Sunfonda Group Holdings

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01771)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

During the period from 1 January 2023 to 30 June 2023, the Group has recorded:

- Operating revenue of RMB5,271.2 million, which was up by 2.2% from the same period in 2022, including:
  - Sales volume of new vehicles up by 3.7% to 14,891 units, and revenue from the sales of new vehicles up by 0.9% to RMB4,471.0 million;
  - Revenue from after-sales services up by 14.5% to RMB620.8 million; and
  - Revenue from the sales of used cars down by 2.0% to RMB179.4 million.
- Gross profit of RMB266.2 million, which was down by 36.1% from the same period in 2022.
- Gross profit margin was 5.1% (same period in 2022: 8.1%).
- Other income and gains, net amounted to RMB210.4 million, representing an increase of 80.8% from the same period in 2022. Of which, commission income significantly increased by 107.9%.
- Profit before tax for the Period decreased by 88.0% to RMB14.8 million (same period in 2022: RMB123.1 million).

Profit attributable to owners of the parent for the Period was down by 89.5% to RMB8.2 million (same period in 2022: RMB77.8 million).

Basic and diluted earnings per share attributable to ordinary equity holders of the parent amounted to RMB0.01 for the Period (same period in 2022: RMB0.13).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunfonda Group Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**", "**we**", "**our**" or "**Sunfonda Group**") for the six months ended 30 June 2023 (the "**Period**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	**For the six months ended 30 June 2023 Unaudited** *RMB'000*	For the six months ended 30 June 2022 Unaudited *RMB'000*
Revenue	*4(a)*	**5,271,183**	5,156,442
Cost of sales and services	*5(b)*	**(5,004,984)**	(4,739,970)
Gross profit		**266,199**	416,472
Other income and gains, net	*4(b)*	**210,350**	116,342
Selling and distribution expenses		**(272,039)**	(232,133)
Administrative expenses		**(137,985)**	(128,426)
Profit from operations		**66,525**	172,255
Finance costs	*6*	**(51,738)**	(49,194)
Profit before tax	*5*	**14,787**	123,061
Income tax expense	*7*	**(6,580)**	(45,236)
Profit for the period		**8,207**	77,825
Attributable to:			
Owners of the parent		**8,207**	77,825
Earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic and diluted *(RMB)*		**0.01**	0.13

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	For the six months ended 30 June 2023 Unaudited *RMB'000*	For the six months ended 30 June 2022 Unaudited *RMB'000*
PROFIT FOR THE PERIOD	**8,207**	77,825
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**1,277**	2,415
Total comprehensive income for the period, net of tax	**9,484**	80,240
Attributable to:		
Owners of the parent	**9,484**	80,240

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 Unaudited *RMB'000*	31 December 2022 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,764,167**	1,702,459
Right-of-use assets		**712,382**	726,249
Intangible assets		**10,891**	10,145
Prepayments		**25,622**	47,162
Goodwill		**10,284**	10,284
Deferred tax assets		**50,899**	41,729
Total non-current assets		**2,574,245**	2,538,028
CURRENT ASSETS			
Inventories	*10*	**1,263,964**	1,346,879
Trade receivables	*11*	**46,980**	37,641
Prepayments, other receivables and other assets	*12*	**911,475**	866,524
Amounts due from a related party		**5,055**	5,090
Financial assets at fair value through profit or loss		**3,017**	3,065
Pledged bank deposits		**571,874**	388,139
Cash in transit		**9,997**	17,198
Short-term deposits		**86,700**	84,920
Cash and cash at banks		**603,577**	626,003
Total current assets		**3,502,639**	3,375,459
CURRENT LIABILITIES			
Bank loans and other borrowings	*13*	**1,879,057**	2,119,677
Trade and bills payables	*14*	**828,592**	481,310
Other payables and accruals		**331,122**	355,798
Lease liabilities		**25,561**	28,685
Income tax payable		**20,828**	13,171
Total current liabilities		**3,085,160**	2,998,641
NET CURRENT ASSETS		**417,479**	376,818
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,991,724**	2,914,846

	Notes	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*13*	**440,432**	361,456
Lease liabilities		**64,537**	66,288
Deferred tax liabilities		**25,006**	24,287
Total non-current liabilities		**529,975**	452,031
NET ASSETS		**2,461,749**	2,462,815
EQUITY			
Equity attributable to owners of the parent			
Share capital		**377**	377
Reserves		**2,461,372**	2,462,438
Total equity		**2,461,749**	2,462,815

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the parent								
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve** *RMB'000*	**Merger reserve** *RMB'000*	**Share award reserve** *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2023	**377**	**97,842**	**118,045**	**179,645**	**157,947**	**11,408**	**41,675**	**1,855,876**	**2,462,815**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,207**	**8,207**
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**1,277**	**–**	**1,277**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**1,277**	**8,207**	**9,484**
Final 2022 dividend declared	**–**	**(10,560)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,560)**
Equity-settled share award expense	**–**	**–**	**–**	**–**	**–**	**10**	**–**	**–**	**10**
At 30 June 2023 (Unaudited)	**377**	**87,282**	**118,045**	**179,645**	**157,947**	**11,418**	**42,952**	**1,864,083**	**2,461,749**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

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

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

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

	For the six months ended 30 June 2023 Unaudited ***RMB'000***	For the six months ended 30 June 2022 Unaudited *RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Types of goods or service		
Revenue from the sale of motor vehicles	**4,650,376**	4,614,389
Others	**620,807**	542,053
Total revenue from contracts with customers	**5,271,183**	5,156,442
Timing of revenue recognition		
At a point in time	**5,271,183**	5,156,442

(b) Other income and gains, net:

	For the six months ended 30 June 2023 Unaudited ***RMB'000***	For the six months ended 30 June 2022 Unaudited *RMB'000*
Commission income	**178,717**	85,970
Logistics and storage income	**12,909**	12,629
Government grants	**676**	1,313
Interest income	**4,713**	3,473
Net gain on disposal of items of property, plant and equipment	**10,641**	8,450
Net loss on disposal of items of right-of-use assets	**(878)**	–
Fair value losses, net:		
Financial assets at fair value through profit or loss		
– Financial product	**(48)**	(170)
Others	**3,620**	4,677
	210,350	116,342

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2023 Unaudited ***RMB'000***	For the six months ended 30 June 2022 Unaudited *RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**144,538**	117,403
Equity-settled share award expense	**10**	33
Other welfare	**28,857**	26,933
	173,405	144,369
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**4,632,951**	4,433,088
Others*	**372,033**	306,882
	5,004,984	4,739,970

* There were employee benefit expenses of RMB28,732,000 (six months ended 30 June 2022: RMB23,930,000) included in the cost of sales and services.

	For the six months ended 30 June 2023 Unaudited ***RMB'000***	For the six months ended 30 June 2022 Unaudited *RMB'000*
(c) Other items		
Depreciation and impairment of property, plant and equipment	**82,297**	78,737
Depreciation of right-of-use assets	**24,278**	20,521
Amortisation of intangible assets	**403**	411
Advertisement and business promotion expenses	**35,342**	34,500
Lease expenses	**2,187**	3,736
Bank charges	**2,128**	2,193
Office expenses	**18,332**	19,294
Logistics expenses	**13,601**	12,054
Net loss on disposal of items of right-of-use assets	**878**	–
Net gain on disposal of items of property, plant and equipment	**(10,641)**	(8,450)

6. FINANCE COSTS

	For the six months ended 30 June 2023 Unaudited *RMB'000*	For the six months ended 30 June 2022 Unaudited *RMB'000*
Interest on bank borrowings and other borrowings	**54,638**	50,922
Interest expense on lease liabilities	**2,492**	2,691
Less: Interest capitalised	**(5,392)**	(4,419)
	51,738	49,194

7. INCOME TAX

	For the six months ended 30 June 2023 Unaudited *RMB'000*	For the six months ended 30 June 2022 Unaudited *RMB'000*
Current Mainland China corporate income tax	**15,031**	45,228
Deferred tax	**(8,451)**	8
	6,580	45,236

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% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

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.

8. DIVIDENDS

The board of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: HK$0.04 per ordinary share, amounting to a total of approximately HK$24,000,000).

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

The calculation of the basic earnings per share for the six months ended 30 June 2023 is based on the profit for the period attributable to owners of parent, and the weighted average number of ordinary shares of 600,000,000 (six months ended 30 June 2022: 600,000,000) in issue during the period.

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

	For the six months ended 30 June 2023 Unaudited ***RMB'000***	For the six months ended 30 June 2022 Unaudited *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**8,207**	77,825

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Shares		
Weighted average number of ordinary shares in issue during the period	**600,000,000**	600,000,000
Earnings per share		
Basic and diluted *(RMB)*	**0.01**	0.13

10. INVENTORIES

	30 June 2023 Unaudited ***RMB'000***	31 December 2022 Audited *RMB'000*
Motor vehicles	**1,171,677**	1,247,220
Spare parts	**92,287**	99,659
	1,263,964	1,346,879

As at 30 June 2023, certain of the Group's inventories with an aggregate carrying amount of approximately RMB617,786,000 (31 December 2022: RMB664,603,000) and RMB288,372,000 (31 December 2022: RMB169,339,000) were pledged as securities for the Group's bank loans and other borrowings (note 13(a)) and bill payables (note 14), respectively.

11. TRADE RECEIVABLES

	30 June 2023 Unaudited ***RMB'000***	31 December 2022 Audited *RMB'000*
Trade receivables	**46,980**	37,641

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

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

	30 June 2023 Unaudited ***RMB'000***	31 December 2022 Audited *RMB'000*
Within 3 months	**45,247**	36,113
More than 3 months but less than 1 year	**367**	422
Over 1 year	**1,366**	1,106
Total	**46,980**	37,641

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2023 Unaudited ***RMB'000***	31 December 2022 Audited *RMB'000*
Prepayments and deposits to suppliers	**434,123**	430,240
Vendor rebate receivables	**287,170**	264,570
VAT recoverable [(i)]	**80,145**	62,487
Others	**110,037**	109,227
	911,475	866,524

Note:

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

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

13. BANK LOANS AND OTHER BORROWINGS

	30 June 2023 Unaudited		31 December 2022 Audited	
	Effective interest rate ***(%)***	**Amount** ***RMB'000***	Effective interest rate *(%)*	Amount *RMB'000*
CURRENT:				
Bank loans	**3.0-5.8**	**1,542,985**	3.2-5.9	1,667,657
Other borrowings	**1.8-8.5**	**336,072**	1.8-8.5	452,020
		1,879,057		2,119,677
NON-CURRENT:				
Bank loans	**3.5-5.9**	**440,432**	3.5-5.9	361,456
		2,319,489		2,481,133
Bank loans and other borrowings represent:				
– secured loans *(a)*		**1,720,512**		1,882,047
– unsecured loans		**598,977**		599,086
		2,319,489		2,481,133

	30 June 2023 Unaudited *RMB'000*	31 December 2022 Audited *RMB'000*
Analysed into:		
Bank loans repayable		
Within one year	**1,542,985**	1,667,657
In the second year	**54,395**	88,400
In the third to fifth years, inclusive	**276,783**	142,188
Over fifth years	**109,254**	130,868
	1,983,417	2,029,113
Other borrowings repayable		
Within one year	**336,072**	452,020
Total	**2,319,489**	2,481,133

(a) As at 30 June 2023, certain of the Group's bank loans and other borrowings are secured by:

(i) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB617,786,000 (31 December 2022: RMB644,603,000) (note 10);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB363,999,000 (31 December 2022: RMB356,747,000);

(iii) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB258,176,000 (31 December 2022: RMB254,069,000);

(iv) mortgages over the Group's construction in progress, which had an aggregate carrying value of approximately RMB353,318,000 (31 December 2022: RMB346,892,000);

(v) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately RMB91,513,000 (31 December 2022: RMB119,872,000), US$3,602,000 (equivalent to RMB26,028,000) (31 December 2022: US$3,281,000 (equivalent to RMB22,849,000)).

(b) Except for the secured bank loan amounting to HK$66,400,000 (equivalent to RMB61,221,000) (31 December 2022: HK$66,400,000 (equivalent to RMB59,313,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

14. TRADE AND BILLS PAYABLES

	30 June 2023	31 December 2022
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade payables	**95,117**	84,838
Bills payable	**733,475**	396,472
Trade and bills payables	**828,592**	481,310

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

	30 June 2023	31 December 2022
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**641,727**	331,989
3 to 6 months	**178,726**	140,838
6 to 12 months	**5,845**	364
Over 12 months	**2,294**	8,119
Total	**828,592**	481,310

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

As at 30 June 2023, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB288,372,000 (31 December 2022: RMB169,339,000) (note 10).

As at 30 June 2023, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB441,097,000 (31 December 2022: RMB240,215,000).

15. CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities.

16. COMMITMENTS

Capital commitments

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

	30 June 2023 Unaudited *RMB'000*	31 December 2022 Audited *RMB'000*
Contracted, but not provided for buildings	**70,636**	232,540

17. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The National Economy Gradually Recovered

In the first half of the year, facing the complex and severe international environment and the arduous tasks of domestic reform, development and stabilisation, all regions adhered to the general principle of pursuing progress while ensuring stability, focused on promoting high-quality development, better coordinated the overall domestic and international situations, better balanced economic and social development, and gave priority to ensuring stable growth, employment, and prices. Therefore, market demand gradually recovered, production and supply continued to increase, employment and prices remained generally stable, personal income increased steadily, and the overall economic performance rebounded.

According to data released by the National Bureau of Statistics of China, preliminary calculations show that the gross domestic product (the "**GDP**") for the first half of the year amounted to RMB59,303.4 billion, representing a year-on-year increase of 5.5% at constant prices calculation, and the total retail sales of social consumer goods amounted to RMB22,758.8 billion, representing a year-on-year increase of 8.2%. The retail sales of urban consumer goods amounted to RMB19,753.2 billion, representing a year-on-year increase of 8.1%. Classified by consumption type, the sales of upgraded goods grew rapidly, and the national online retail sales amounted to RMB7,162.1 billion, representing a year-on-year increase of 13.1%. Among which, the online retail sales of physical goods amounted to RMB6,062.3 billion, representing a year-on-year increase of 10.8%, and accounting for 26.6% of the total retail sales of consumer goods. The total retail sales of automobile consumables amounted to RMB2,240.9 billion, representing a year-on-year increase of 6.8%, and accounting for 10% of the total retail sales of social consumer goods.

Overall, in the first half of the year, as the economy and society has fully resumed normal operation, and macro policies have taken effect, the national economy has rebounded and made steady progress in high-quality development. However, it should also be noted that the world political and economic situation is complicated, and the foundation for sustained domestic economic recovery and development is still not stable. Going forward, to accomplish the primary task of high-quality development and the strategic task of building a new development pattern, it will be required to comprehensively deepen reform and opening up, accelerate the construction of a modern industrial system, focus on smoothing the economic cycle, make greater efforts to shift growth model, make structural adjustments, and boost driving forces, and strive to achieve effective qualitative improvement and reasonable quantitative growth of the economy.

The Economy of Key Areas Covered by the Group's Network Recovered Steadily

In the first half of 2023, the economy of Shaanxi Province, which is covered by the Group's main business network, has resumed to stable operation, the structure has been improved, and the momentum has been accumulated. According to the results of the unified accounting of regional GDP, Shaanxi Province's GDP reached RMB1,550.32 billion in the first half of the year, representing a year-on-year increase of 3.7% at constant prices calculation. The consumer market grew steadily, and the total retail sales of social consumer goods of Shaanxi Province amounted to RMB532.397 billion, representing a year-on-year increase of 6.7%. Among which, the retail sales of consumer goods of enterprises (entities) above designated size amounted to RMB273.049 billion, representing an increase of 6.1%. Consumer demand for upgraded commodities was constantly released, and automobile consumption had a good momentum, as reflected in the fact that automobile consumption increased by 13.2% and accounted for 24% of the total consumption, which acted as the most important driving force for this year's consumption growth. At the same time, the economic development of Jiangsu Province, a fundamental area within the coverage of the Group's business network, has steadily improved in both quality and efficiency, and the gross scale has achieved reasonable growth, which has sustained the trend of continuous recovery and upturn since the beginning of 2023, and maintained a good momentum of high-quality development. According to the results of the unified accounting of regional GDP, Jiangsu Province's GDP reached RMB6,046.53 billion in the first half of the year, representing a year-on-year increase of 6.6%. Demand-side consumption upgrading trend has become obvious, with the accelerated integration of cutting-edge technologies and service industry scenarios, new consumption models have been continuously expanded, and new momentum for industry development has been constantly strengthened. In the first half of the year, the total retail sales of social consumer goods of Jiangsu Province amounted to RMB2,304.96 billion, representing a year-on-year increase of 10%, of which the provincial retail sales of automobile commodities exceeding the limit increased by 10.1% year on year, up by 10.3 percentage points as compared with the first quarter, and accounting for 27.1% of the provincial retail sales exceeding the limit, driving the growth of retail sales exceeding the limit by 2.8 percentage points.

Passenger Vehicle Market Performance in the First Half of 2023

In the first half of 2023, as a result of the impact of the implementation of promotional policies and market price fluctuations in the first quarter, driven by the central and local policies to promote consumption, the release of the announcement on implementation of China VI emission standards for light-duty vehicles, the launch of automobile marketing activities in many places, and the introduction of a large number of new models by enterprises, coupled with the semi-annual sales promotion of automobile enterprises and the relatively low base of the same period in April and May, China's automobile market demand gradually recovered, and achieved a high growth in the first half of the year. According to the China Association of Automobile Manufacturers ("**CAAM**"), in the first half of this year, China's automobile production and sales volume reached 13.248 million units and 13.239 million units, respectively, representing a year-on-year increase of 9.3% and 9.8%, respectively. In the automobile consumption market, the stable performance of the passenger vehicle market is the "ballast stone" for the smooth operation of the overall automobile market. The production and sales volume of passenger vehicles was 11.281 million units and 11.268 million units, respectively, representing a year-on-year increase of 8.1% and 8.8%, respectively.

The Market Share of New Energy Vehicles Continued to Increase, and Production and Sales still Maintained a Good Development Trend of Rapid Growth

From January to June 2023, the production and sales volume of new energy vehicles was 3.788 million units and 3.747 million units, respectively, representing a year-on-year increase of 42.4% and 44.1%, respectively, and occupying a market share of 28.3%. With the governments' increasingly stringent environmental protection policies and consumers' gradually increasing awareness of environmental protection, new energy vehicles have shown a strong growth momentum globally. In addition, affected by the rich variety of new energy vehicle models, the launch of a large number of new models in the market, and the decline in model prices, the sales volume of A00-class vehicles dropped significantly year on year, while the sales volume of vehicles at other classes increased to different degrees year on year. New energy vehicles have crossed the low-quality, low-price development stage, and with the iterative upgrading of technology, the consumer experience continues to rise.

On 21 June 2023, the Ministry of Finance, the State Taxation Administration, and the Ministry of Industry and Information Technology issued the "Announcement on Extending and Optimising the New Energy Vehicle Purchase Tax Reduction and Exemption Policy", aiming to further play the incentive role of tax policies, guide relevant parties to seize development opportunities, promote technological innovation and product innovation, continuously enhance the core competitiveness of the industry, expand the consumption of new energy vehicles, and boost the high-quality development of the new energy vehicle industry.

Cui Dongshu, secretary-general of the China Passenger Car Association (the "**CPCA**"), said that in view of the scale advantage of China's new energy vehicle industry and its market expansion demand, more and more Chinese new energy brands have gone abroad, their overseas recognition has continued to improve, and their service networks have been continuously optimised, indicating that the new energy vehicle export market has constantly shown a positive trend.

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

In the first half of 2023, selling price of new vehicles became the biggest variable in the automobile industry, and its instability was transmitted to the used car market.

According to the "Research Report on China's Automobile Value Preservation Rate in June 2023" jointly released by the China Automobile Dealers Association and Jingzhengu, the automobile value preservation rate data in the first half of the year showed a V-shaped trend. After the Spring Festival, affected by the insufficient vehicle supply, the value preservation rate of used cars increased slightly. However, with the launch of new vehicle price promotion activities, more and more consumers chose to wait, and the value preservation rate of used cars decreased significantly until the end of May to become stable.

According to the data released by the China Automobile Dealers Association, from January to June 2023, the cumulative transaction volume of used cars was 8.7686 million units, representing a year-on-year increase of 15.60%, or an increase of 1.1835 million units as compared with the same period, and the cumulative transaction amount was RMB551.726 billion. Since 1 June 2023, the Ministry of Public Security has simplified the registration procedures for used car transactions on the basis of the "one card policy", driving a slight recovery of the used car market.

Cui Dongshu, secretary-general of the CPCA, said that used cars currently are in a stage of rapid rise, and the potential for future development is extremely huge. In addition, with the implementation of the separate endorsement policy for used cars, the used car business of automobile dealership groups will flourish, and the development potential of China's used car sector is extremely huge.

Looking forward to the second half of the year, the moderate recovery of the macroeconomy is gradually transmitted to the automobile market, the good performance of new energy vehicle and automobile exports has effectively driven the market growth, and as the policy continuously takes effect, the consumption potential of the automobile market will be further released, which will help promote the industry to achieve stable growth throughout the year. However, it should also be noted that the current external environment is still complex, some structural problems are still prominent, consumer demand is still insufficient, the industry is still operating under greater pressure, and there are still many challenges to business operations, thus it is necessary to maintain the stability and predictability of policies to help the industry run smoothly.

BUSINESS REVIEW

In the first half of 2023, the Group realised operating income and gross operating profit of RMB5,271.2 million and RMB266.2 million, respectively. While optimising the brand network layout in superior regions, the Group continued to improve operating efficiency.

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

In the first half of 2023, the Group continued to adhere to the strategy of "increment-oriented, structural optimisation, schedule first", and sold 14,891 new vehicles in the first half of 2023, representing a year-on-year increase of 3.7 percentage points; among which, the sales volume of new energy vehicles was still the key direction of improvement, and achieved a year-on-year increase of 52%.

The Group continued to promote prior order execution, strengthened sales process management, and provided improvement guidelines to various brand stores through spot check and data benchmarking analysis. The Group also strengthened inventory management, and conducted early warning and assessment on inventory turnover period. Resources were shared among various brand stores to accelerate inventory turnover while maximising sales profit.

Affected by market price, in the first half of the year, the Group focused its new automobile business on improving the contribution of horizontal business. Through the structural optimisation of financial business, the gross profit margin of horizontal business increased by 1.83 percentage points year on year. At the same time, the Group carried out derivative business redevelopment to provide customers with more comprehensive business protection.

Through intensive cultivation of customer portraits, the Group carried out targeted invitations, and thus the second-time invitation rate increased steadily; continued to strengthen circle marketing, and customer retention rate and referrals significantly increased by taking measures such as the grant of referral benefits to existing customers through the membership center platform; and focused on new media live streaming, Xiaohongshu and other online marketing channels to further improve sales volume.

Strengthened Fundamental Management and Focused on Exploring Accidental Maintenance Business

In the first half of 2023, the automobile after-sales service business recovered, but the Internet automobile service took advantage of its network distribution to seize the maintenance business, resulting in intensified competition in the accidental maintenance business. In adherence to customer-centric principle, the Group further strengthened the function of customer management center, accurately maintained customer relationships through customer portraits, developed personalised products to meet individual needs, improved the efficiency of solicitation, and attracted lost customers back. Through the joint efforts of the Group's employees, the number of active fundamental customers in the first half of the year increased by 12.3% year on year.

Intensified competition in the accidental maintenance market caused lower profitability to insurance companies after several fee reforms, contracting the room for compensation. On the one hand, the Group worked closely with insurance companies to constantly strengthen its insurance renewal business, therefore, the number of renewed policies increased by 8.1% year on year and premiums increased by 5.1% year on year. The continuous growth in total premiums also ensured stable growth of the accidental maintenance business. On the other hand, the Group aggressively leveraged on its strengths to develop an online accident clue platform in order to closely monitor clues follow-up, and therefore ensured a steady growth in the retention rate. Accident revenue in the first half of 2023 increased by 16% as compared with the same period in 2022.

In respect of electromechanical business, the Group continued to promote prior technical diagnosis to strengthen the technical advantages of services, properly enhanced the electromechanical business, and continuously created a technology-leading brand image of Sunfonda.

The Group's revenue from after-sales services in the first half of 2023 was RMB620.8 million, up by 14.5% from RMB542.1 million during the same period in 2022, and the gross profit of after-sales services was RMB248.8 million, up by 5.8% from RMB235.2 million during the same period in 2022.

In terms of decoration business, aiming at meeting the personalised needs of customers, the Group focused on the improvement of the penetration rate of key products on the sales side; in terms of after-sales, the Group fully explored the needs of retained customers to effectively capture the additional decoration items; and applied customised products for used cars to enhance customer satisfaction. In the future, the Group will also continue to strengthen the capabilities of the front-line team for marketing derivative products, and reinforce the marketing promotion of decoration, so as to better demonstrate the diversified service concept of the enterprise.

The Used Car Business Embraced Market Development Opportunities, and the Replacement Rate Continued to Increase, Which is the Driving Force for Future Growth

As a core strategic business of the Group, the used car segment is also one of the Group's business priorities at this stage. In the first half of 2023, the Group continued to strengthen its core competence in used car business. By enhancing the ability of evaluation, testing, pricing and disposal, implementing standardised business control procedure, establishing a forced close-out mechanism, establishing and implementing a digital benchmarking system, maintaining healthy inventory and sound operations, and giving full play to the advantages of the Group's network distribution to optimise the nationwide distribution of used car resources, the Group ensured the compliance and maximised the benefits of its business operations.

In the first half of 2023, the Group continued to promote its used car certification system and build up the Sunfonda certified used car brand. Through in-depth development of in-use vehicles and intranet auction business, the purchase volume of used cars under the same brand increased by 18% year on year, and the sales volume of used cars under the same brand increased by 14% year on year, resulting in a year-on-year increase of 2.9% in the replacement rate of used cars in the first half of 2023, and a year-on-year increase of 3.8% in the transaction volume of used cars. Under the support of several auction platforms, the Group maintained healthy used car inventory turnover, and the average turnover days of used cars were only 14 days.

In 2023, the core objectives of the Group's used car business are still to promote new vehicle replacement, develop loyal customers, improve the entry of in-use high-quality vehicles and brand certification retail, expand business scale, realise the lifetime value chain circulation of customers' in-use vehicles, and create new profit growth points for the Group in conjunction with other business segments.

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

The customer relationship management (CRM) department is the core for the Group to connect with customers, while customers are the carrier for enterprises to achieve sustainable development, and customer satisfaction is the basis of the Group's customer management. For a long time, the Group has emphasised customer satisfaction and offered the best customer experience, thereby steadily improving customer retention and continuously enhancing profit margins.

In the first half of 2023, the Group used the digital management platform to integrate relevant resources of business departments, and unified customer portrait analysis method with "people, vehicles and services" as the center, so as to provide decision-making support for various business divisions. Meanwhile, customer portraits were used to further improve the Group's capabilities for customer relationship maintenance and opportunity identification. By accurately selecting customers and developing customer benefit cards and coupons, the Group accurately pushed relevant data, so as to improve the traffic of existing customers. At the same time, the Group applied data analysis in identifying high-value customers, loyal customers, and lost customers, to grasp their market trends and adjust business strategies in a timely manner. The Group also effectively carried out additional purchase, redemption and referrals, as well as marketing and diversified customer care activities, to delivered the best customer experience and customer satisfaction, so that profits continued to increase.

Actively Responded to Market Changes by Steadily Promoting Network Expansion in Key Regions

The Group closely monitored the rapid development and changes in the automobile market, and took certain measures to stabilise the main business foundation of the Group's existing automobile 4S stores. To adapt to the changes in automobile consumption demand in the Chinese market, the Group continuously optimised the structure of its brand portfolio to maintain the good profitability of the Group's brands. Meanwhile, the Group continued to focus on core brands and key regions, constantly strengthened the network layout of dominant luxury brands and new energy brands with good growth space, cooperated with new energy brands with competitive advantages in various manners to capture the dividends of the new energy vehicle market development; continually cooperated with major popular brand automobile suppliers in China, and actively promoted brand network expansion in regions with competitive advantages.

Since 2023, the Group has actively and steadily promoted the brand network development plan, and completed the construction of authorised stores including Xi'an Chanba Porsche Center, Beijing XPeng's experience center and delivery service center in the first half of the year, of which the completion and opening of Xi'an Chanba Porsche Center has further optimised the brand operation network of Porsche in Xi'an and enhanced the influence of Sunfonda Group as an agency. The opening of Beijing XPeng's brand experience center and delivery and after-sales service center has improved the Group's brand structure in the Beijing market, and this cooperation with new energy vehicle manufacturer with strong market competitiveness will provide rich marketing experience for the Group to further develop its new energy brands.

As at 30 June 2023, the Group had a total of 44 sale points in operation.

FINANCIAL REVIEW

Revenue

Revenue for the Period was RMB5,271.2 million, representing an increase of RMB114.8 million or 2.2% as compared to that for the corresponding period in 2022. Among which, revenue from the sales of new automobiles was RMB4,471.0 million, representing an increase of RMB39.8 million or 0.9% as compared to that for the corresponding period in 2022; revenue from after-sales service business was RMB620.8 million, representing an increase of RMB78.7 million or 14.5% as compared to that for the corresponding period in 2022; and revenue from the sales of used cars was RMB179.4 million, representing a decrease of RMB3.7 million or 2.0% as compared to that for the corresponding period in 2022.

A substantial portion of the revenue of the Group was generated from sales of new automobiles, accounting for 84.8% of the revenue for the Period (corresponding period in 2022: 85.9%). Besides, revenue generated from after-sales service business accounted for 11.8% of the revenue for the Period (corresponding period in 2022: 10.5%), and revenue generated from used car sales business accounted for 3.4% of the revenue for the Period (corresponding period in 2022: 3.6%). Revenue of the Group was mainly derived from our operations in the PRC.

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

	For the six months ended 30 June/unaudited					
	2023			2022		
	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	**3,721,436**	**10,243**	**363.3**	3,596,380	9,452	380.5
Mid-end market brands	**749,563**	**4,648**	**161.3**	834,864	4,911	170.0
Sub-total/Average	**4,470,999**	**14,891**	**300.2**	4,431,244	14,363	308.5
Sales of used cars	**179,377**	**1,240**	**144.7**	183,145	1,131	161.9
After-sales services	**620,807**			542,053		
Total	**5,271,183**			5,156,442		

Cost of Sales and Services

Cost of sales and services for the Period was RMB5,005.0 million, representing an increase of RMB265.1 million or 5.6% as compared to that for the corresponding period in 2022, which was mainly due to the increase in the sales volume of new vehicles and the expansion of the after-sales service business during the Period. Among which, cost of sales of new automobiles for the Period was RMB4,461.9 million, representing an increase of RMB204.3 million or 4.8% as compared to that for the corresponding period in 2022. Cost of after-sales services for the Period was RMB372.0 million, representing an increase of RMB65.1 million or 21.2% as compared to that for the corresponding period in 2022. Cost of sales of used cars for the Period was RMB171.1 million, representing a decrease of RMB4.3 million or 2.5% as compared to that for the corresponding period in 2022.

Gross Profit

Gross profit for the Period was RMB266.2 million, representing a decrease of RMB150.3 million or 36.1% as compared to that for the corresponding period in 2022. The decrease in gross profit for the Period as compared to that for the corresponding period in 2022 was mainly due to the overall unsatisfactory profitability of new vehicle sales in the first half of 2023 affected by certain factors such as the macroeconomic environment and the fierce competition in the automobile consumption market. Of which, gross profit of sales of new automobiles was RMB9.1 million, representing a decrease of RMB164.5 million or 94.8% as compared to that for the corresponding period in 2022. Gross profit of after-sales service business was RMB248.8 million, representing an increase of RMB13.6 million or 5.8% as compared to that for the corresponding period in 2022. Gross profit of after-sales services for the Period accounted for 93.5% of the total gross profit (corresponding period in 2022: 56.5%). Gross profit of sales of used cars was RMB8.3 million, representing an increase of RMB0.6 million or 7.8% as compared to that for the corresponding period in 2022.

Gross profit margin for the Period was 5.1% (corresponding period in 2022: 8.1%).

Other Income and Gains, Net

Other income and gains, net mainly consist of commission income from automobile sales agency, 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 Period amounted to RMB210.4 million, representing an increase of 80.8% as compared with RMB116.3 million for the corresponding period in 2022. The increase was mainly due to the fact that the Company continued to improve the financial penetration rate, and adjusted the financial business structure and commission ratio, which resulted in a significant increase in commission income from automobile financing agency business, reaching a new high.

Selling and Distribution Expenses

Selling and distribution expenses for the Period amounted to RMB272.0 million, representing an increase of RMB39.9 million or 17.2% as compared with RMB232.1 million for the corresponding period in 2022. The increase was mainly due to higher expenses for newly opened stores and the increase in remuneration for sales and after-sales personnel. As a percentage of revenue, the selling and distribution expenses increased from 4.5% for the corresponding period in 2022 to 5.2% for the Period, up by 0.7 percentage points.

Administrative Expenses

Administrative expenses for the Period amounted to RMB138.0 million, representing an increase of RMB9.6 million or 7.5% as compared with RMB128.4 million for the corresponding period in 2022. As a percentage of revenue, the administrative expenses slightly increased from 2.5% for the corresponding period in 2022 to 2.6% for the Period, up by 0.1 percentage points.

Finance Costs

Finance costs for the Period amounted to RMB51.7 million, representing an increase of RMB2.5 million or 5.1% as compared with RMB49.2 million for the corresponding period in 2022. The increase was mainly due to an increase in the number of newly opened stores.

Profit before Tax

As a result of the foregoing, profit before tax for the Period amounted to RMB14.8 million, representing a decrease of RMB108.3 million or 88.0% as compared with RMB123.1 million for the corresponding period in 2022.

Income Tax Expense

Income tax expense for the Period amounted to RMB6.6 million, representing a decrease of RMB38.6 million or 85.4% as compared with RMB45.2 million for the corresponding period in 2022, which was mainly due to the decline in profits for the Period resulting in a corresponding decrease in income tax expense. The effective income tax rate of the Group for the Period was approximately 44.5% (corresponding period in 2022: 36.7%).

Profit for the Period

As a result of the foregoing, profit for the Period was RMB8.2 million, representing a decrease of RMB69.6 million or 89.5% as compared with RMB77.8 million for the corresponding period in 2022.

Profit for the Period Attributable to Owners of the Parent

For the Period, profit for the period attributable to owners of the parent was RMB8.2 million, representing a decrease of RMB69.6 million or 89.5% as compared with RMB77.8 million for the corresponding period in 2022.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the Period, the Group's net cash inflow generated from operating activities was RMB348.3 million, as compared with its net cash inflow generated from operating activities of RMB52.2 million for the six months ended 30 June 2022. The increase in net cash inflow from operating activities was mainly attributable to the increase in sales volume for the Period resulting in an increase in cash inflow generated from operating activities and the Company's timely adjustment of the inventory procurement schedule to maintain inventory ratio at a safe level.

For the Period, the Group's net cash outflow of investing activities was RMB150.2 million, as compared with its net cash outflow of investing activities of RMB116.0 million for the six months ended 30 June 2022. For the Period, the project investment progressed steadily as scheduled.

For the Period, the Group's net cash outflow of financing activities was RMB246.5 million, as compared with its net cash inflow of financing activities of RMB95.1 million for the six months ended 30 June 2022. 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 30 June 2023, the Group's net current assets amounted to RMB417.5 million, as compared to its net current assets of RMB376.8 million as at 31 December 2022.

Inventories

The Group's inventories primarily consist of new automobiles, used cars, spare parts and decoration accessories. As at 30 June 2023, the Group's inventories amounted to RMB1,264.0 million, representing a decrease of 6.2% as compared with RMB1,346.9 million as at 31 December 2022, which was mainly attributable to the increase in sales volume and the decrease in purchases for the Period.

In the first half of 2023, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 180 days) were 47.3 days, representing a slight increase as compared with 43.0 days in 2022, which was mainly attributable to the increase in the average inventory amount for the Period as compared with that for last year.

Bank Loans and Other Borrowings

As at 30 June 2023, the Group's bank loans and other borrowings were RMB2,319.5 million, representing a decrease of 6.5% as compared with RMB2,481.1 million as at 31 December 2022.

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

	30 June 2023		31 December 2022	
	Unaudited		Audited	
	Effective interest rate *(%)*	**Amount** *RMB'000*	Effective interest rate *(%)*	Amount *RMB'000*
CURRENT				
Bank loans	**3.0-5.8**	**1,542,985**	3.2-5.9	1,667,657
Other borrowings	**1.8-8.5**	**336,072**	1.8-8.5	452,020
Sub-total		**1,879,057**		2,119,677
NON-CURRENT				
Bank loans	**3.5-5.9**	**440,432**	3.5-5.9	361,456
Sub-total		**440,432**		361,456
Total		**2,319,489**		2,481,133
Among which:				
Secured loans		**1,720,512**		1,882,047
Unsecured loans		**598,977**		599,086
Total		**2,319,489**		2,481,133

As at 30 June 2023, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 47.3% (31 December 2022: 47.2%). Net debt includes bank loans and other borrowings, trade and bills payables and other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits.

Pledge of Assets

As at 30 June 2023, 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 30 June 2023 consisted of: (i) inventories amounting to RMB617.8 million; (ii) property, plant and equipment amounting to RMB364.0 million; (iii) land use rights amounting to RMB258.2 million; (iv) construction in progress amounting to RMB353.3 million; and (v) pledged bank deposits amounting to US$3.6 million (equivalent to RMB26.0 million) and RMB91.5 million.

As at 30 June 2023, certain of the Group's inventories amounting to RMB288.4 million and pledged bank deposits amounting to RMB441.1 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. During the Period, the Group's total capital expenditures were RMB199.1 million, representing a decrease of RMB23.1 million as compared with RMB222.2 million for the corresponding period in 2022.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 30 June 2023, the Group had 3,318 employees. Staff cost of the Group increased by 20.1% from RMB168.3 million for the corresponding period in 2022 to RMB202.1 million for the Period, mainly due to the Group's adjustment of remuneration structure according to market conditions and the improvement of performance-based bonuses. The Group formulates suitable staffing proposals based on scientific people-efficiency ratio, and offers attractive remuneration packages based on market conditions, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contributions to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to maintain the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manage its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and team building. Regular training in respect of business skills, expertise and professional attributes have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

FUTURE STRATEGY AND PROSPECTS

The Interconnected Development of Xi'an Metropolitan Area Where Sunfonda Group Is Headquartered Is Reaccelerating

With a series of urban development events yielding brilliant results, such as the approval of the "dual centers" for science and technology, the successful holding of the China-Central Asia Summit, the official commencement of construction of Xi'an East Railway Station, the operation mileage of metros exceeding 300 kilometers, and the continuous outstanding performance of cultural tourism in the ancient capital, Xi'an, where Sunfonda Group is headquartered, is showing the world with a new image. Xi'an metropolitan area is the fifth national metropolitan area approved for construction in addition to Nanjing, Fuzhou, Chengdu and Changsha-Zhuzhou-Xiangtan metropolitan areas subject to respective development plan, and is also the only metropolitan area approved for development in Northwest China at present. Since July, the Shaanxi Provincial Development and Reform Commission has issued the "Annual Key Tasks" and "List of Key Projects" for promoting the integrated development of Xi'an and Xianyang in 2023 and the "Annual Key Tasks" and "List of Key Projects" for promoting the construction of Xi'an metropolitan area in 2023. In this regard, Xi'an will lead and support the integrated development of Xi'an and Xianyang with major engineering projects to make new breakthroughs in spatial planning, innovation-driven, industrial development, ecological and environmental protection, infrastructure, urban construction, public services and other aspects, and accelerate the construction of a modern Xi'an metropolitan area integrating transportation, science and technology, industrial, living and ecological circles. There are a total of 198 projects, covering eight categories such as innovation-driven, advanced manufacturing, and infrastructure, with a total investment of RMB884.06 billion and an annual planned investment of RMB165.63 billion. In the future, Xi'an's economic development will usher in a new round of development opportunities.

To Adjust the Brand Structure in an Orderly Manner to Consolidate the Brand Advantages of the Group

With the continuous expansion of authorised sale points of Porsche, BMW and other brands, the Group has further improved its coverage of luxury brands in Northwestern China and consolidated its leading position in the region. In the future, the Group will continue to strengthen communication and cooperation with major competitive automobile manufacturers, further optimise the brand structure, keep up with market orientation, continuously promote cooperation with new energy automobile brands, and further enhance the development plan for new energy automobile business.

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 has been completed, and is currently in the stage of final acceptance of construction, for which the investment promotion is planned to be completed for commencing business in mid-2024. At the same time, the Group is also promoting the construction of BMW and GAC Toyota authorised 4S stores in Lanzhou "FUN TIME LANE", which is planned to be completed and put into operation in 2023.

Private Traffic Operations Have Achieved Preliminary Results, and the Customer Portrait Project Provides Support for Targeted Services

In 2023, the Group has strengthened clue identification for private traffic and retained customers, and added Tencent Enterprise WeChat interface on the original service platform "Sunfonda Group Membership Center" to achieve effective and reasonable communication between its own system and customers through WeChat. As at the end of June, the Group's enterprise WeChat page has accommodated 100,000 new customers.

In March 2023, the Group launched its self-developed mini program "Taiai Auto Accident Clue Submission", through which customers and employees who see accidents on the road can shoot and upload short videos in time, and after receiving clues, the Group's service outlets can contact customers as soon as possible and quickly arrive at the scene to provide services. By the end of June, the Group has collected nearly 1,800 clues on road accidents, nearly 80% of which were effective. At the same time, the Group's service improvement for online customer demand also achieved preliminary effect this year. Customers can make appointments through the membership center for free door-to-door used car appraisal, replacement of new cars, and application and registration for the latest market activities, then the program will automatically push information to the person in charge of the corresponding outlet, and each position is required to make prompt response within three minutes to assist customers in the effective solution of various demands.

In the first half of the year, the Group's information empowerment center launched a customer portrait system, which integrates nearly 60 data items in nine categories, including sales, after-sales, used cars and user preferences, through business data collection and analysis. Through visual display and screening, the Group can quickly determine the characteristics of various types of customers and design product and service content accordingly. At present, the system has achieved good test results in four stores in Xi'an, and will be promoted throughout the Group in the second half of the year.

To Attach Importance to Integrated Marketing and Promote the Overall Improvement of the Group's Brand Influence

With the advent of the era of information fragmentation, the changing consumer demand, and the rapid development of new technologies such as artificial intelligence and big data, a single traditional marketing method can no longer accurately identify consumer groups and meet customer needs. In 2023, the Group has attached great importance to integrated marketing in all respects, for which the Group has focused on improving consumer experience and consumer satisfaction, aimed at online and offline precision marketing, comprehensively promoted the development of key marketing projects such as new media, cross-industry alliances, referrals from existing customers, and circle activities, and effectively combined various resources according to different stages. As at June 2023, the new media team for each brand store of the Group has been basically set up, the focus of new media operation has changed from quantitative accumulation to qualitative conversion, and the Group's ERP system has realised visual supervision on the new media operation of each store, further improving the Group's understanding of the new media operation of each brand store, and promoting the conversion of new media clues and traffic of each brand store. Meanwhile, on the one hand, the Group launches an online theme marketing activity at the group level on a monthly basis according to the situation of the membership center, in order to further promote the conversion of online customer clues through cards and coupons, online registration and other ways. On the other hand, the Group strengthens the development of cross-industry resources for each store, the interconnection of customer systems between two parties, the formulation and publicity of referral policies, and the carrying out of special activities for new media, by combining online and offline methods, so as to promote the overall improvement of the Group's market share, brand influence and customer loyalty.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2023.

CORPORATE GOVERNANCE

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's corporate governance practices are based on the principles and code provisions as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Board is of the view that the Company has complied with the rules and code provisions set out in the CG Code during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MATERIAL LITIGATION AND ARBITRATION

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

EVENT AFTER THE PERIOD

There was no significant subsequent event undertaken by the Group after 30 June 2023 that need to be disclosed under the Listing Rules.

SUPPLEMENTAL INFORMATION TO THE 2022 ANNUAL REPORT OF THE COMPANY

The Company would like to supplement the following information in relation to the annual report of the Company for the year ended 31 December 2022 published on 19 April 2023 (the "**2022 Annual Report**").

1. As disclosed in the 2022 Annual Report, Top Wheel Limited ("**Top Wheel**") is the settlor of a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre- IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. It is supplemented that as at the date of the 2022 Annual Report and as at the date of this announcement, Top Wheel has not voted at any general meetings of the Company based on the unvested shares held by the Management Trust, and Top Wheel shall abstain from voting on matters that require shareholders' approval under the Listing Rules in respect of the unvested shares held by the Management Trust in accordance with Rules 17.12(2) and 17.05A of the Listing Rules in the future.

2. As at the date of the 2022 Annual Report, the total number of shares available for issue under the Pre-IPO Share Award Scheme was 3,809,600 shares, representing 0.63% of the issued shares of the Company as at the date of the 2022 Annual Report.

AUDIT COMMITTEE

The audit committee under the Board (the "**Audit Committee**") has reviewed the accounting standards and practices that the Company adopted, and discussed matters related to risk management, internal control and financial reporting. The Audit Committee has no disagreement with the accounting treatment adopted by the Company. The Audit Committee has reviewed the Company's 2023 interim report and the announcement of interim results and unaudited condensed consolidated financial statements for the Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The Company's 2023 interim report will be dispatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange of Hong Kong Limited in due course.

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 shareholders 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, 23 August 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. Song Tao, Dr. Liu Xiaofeng and Dr. Han Qinchun.