up in 23 cities.

According to the data released by the BMW Group, in 2022, the BMW Group delivered 791,985 BMW and MINI vehicles in the Chinese market. Battery electric vehicles provided an important support for BMW to achieve good sales performance in China. In 2022, the BMW Group launched five battery electric models in the Chinese market, namely the innovative BMW i7, the brand new BMW i3, BMW i4, BMW iX and BMW iX3. The annual sales volume of battery electric vehicles was 41,886 units, representing a year-on-year increase of 91.6%. In 2023, BMW will go all out to promote electrification, and will introduce 11 battery electric models to Chinese consumers to prepare for the arrival of "new generation" models in 2025.

In 2022, Mercedes-Benz also realised good sales results in the Chinese market by delivering a total of 751,714 new vehicles throughout the year, of which the annual delivery of Mercedes-Benz's new energy vehicle portfolio (including battery electric models and plug-in hybrid models) increased by 143% year on year; Mercedes-Benz S-Class, a luxury flagship model, achieved double-digit growth in its annual delivery; and core luxury models continued to capture strong market demand, with GLC SUV achieving nearly double-digit growth in its annual delivery. In order to meet the ever-upgrading diversified needs of Chinese customers for luxury travel modes, Mercedes-Benz will continue to implement the strategy of "parallel operation of both fuel and electric models" in 2023 by launching 16 new products, including the brand new battery electric SUV of EQS, the brand new battery electric SUV of EQE, the brand new long-wheelbase GLC SUV, and the brand new long-wheelbase E-Class vehicles.

According to the official data released by Audi, Audi delivered a total of 1.61 million vehicles worldwide in 2022, representing a year-on-year decrease of 3.9% from that of 2021; among which the global delivery of Audi's battery electric vehicles was 118,000 units, representing a year-on-year increase of 44%, and the Audi Sport division delivered more than 45,000 performance cars, representing a year-on-year increase of 15.6%. Audi delivered 643,000 vehicles in the Chinese market in 2022, representing a year-on-year decrease of 8.4%. In the face of the severe and complex market environment in 2022 and focusing on the wave of industrial change, FAW Audi insisted on promoting electric transformation, continuously improving the experience in car purchase, energy replenishment, after-sales and other aspects, expanding the number of authorised dealers of new energy vehicles to 129, and working with partners to establish more than 8,000 charging terminals.

According to the official sales data released by Cadillac, Cadillac's annual sales volume was 185,300 vehicles in 2022, representing a year-on-year decrease of 20.5%. For new energy models, the cumulative sales volume of Cadillac LYRIQ since its delivery started in 2022 has reached 2,538 units. Cadillac officials said that the delivery of LYRIQ would be accelerated in a high-quality manner with the gradual stabilisation of production capacity.

Lexus has announced its sales volume for 2022 in China, showing that the annual sales volume was 183,900 units, down by 18.6% year on year. Lexus will further expand its electrified product portfolio, and plans to launch more than 10 electrified models worldwide by 2025. It is expected that Lexus will launch electrified versions for all vehicle models by 2025, and the proportion of sales volume of its electrified models will exceed that of its traditional gasoline-powered models.

According to the data from CAAM, the production and sales volume of new energy vehicles in 2022 reached 7.058 million units and 6.887 million units, respectively, representing a year-on-year increase of 96.9% and 93.4%, respectively, and the market share reached 25.6%, 12.1 percentage points higher than that of 2021. China's new energy vehicle sector has developed rapidly in the past two years, ranking first in the world for eight consecutive years. As at the end of 2022, the new energy vehicle ownership volume in China reached 13.10 million units, accounting for 4.10% of the total volume of automobiles, and representing an increase of 5.26 million units or 67.13% over 2021 after deducting scrapped and deregistered vehicles. Among which, the battery electric vehicle ownership volume was 10.45 million units, accounting for 79.78% of the total number of new energy vehicles. In 2022, 5.35 million new energy vehicles were newly registered nationwide, accounting for 23.05% of the total number of newly registered automobiles, and representing an increase of 2.40 million units or 81.48% as compared with the previous year. The number of newly registered new energy vehicles has increased rapidly from 1.07 million units in 2018 to 5.35 million units in 2022.

Continuously Increasing Automobile Transfer and Registration Supported an Active Used Car Trading Market

In 2022, the development environment of the used car industry was extremely complex, but favorable policies for used cars were frequently introduced. The State Council has clearly put forward policies and measures to get rid of the obstacles in used car circulation through issuing notices and holding executive meetings of the State Council. Seventeen departments, including the Ministry of Commerce, also issued the "Notice on Several Measures for Activating Automobile Circulation and Expanding Automobile Consumption", further clarifying the policies on used car circulation in three aspects. First, unreasonable restrictions on used car dealership have been removed, the business scope of enterprises engaged in new automobile sales and used car sales shall be uniformly registered as "automobile sales", and enterprises have been allowed to reverse invoicing and implement separate endorsement management since 1 October 2022; second, used cars purchased for sales should be accounted for as "inventories"; third, restrictions on transfer and registration of used cars that meet the National Fifth Stage Vehicle Emission Standards have been abolished nationwide since 1 August 2022, and since 1 January 2023, a natural person has been restricted from selling 3 or more used cars held for less than 1 year in a calendar year. Luo Lei, deputy secretary-general of the China Automobile Dealers Association, publicly stated that a brand new model in respect of structure and trading method would be applied in the used car market, used car enterprises and automobile dealership groups adopting the new model would gradually replace those using traditional individual and brokerage model, and the used car trading method would also change from mainly private transaction to corporate operation.

In 2022, the Ministry of Public Security, together with the Ministry of Commerce and other departments, introduced a series of new reform measures to facilitate the registration of used car transactions by fully implementing "separate endorsement, review and issuance of temporary licenses" for used car dealership, and directly handling transaction registration in different regions. According to the statistics of the China Automobile Dealers Association, a total of 16.028 million used cars were traded nationwide in 2022, representing a year-on-year decrease of 8.86%, and the total transaction amount was RMB1,059.59 billion. As at the end of 2022, public security and traffic control departments in China have handled a total of 30.27 million cases of motor vehicle transfer and registration, among which 28.69 million cases were automobile transfer and registration, accounting for 94.80% of all the cases. In the past five years, the ratio of the number of used car transfer and registration over the number of new car registration has risen from 0.77 to 1.24, indicating that the number of new car registration was surpassed.

Business Review

In 2022, under certain complex circumstances such as frequent outbreaks of COVID-19 pandemic in China, large-scale outbreaks in some areas, several months of lockdown and control management, as well as the impact of supply chain difficulties, the Group actively adjusted its operation strategy, maintained good liquidity, paid attention to the market and customers, and enhanced operational capabilities while reducing costs and improving efficiency, thereby effectively taking the impact of the pandemic under control within a reasonable range. In 2022, the Group achieved operating income and operating gross profit of RMB10,923.7 million and RMB715.7 million, respectively.

As at 31 December 2022, the Group had a total of 43 sale points in operation.

	Northwestern China	Jiangsu	Other regions	Total
Number of sale points	30	7	6	43
Of which: Number of sale points for luxury brands	21	4	6	31
Number of authorised sale points pending operation	5	0	1	6

The Operational Capacity of New Automobile Sales Business Remained Stable, and New Energy Vehicle Business Continued to Improve

Although the chip shortage in 2022 has eased a lot as compared with last year, the impact of tight supply still existed due to the influence of frequent outbreaks of COVID-19 pandemic across China. In 2022, the Group implemented the national policy of halving the passenger vehicle purchase tax and local subsidy policies, and adopted a series of management measures to minimise the negative impact of tight supply and market fluctuations on sales volume. Thanks to the advantages of brand structure and the joint efforts of all colleagues, the Group's sales volume of new vehicles was 31,949 units, representing a year-on-year decrease of 0.8%.

At present, all sales points of the Group are selling new energy vehicles of their distributed brands. After the Group has identified the sales of new energy vehicles as its important strategic direction, through the establishment of a special sales team for new energy vehicles, high-frequency sharing and training on new energy vehicles, etc., the Group's sales volume of new energy vehicles in 2022 increased by 40.0% year on year, accounting for 5.0% of the total sales volume of new vehicles, an increase of 1.5 percentage points year on year. As major automobile manufacturers adopt zero emissions, carbon neutrality and electrification as their future development direction, the Group will grasp the transitional stage of industrial upgrading to cooperate with major partners to implement the timetable for full electrification, and also provide new energy vehicle products and services to our customer groups.

The Group continued to work intensively in the field of sales, adjusted the sales schedule according to supply and demand, and adopted prior order execution strategy to ensure sound inventory turnover. The Group also directed, followed up and inspected the operation of each brand store through process management. Currently, the Group's order coverage rate is at a good level in the industry, and the inventory ratio falls within a reasonable range, which has improved the gross profit margin of new vehicles. At the same time, through intensive cultivation of customer portraits, the Group carried out targeted invitations, and the second time invitation rate increased steadily, which expanded transaction opportunities; strengthened circle marketing through customer referral from existing customer base, customer retention rate and referrals significantly increased accordingly, which further enlarged customer base and improved sales volume, and continuously enhanced the recognition of existing customers to Sunfonda; and focused on online marketing, such as live streaming on Douyin and platform operation on Xiaohongshu.

The After-sales Service Business Turned "Crisis" into "Opportunity" and Built the Service Brand Image of Sunfonda

In 2022, the complex situation of COVID-19 pandemic infection and the changeable prevention and control policies in various places have seriously affected the mobility of passenger vehicles, thus severely reducing the volume of passenger vehicle maintenance business. The Group's revenue from after-sales services in 2022 was RMB1,141.4 million, down by 8.6% from RMB1,248.6 million during the same period in 2021, and the gross profit of after-sales services reached RMB478.7 million, down by 11.3% from RMB539.5 million during the same period in 2021.

Affected by the pandemic control, convenience has become an important demand of customers in terms of service pattern. The Group vigorously carried out backup car services and door-to-door pick-up and delivery services to meet customer needs, and strove to build a new service brand of Sunfonda by relying on the brands operated by stores. In terms of service quality, the Group's after-sales services strengthened prior technical diagnosis and highlighted the leading technical advantages of 4S stores. Through strengthening fast repair and fast warranty services, the Group improved its after-sales service efficiency and customer experience, which won customer recognition while increasing the output value of single vehicle, thereby continuously improved the profitability of after-sales services.

Fundamental customers are the cornerstone of the business operations of stores. The Group organised and established a customer management center to explore customer contact opportunities through multiple channels, strengthened customer maintenance to accurately attract customers, and created good 4S stores atmosphere to provide "warmer" store services. In addition, a digital platform was introduced to strengthen customer retention and solicitation, thereby improving the efficiency of solicitation. Through the joint efforts of the Group's employees, the number of active fundamental customers of the Group increased by 7.7% as compared with the same period last year. Consistently improving customer retention will retain a large customer base and lay a foundation for the future growth of after-sales business.

The Group paid close attention to the integration of terminal business with the Internet to adjust its business operation model in a timely manner by conducting online booking service, selling attractive products online, and strengthening online insurance renewal.

In terms of decoration business, aiming at meeting the personalised needs of customers, the Group continued to meet the personalised needs of customers by continuously introducing intelligent products, focused on improving the penetration rate of upgraded products, and fully exploited the business space of decoration. In addition, the Group reinforced the marketing promotion of decoration to demonstrate the diversified service concept of the enterprise. In the future, the Group will also continue to improve the professional competence in boutique businesses by strengthening the quality and frequency of training for front-line teams. At the same time, in line with the expected development trend and coverage of new energy vehicles in the future, the Group will focus on enhancing the development of automobile decoration projects in the after-sales segment.

The Scale of the Used Car Business Increased Significantly, Becoming the Core Growth Driver in the Future

Since 2021, the Group has regarded the used car business as a new engine for performance growth and continuously strengthened the strategic significance of the used car business. In 2022, the Group further improved the construction of the professional teams for the used car business and optimised the assessment and remuneration system. Through the implementation of the digital benchmarking system, focusing on resource allocation, and making full use of the advantages of the Group's network distribution, the Group realised the optimisation of used car resources nationwide, and the proportion of the existing products and the retail sales of the existing products increased significantly. At the same time, the Group continued to expand the brand influence of Sunfonda certified used cars.

In 2022, the Group opened several auction platforms and intranet auction business, which significantly increased the inventory turnover rate of used cars. The Group optimised used car resources by using intranet auctions, increased the proportion of retail sales of existing products, and drove the growth of extended business such as transfer, finance, insurance, insurance renewal, and decoration. In order to further improve customer needs, the Group expanded its consignment business, and at the same time promoted the development of consigned vehicle refurbishment business, creating a diversified used car business including replacement, acquisition, used car sales, consignment, and refurbishment. Although the industry was greatly impacted by the pandemic and other macro factors in 2022, through the diversified expansion of the used car business, the improvement of professional teams and the optimisation of various operation systems, the Group's used car evaluation rate increased by 7 percentage points as compared with 2021, and the replacement rate increased by 2 percentage points.

In 2023, in the face of new opportunities and challenges, the Group will take advantage of customer retention to maintain loyal customers and provide customers with one-stop services for buying and selling vehicles. The core objective of the used car business is to promote the sale of new vehicles and the retail of existing products, realise the value chain circulation of customers' vehicles during the lifetime cycle, and become a new profit growth point of the Group.

Automobile Financing and Insurance Agency Businesses

In 2022, the Group further optimised its financial services, and the penetration rate of its financial business increased by 2 percentage points year on year. Customers were provided with diversified purchase options and more flexible payment methods, to promote the growth of new automobile sales business, and further acquire income from the whole value chain brought by financial business during the customer lifetime cycle. In 2022, commission income from the Group's automobile financing agency business increased by 45% year on year.

During the frequent outbreaks of COVID-19 pandemic, the Group adjusted its business operation model in a timely manner by conducting online renewal for the insurance renewal business in response to the development of the situation. As a result, the number of renewed policies increased by 23.4% year on year, and the amount of premium increased by 24.2% year on year. The continued increase of total premium also ensured the stable growth of the after-sales sheet metal spray business.

Achieved "Best Customer Experience" and Continuously Improved Profit Margin in Adherence to Customer-Centric Principle

The customer management center is an important bridge for the Group to connect with customers. In light of the changes of the current market environment, the Group has been oriented by the understanding of customer needs and transformed its philosophy to being customer-centric in order to achieve "best customer experience". In 2022, the Group completed the transformation of organisational structure, the development of digital platforms, and the integration and upgrading of relevant resources of business departments. Concentrating on the three key aspects of personnel, process and system, through the four functions of customer data management, satisfaction management, customer care, and clue invitation management, the Group improved the customer lifetime cycle management in terms of reminder, invitation and care by combining online and offline methods, and maintained good customer relationships.

The Membership Center of the Group can make timely and effective communication with customers through telephone and network media, actively provide customers with the service experience before, during and after vehicle purchase, meet the timeliness requirements of customer follow-up and return visits, and improve the establishment, update, screening and application of databases. During the process of vehicle maintenance and use, the Group can maintain customer relationships through remote contact points on the digital platform, and timely and accurately obtain customer information, vehicle information and communication records. The Group can exploit potential opportunities in multi-dimensional processes, and contact customers through multiple channels, to understand customer needs, improve customer conversion, and increase customer stickiness and profit margins.

Steadily Promoted the Network Expansion in Key Regions, and Enhanced the Network Layout of Luxury Brands and New Energy Brands in Superior Regions

The Group continued to focus on core brands and key regions, while paying attention to the rapid development and changes of the new energy vehicle market, continuously strengthening the network layout of dominant luxury brands and new energy brands with good growth space, constantly increasing the number of sale points for the Group's key luxury brands, proactively developing new energy brands with competitive advantages, capturing the dividends generated from the development and changes of the automobile market in the post-pandemic era, continually cooperating with major popular brand automobile suppliers in China, and actively promoting brand network expansion in regions with competitive advantages. The Group actively followed the direction and development of the automobile market, and adapted to the changes in automobile consumption demand in the Chinese market by constantly optimising the Group's brand portfolio structure, so as to maintain the good profitability of the Group's brands.

Since 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, and pushed forward the construction of newly authorised stores such as Yinchuan BMW store and Xi'an Porsche store, of which the Yinchuan BMW store has successfully opened for business, thereby further consolidating the Group's leading position among luxury brand dealers in Northwestern China. In 2022, the Group obtained the authorisation of Lanzhou GAC Toyota store and Xi'an BMW store, and also made breakthroughs in the field of new energy vehicles by respectively obtaining the authorisation of two automobile brands' sale points including Beijing XPeng and Weinan AITO, by which the Group will establish XPeng's brand experience center, and delivery & after-sales service center in Beijing to improve the Group's brand structure in the Beijing market. The cooperation with such two emerging new energy vehicle manufacturers with strong market competitiveness will enhance the influence of the Group's new energy brands.

As at 31 December 2022, the Group had a total of 43 sale points in operation.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2022 was RMB10,923.7 million, representing a decrease of RMB715.5 million or 6.1% as compared to that for the corresponding period in 2021. Among which, revenue from the sales of new automobiles was RMB9,418.0 million, representing a decrease of RMB605.5 million or 6.0% as compared to that for the corresponding period in 2021; revenue from after-sales service business was RMB1,141.4 million, representing a decrease of RMB107.2 million or 8.6% as compared to that for the corresponding period in 2021; and revenue from the sales of used cars was RMB364.3 million, representing a decrease of RMB2.8 million or 0.8% 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 vehicles, accounting for 86.2% of its revenue for the year ended 31 December 2022 (2021: 86.1%). In addition, revenue generated from after-sales service business accounted for 10.5% of the revenue for the year ended 31 December 2022 (2021: 10.7%), and revenue from the sales of used cars accounted for 3.3% of the revenue for the year ended 31 December 2022 (2021: 3.2%). 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 reporting periods:

	For the year ended 31 December					
	2022			2021		
	Amount ***(RMB'000)***	**Sales volume** ***(Unit)***	**Average selling price** ***(RMB'000)***	Amount *(RMB'000)*	Sales volume *(Unit)*	Average selling price *(RMB'000)*
Sales of new vehicles						
Luxury and ultra-luxury brands	7,521,478	20,165	373.0	8,594,522	22,825	376.5
Mid-end market brands	1,896,555	11,784	160.9	1,428,954	9,383	152.3
Sub-total/Average	9,418,033	31,949	294.8	10,023,476	32,208	311.2
Sales of used cars	364,272	2,321	156.9	367,100	2,425	151.4
After-sales services	1,141,373			1,248,645		
Total	10,923,678			11,639,221		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2022 was RMB10,207.9 million, representing a decrease of RMB438.0 million or 4.1% as compared to that for the corresponding period in 2021. Among which, cost of sales of new automobiles for the year ended 31 December 2022 was RMB9,197.0 million, representing a decrease of RMB389.0 million or 4.1% as compared to that for the corresponding period in 2021. Cost of after-sales service business for the year ended 31 December 2022 was RMB662.7 million, representing a decrease of RMB46.4 million or 6.5% as compared to that for the corresponding period in 2021. Cost of sales of used cars for the year ended 31 December 2022 was RMB348.2 million, representing a decrease of RMB2.6 million or 0.7% as compared to that for the corresponding period in 2021.

Gross Profit

Gross profit for the year ended 31 December 2022 was RMB715.7 million, representing a decrease of RMB277.6 million or 27.9% as compared to that for the corresponding period in 2021. Of which, gross profit of sales of new automobiles was RMB221.0 million, representing a decrease of RMB216.5 million or 49.5% as compared to that for the corresponding period in 2021. Gross profit of after-sales service business was RMB478.7 million, representing a decrease of RMB60.8 million or 11.3% as compared to that for the corresponding period in 2021. For the year ended 31 December 2022, gross profit of after-sales services accounted for 66.9% of the total gross profit (2021: 54.3%). Gross profit of used car business was RMB16.0 million, representing a decrease of RMB0.2 million or 1.3% as compared to that for the corresponding period in 2021.

Gross profit margin for the year ended 31 December 2022 was 6.6% (2021: 8.5%).

Other Income and Gains, Net

Other income and gains, net 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 income and gains, net for the year ended 31 December 2022 amounted to RMB281.2 million, representing a decrease of 21.9% as compared with RMB360.1 million for the year ended 31 December 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. Excluding the influence of the above factor, other income and gains, net increased year on year during the Period, mainly due to the increase in commission income from automobile financing agency business as compared to the corresponding period in 2021.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2022 amounted to RMB507.5 million, representing a decrease of RMB14.4 million or 2.8% as compared with RMB521.9 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in payroll of sales staff and advertising and promotion expenses resulting from store closure during the pandemic. As a percentage of revenue, the selling and distribution expenses increased slightly over the corresponding period last year from 4.5% for the year ended 31 December 2021 to 4.6% for the year ended 31 December 2022, up by 0.1 percentage point.

Administrative Expenses

Administrative expenses for the year ended 31 December 2022 amounted to RMB252.7 million, representing a decrease of RMB18.8 million or 6.9% as compared with RMB271.5 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in compensation of non-sales personnel. As a percentage of revenue, the administrative expenses remained unchanged as compared with the corresponding period last year, both at 2.3% for the year ended 31 December 2022 and the year ended 31 December 2021.

Finance Costs

Finance costs for the year ended 31 December 2022 amounted to RMB107.4 million, representing an increase of 14.6% as compared with RMB93.7 million for the year ended 31 December 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 year ended 31 December 2022 amounted to RMB129.4 million, representing a decrease of RMB336.9 million or 72.2% as compared with RMB466.3 million for the year ended 31 December 2021.

Income Tax Expense

Income tax expense for the year ended 31 December 2022 amounted to RMB48.1 million, representing a decrease of RMB72.4 million or 60.1% as compared with RMB120.5 million for the year ended 31 December 2021. The effective income tax rate of the Group for the year ended 31 December 2022 was approximately 37.2% (2021: 25.8%).

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2022 amounted to RMB81.3 million, representing a decrease of RMB264.6 million or 76.5% as compared with RMB345.9 million for the year ended 31 December 2021.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2022, profit for the year attributable to owners of the parent amounted to RMB81.3 million, representing a decrease of RMB264.6 million or 76.5% as compared with RMB345.9 million for the year ended 31 December 2021.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2022, the Group's net cash inflow generated from operating activities was RMB113.3 million, as compared with RMB136.0 million of its net cash inflow generated from operating activities for the year ended 31 December 2021. The net cash inflow of operating activities slightly decreased year on year.

For the year ended 31 December 2022, the Group's net cash outflow of investing activities was RMB307.5 million, as compared with RMB216.5 million of its net cash outflow of investing activities for the year ended 31 December 2021. The increase in net cash outflow of investing activities was mainly attributable to the increase in construction expenditure with the project progress.

For the year ended 31 December 2022, the Group's net cash outflow of financing activities was RMB37.0 million, as compared with RMB271.3 million of its net cash inflow of financing activities for the year ended 31 December 2021. The increase in net cash outflow of financing activities was mainly attributable to the increase in net cash outflows for repayment of bank loans and other borrowings for the Period.

Net Current Assets

As at 31 December 2022, the Group's net current assets amounted to RMB376.8 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, used cars, spare parts and decoration accessories. As at 31 December 2022, the Group's inventories amounted to RMB1,346.9 million, representing an increase of 27.7% as compared with RMB1,054.4 million as at 31 December 2021, mainly attributable to the increase in inventory due to the impact of the pandemic, the increase in inventory of newly opened stores and the active stocking up of some best-selling vehicle models at the end of the year.

In 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 year and multiplied by 360 days) were 43.0 days, representing an increase as compared with 33.7 days in 2021, mainly attributable to the monthly or consecutive months of business closure due to the pandemic for the Period, affecting the normal sales and operation schedule.

Bank Loans and Other Borrowings

As at 31 December 2022, the Group's bank loans and other borrowings were RMB2,481.1 million, representing an increase of 7.5% 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:

	As at 31 December			
	2022		2021	
	Effective interest rate *(%)*	**Amount** ***RMB'000***	Effective interest rate *(%)*	Amount *RMB'000*
CURRENT				
Bank loans	**3.2-5.9**	**1,667,657**	3.6-5.8	1,152,576
Other borrowings	**1.8-8.5**	**452,020**	1.7-8.6	393,669
Sub-total		**2,119,677**		1,546,245
NON-CURRENT				
Bank loans	**3.5-5.9**	**361,456**	3.5-5.9	760,774
Sub-total		**361,456**		760,774
Total		**2,481,133**		2,307,019
Among which:				
Secured loans		**1,882,047**		1,798,885
Unsecured loans		**599,086**		508,134
Total		**2,481,133**		2,307,019

As at 31 December 2022, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 47.2% (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 transmit and pledged bank deposits.

Pledge of Assets

As at 31 December 2022, certain of the Group's bank loans were secured by charges or pledges over its assets. The Group's assets subject to these charges or pledges as at 31 December 2022 consisted of: (i) inventories amounting to RMB644.6 million; (ii) property, plant and equipment amounting to RMB356.7 million; (iii) land use rights amounting to RMB254.1 million; (iv) construction in progress amounting to RMB346.9 million; and (v) pledged bank deposits amounting to US$3.3 million (equivalent to RMB22.8 million) and RMB119.9 million.

As at 31 December 2022, certain of the Group's inventories amounting to RMB169.3 million and pledged bank deposits amounting to RMB240.2 million were pledged as securities for bills payable.

Capital Expenditures and Investment

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2022, the Group's total capital expenditures were RMB509.4 million, representing an increase of RMB41.7 million as compared with RMB467.7 million for the year ended 31 December 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 31 December 2022, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2022, the Group had 3,555 employees (as at 31 December 2021: 3,553 employees). Staff cost of the Group decreased by 10.3% from RMB393.5 million for the year ended 31 December 2021 to RMB353.1 million for the year ended 31 December 2022, mainly attributable to the decrease in staff payroll resulting from store closure during the pandemic. The Group pays regular remuneration to employees based on their job responsibilities, work contribution, achievement of key performance indicators, etc. The Group also pays attention to the external balance of remuneration and provides competitive remuneration packages to outstanding employees through regular job evaluations, including competitive fixed salary and performance bonus. The Group adheres to the combination of external introduction and internal training to enrich the construction of talent team; regularly carries out work evaluation and review of performance appraisal results of reserve talents; and emphasises the succession and regeneration of reserve talents, to accumulate strength for and empower the sustainable development of the Group.

FUTURE STRATEGY AND PROSPECTS

Forecast of China's Economic Trend in 2023

2023 will be the first year for China to fully implement the spirit of the 20th National Congress of the Communist Party of China, and also a critical year that links past achievements with future development for the implementation of the "14th Five-Year Plan", in which macro policies need to constantly maintain sufficient counter-cyclical adjustment. As the pandemic prevention and control has entered a new stage, and various policies have been continuously implemented in detail, the order of production and life is expected to be restored at a faster pace, the endogenous driving force of economic growth will be constantly accumulated and strengthened, and China's economy will improve overall in 2023. Subject to the various effective measures and the recovery of consumer expectations, it is predicted that China's GDP will grow by around 6.0% in 2023 as indicated in the "China Economic Forecast and Outlook for 2023" organised by the Center for Forecasting Science, Chinese Academy of Sciences.

Overall, China's economy will show a trend of high growth following a low one, and gradually climbing up in 2023. In the first half of 2023, the economic recovery will be slow during a transition period for the optimisation of pandemic prevention and control policies, and a period of time for macro policies to take effect after being eased. In the second half of 2023, China's economy will see a more obvious upward trend. China's economy will once again become the most important engine for global economic growth in 2023, while the global economy will experience a situation of "rising in the east and falling in the west" in 2023.

Xi'an, China Will Embrace High-Quality Development

Xi'an is the capital of Shaanxi Province, where the Group's main business is located, and is also the location of the Group's headquarters. In the 2023 Report on the Work of Shaanxi Provincial Government, it was officially announced that Xi'an was approved to build a comprehensive science center and a science and technology innovation center, thus becoming the fourth area approved to build a "dual centers" following Beijing, Shanghai and the Guangdong-Hong Kong-Macao Greater Bay Area, marking a new stage of high-quality development in Xi'an's scientific and technological innovation.

Meanwhile, Xi'an pointed out at the press conference for "implementing the spirit of the 20th National Congress of the Communist Party of China and fully promoting the high-quality development of Xi'an" that Xi'an is in an accelerating stage of high-quality development, and in 2023, Xi'an will adhere to the goal of building a national central city, and focus on the key tasks in eight areas, to fully promote the work in seven aspects of "focusing on improving the comprehensive energy level of the city, gathering strengths to improve the level of industrial chain and supply chain, forcefully promoting project expansion and investment, fully activating the consumer market, vigorously pushing forward innovation and development, energetically promoting reform and opening up, and striving to improve the people's well-being".

Forecast of China's Passenger Vehicle Market in 2023

According to CAAM, in 2023, China will continue to adhere to the general principle of seeking progress while maintaining stability, vigorously boost market confidence, implement the strategy of expanding domestic demand, and actively promote the overall improvement of economic performance, so as to achieve effective improvement in quality and reasonable growth in quantity. The implementation of relevant supporting policies and measures will further stimulate the vitality of market players and consumers. It is expected that the automobile market will continue to improve while maintaining stability in 2023, and will achieve a growth of about 3%.

Currently, China's automobile industry has entered the era of new automobile 2.0, with the improvement of personal income and living standards of Chinese residents, the trend of consumption upgrading is becoming more and more obvious, and the proportion of spending on medium and high-end products in consumption expenditures is increasing. Reflected in the automobile field, the market share of luxury car brands has significantly expanded. With the introduction of stimulus policies for automobile consumption and the effective control of the domestic pandemic, in 2023, the luxury car market will gradually recover, continually heat up, and return to a sales level similar to last year.

In addition, according to the forecast of the China Passenger Cars Association, the penetration rate of new energy vehicles will continue to increase rapidly in the future, the sales volume of new energy passenger vehicles is expected to reach 8.5 million units in 2023, and the total sales volume of traditional passenger vehicles will be 23.5 million units. Accordingly, the penetration rate of new energy vehicles will reach 36% in 2023.

"2023 will be the first year to fully implement the new policy on used car, by which the structure of operating entities of used car business will be adjusted through transforming mainly transactions between individuals in the past into mainly corporate operation, and large-scale and standardised operation will be encouraged, which will be beneficial to the healthy development of China's used car market." Luo Lei, deputy secretary-general of the China Automobile Dealers Association, believes that compared with the short-term stimulus policy, this will not have an immediate effect, but the policy effect will last longer. With the weakening and disappearance of the negative factors affecting used car transactions, as well as the combined effect of various favorable factors, the used car market will grow rapidly this year. Luo Lei said: In 2023, the used car market will not grow by only 10%, and the annual transaction volume will be likely to reach 20 million units.

To Promote the Construction of the "FUN TIME LANE" Automobile Fashion Street Zone Project

The Group has innovatively created the "FUN TIME LANE" automobile fashion street zone project which integrates automobile sales with multiple business patterns such as catering, leisure and entertainment, aiming to create a more abundant, green, intelligent, diversified and integrated car purchase, shopping and fashion living environment for customers. The "FUN TIME LANE" automobile fashion street zone located in Chanba Ecological Zone, Xi'an is planned to complete the final acceptance of construction and investment promotion in 2023. At the same time, the Group is also promoting the construction of BMW and GAC Toyota authorised 4S stores in Lanzhou "FUN TIME LANE".

To Deepen the Layout of Digital Empowerment, and the Conversion of Private Traffic Will Achieve a Breakthrough

As at the end of 2022, the Group's self-developed "Sunfonda Group Membership Center" has accumulated 310,000 registered users. In order to enhance the ability of stores to interact with customers in online marketing, the Group launched its enterprise WeChat project in 2022, which has accommodated nearly 50,000 customers up to now.

2022 was a year for the Group to deploy digital transformation, in which the Group established its digital empowerment center, and launched corresponding software and hardware products for business units. Among which, the "Smart Customer Management System", through program analysis, mainly implements automatic task solicitation and distribution for customers who are in need of vehicle maintenance and may quit, and then stores accept tasks and give feedback, through which nearly 20,000 customers have been attracted back for service in 2022. The "Card and Coupon Marketing System" can accurately match customers' business scenarios such as new car purchase and replacement, maintenance and repair, decoration and beauty, and event experience, etc., and can issue exclusive cards and coupons for customers to offset their payments in stores. The "Clue Management System" implements unified clue management and distribution for the information provided by customers for registration in online new car purchase and replacement channel, used car channel and marketing activity channel, to assist stores to carry out cross-brand operation of their own private traffic.

In 2022, the Group carried out online cooperation with local high-quality service partners through online channels, and in 2023, the Group will continue to discuss with relevant partners on in-depth cooperation models in order to achieve a win-win situation. In 2023, the Group's digital team will continue to be oriented by business realisation, to open up online marketing channels, actively connect with various resources, and take digital transformation as an opportunity to achieve a breakthrough in monetising private traffic.

To Actively Explore Innovative Marketing Models and Create a 360° Comprehensive Ecosystem of Digital Car Life

In recent years, the Group has actively explored innovative marketing models with its focus on conducting crossover marketing activities, so as to provide customers with a full range of consumer experience while enhancing brand favorability, strengthening brand popularity, refreshing brand influence and standing out quickly, and the Group has successfully organised several large-scale PR marketing activities in different industries. In 2023, the Group will continue to gain insight into new marketing trends, carry out more targeted investment and operation, focus on accurately reaching customers in content marketing, proactively explore innovative marketing models, further expand the field of cross-sector PR activities, and cooperate with more excellent enterprises, to realise industrial interconnection and customer sharing. Meanwhile, the Group will actively develop new customer acquisition channels to achieve differentiated marketing.

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders of the Company. The Company has adopted 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 of Hong Kong Limited (the "**Listing Rules**"). The Company regularly reviews its corporate governance practice to ensure the compliance with the CG Code.

The Board is of the view that the Company has complied with all the code provisions set out in the CG Code during the Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2023 up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all Directors, all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2022.

AUDIT COMMITTEE

The Board has established the audit committee of the Company (the "**Audit Committee**") which comprises three independent non-executive Directors, namely Mr. Liu Jie (chairman), Mr. Song Tao and Dr. Liu Xiaofeng.

The Audit Committee has, together with the Board and external auditor of the Company, reviewed the accounting standards and practices adopted by the Group and the consolidated financial results of the Group for the year ended 31 December 2022. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Group, and considers the risk management and internal control systems to be effective and adequate.

SCOPE OF WORK OF ERNST & YOUNG

The figures above in respect of this annual results announcement for the year ended 31 December 2022 have been agreed with the Company's auditor, Ernst & Young ("**Ernst & Young**"), certified public accountants, to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK$0.02 (equivalent to approximately RMB0.02) per ordinary share for the year ended 31 December 2022 in an aggregate amount of RMB10.7 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders of the Company at the 2023 annual general meeting of the Company (the "**2023 AGM**").

Where the proposed distribution of final dividend is approved at the 2023 AGM, the dividend will be paid on Friday, 30 June 2023 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 30 May 2023. Therefore, the register of members of the Company will be closed from Thursday, 25 May 2023 to Tuesday, 30 May 2023 (both days inclusive). In order to be entitled to the final 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 Wednesday, 24 May 2023.

ANNUAL GENERAL MEETING

The 2023 AGM will be held on Thursday, 18 May 2023 and the notice thereof will be published and dispatched to the shareholders of the Company in a manner as required by the Listing Rules. In order to determine shareholders' entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 15 May 2023 to Thursday, 18 May 2023 (both days inclusive). In order to be entitled to attend and vote at the 2023 AGM, unregistered holders of shares of the Company should ensure that all 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 Friday, 12 May 2023.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual 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 annual 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.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to all of the management team and all staff for their contributions to the Group. At the same time, we would like to thank every customer, business partner and shareholder of the Company for their continuous support over the years! In the future, the Group will strive to be the first to energetically promote business growth and bring greater and long-term return to the shareholders of the Company.

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

Hong Kong, 24 March 2023

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.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and development strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited by the Group's auditor. Shareholders and potential investors of the Company should therefore not place undue reliance on such statements.