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 2023

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2023

During the year ended 31 December 2023, the Group has recorded:

- Operating revenue of RMB10,977.8 million, which was up by 0.5% from the same period in 2022, including:
  - Sales volume of new vehicles up by 0.8% to 32,204 units, and revenue from the sales of new vehicles down by 1.3% to RMB9,295.6 million;
  - Revenue from after-sales services up by 10.4% to RMB1,260.5 million; and
  - Revenue from the sales of used cars up by 15.8% to RMB421.7 million.
- Gross profit of RMB420.1 million, which was down by 41.3% from the same period in 2022.
- Gross profit margin was 3.8% (2022: 6.6%).
- Profit before tax for the Period decreased by 86.1% to RMB18.0 million (2022: RMB129.4 million).

Profit attributable to owners of the parent for the Period was down by 85.4% to RMB11.9 million (2022: RMB81.3 million).

Basic and diluted earnings per share attributable to ordinary equity holders of the parent amounted to RMB0.02 for the Period (2022: RMB0.14).

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 2023 (the "**Period**"), together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	2023 *RMB'000*	2022 *RMB'000*
REVENUE	*4(a)*	**10,977,823**	10,923,678
Cost of sales and services	*5(b)*	**(10,557,688)**	(10,207,944)
Gross profit		**420,135**	715,734
Other income and gains, net	*4(b)*	**477,408**	281,205
Selling and distribution expenses		**(543,186)**	(507,486)
Administrative expenses		**(241,189)**	(252,676)
Profit from operations		**113,168**	236,777
Finance costs		**(95,172)**	(107,377)
Profit before tax	*5*	**17,996**	129,400
Income tax expense	*6*	**(6,130)**	(48,135)
Profit for the year		**11,866**	81,265
Attributable to:			
Owners of the parent		**11,866**	81,265
Earnings per share attributable to ordinary equity holders of the parent	*8*		
Basic and diluted (RMB)		**0.02**	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023	2022
	RMB'000	*RMB'000*
Profit for the year	**11,866**	81,265
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,283)**	6,071
Other comprehensive (loss)/income for the year, net of tax	**(1,283)**	6,071
Total comprehensive income for the year	**10,583**	87,336
Attributable to:		
Owners of the parent	**10,583**	87,336

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,847,499**	1,702,459
Right-of-use assets		**693,722**	726,249
Intangible assets		**10,449**	10,145
Prepayments		**22,237**	47,162
Goodwill		**10,284**	10,284
Deferred tax assets		**63,976**	41,729
Total non-current assets		**2,648,167**	2,538,028
CURRENT ASSETS			
Inventories	*9*	**1,277,491**	1,346,879
Trade receivables	*10*	**37,307**	37,641
Prepayments, other receivables and other assets		**1,016,344**	866,524
Amount due from a related party		**–**	5,090
Financial assets at fair value through profit or loss		**2,665**	3,065
Pledged bank deposits		**579,065**	388,139
Cash in transit		**14,917**	17,198
Short-term deposits		**93,280**	84,920
Cash and cash at banks		**653,932**	626,003
Total current assets		**3,675,001**	3,375,459
CURRENT LIABILITIES			
Bank loans and other borrowings		**1,811,700**	2,119,677
Trade and bills payables	*11*	**823,280**	481,310
Other payables and accruals		**380,676**	355,798
Lease liabilities		**16,780**	28,685
Income tax payable		**25,642**	13,171
Total current liabilities		**3,058,078**	2,998,641
NET CURRENT ASSETS		**616,923**	376,818
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,265,090**	2,914,846

	Notes	**2023**	2022
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Bank loans and other borrowings		**709,402**	361,456
Lease liabilities		**71,854**	66,288
Deferred tax liabilities		**20,986**	24,287
Total non-current liabilities		**802,242**	452,031
NET ASSETS		**2,462,848**	2,462,815
EQUITY			
Equity attributable to owners of the parent			
Share capital		**377**	377
Reserves		**2,462,471**	2,462,438
Total equity		**2,462,848**	2,462,815

1. CORPORATE AND GROUP INFORMATION

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

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

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**").

2.1 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**"), and the Hong Kong Companies Ordinance and 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	*Insurance Contracts*
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 nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to 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 Chinese Mainland and over 90% of the Group's non-current assets and liabilities were located in Chinese Mainland 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.

An analysis of revenue is as follows:

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers	**10,977,823**	10,923,678

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
(i) Disaggregated revenue information		
Types of goods or services		
Revenue from sale of motor vehicles	**9,717,294**	9,782,305
Revenue from after-sales services	**1,260,529**	1,141,373
Total revenue from contracts with customers	**10,977,823**	10,923,678
Timing of revenue recognition		
At a point in time	**10,977,823**	10,923,678

(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:

	2023	2022
	RMB'000	*RMB'000*
Sale of motor vehicles	**111,687**	129,100
After-sales services	**60,902**	63,764
Total contract liabilities	**172,589**	192,864

(b) Other income and gains, net:

	2023 *RMB'000*	2022 *RMB'000*
Commission income	**397,719**	214,334
Logistics and storage income	**26,798**	22,066
Interest income	**11,247**	9,072
Advertisement support received from motor vehicle manufacturers	**7,739**	4,508
Net gain on disposal of items of property, plant and equipment	**10,365**	15,810
Net gain on disposal of items of right-of-use assets	**963**	–
Government grants	**1,447**	2,099
Fair value loss, net:		
Financial assets at fair value through profit or loss – mandatorily classified as such, including those held for trading	**(400)**	(487)
Others	**21,530**	13,803
	477,408	281,205

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)

	2023 *RMB'000*	2022 *RMB'000*
Wages and salaries	**268,366**	247,943
Equity-settled share award expense	**10**	18
Other welfare	**53,441**	54,436
	321,817	302,397

(b) Cost of sales and services

	2023 *RMB'000*	2022 *RMB'000*
Cost of sales of motor vehicles	**9,801,305**	9,545,247
Others*	**756,383**	662,697
	10,557,688	10,207,944

* Employee benefit expenses of RMB56,165,000 (2022: RMB50,722,000) were included in the cost of sales and services.

(c) Other items

	2023	2022
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**168,960**	163,566
Depreciation of right-of-use assets	**48,074**	43,076
Amortisation of intangible assets	**858**	795
Auditors' remuneration	**2,280**	2,280
Advertising and business promotion expenses	**70,099**	73,323
Lease payments not included in the measurement of lease liabilities	**1,453**	5,288
Bank charges	**4,240**	4,845
Accrual of impairment of inventories	**9,824**	4,182
Net gain on disposal of items of right-of-use assets	**(963)**	–
Net gain on disposal of items of property, plant and equipment	**(10,365)**	(15,810)

6. INCOME TAX

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

	2023	2022
	RMB'000	*RMB'000*
Current Chinese Mainland corporate income tax	**31,678**	56,940
Deferred tax	**(25,548)**	(8,805)
	6,130	48,135

The Company incorporated in the Cayman Islands is not subject to income or capital gains tax under the law of the Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

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 Chinese Mainland 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:

	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**17,996**	129,400
Tax at the applicable tax rate (25%)	**4,498**	32,350
Preferential tax rate reduction	**(2,298)**	(3,507)
Adjustment in respect of current tax of previous periods	**(387)**	(57)
Expenses not deductible for tax	**1,483**	17,658
Tax losses utilised from previous periods	**(3,430)**	(800)
Tax losses recognised from previous periods	**(3,572)**	(295)
Tax losses not recognised	**9,836**	2,936
Effect of withholding tax at 5% (2022: 5%) on the distributable profits of the Group's PRC subsidiaries	**–**	(150)
Tax charges	**6,130**	48,135

7. DIVIDENDS

	2023	2022
	RMB'000	*RMB'000*
Interim – Nil (2022: HK$0.04) per ordinary share	**–**	21,120
Proposed final – Nil (2022: HK$0.02) per ordinary share	**–**	10,719
	–	31,839

The board of the Company has resolved not to declare any dividend for the year ended 31 December 2023.

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 (2022: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

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

	2023	2022
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**11,866**	81,265

	2023	2022
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)	**0.02**	0.14

9. INVENTORIES

	2023	2022
	RMB'000	*RMB'000*
Motor vehicles	**1,174,678**	1,247,220
Spare parts	**102,813**	99,659
	1,277,491	1,346,879

At 31 December 2023, certain of the Group's inventories with an aggregate carrying amount of approximately RMB665,455,000 (2022: RMB644,603,000) were pledged as securities for the Group's bank loans and other borrowings.

At 31 December 2023, certain of the Group's inventories with an aggregate carrying amount of approximately RMB275,604,000 (2022: RMB169,339,000) were pledged as securities for the Group's bills payable.

10. TRADE RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**37,307**	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:

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**35,925**	36,113
More than 3 months but less than 1 year	**882**	422
Over 1 year	**500**	1,106
	37,307	37,641

As at 31 December 2023, 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

	2023	2022
	RMB'000	*RMB'000*
Trade payables	**121,454**	84,838
Bills payable	**701,826**	396,472
Trade and bills payables	**823,280**	481,310

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

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**470,210**	331,989
3 to 6 months	**317,114**	140,838
6 to 12 months	**32,070**	364
Over 12 months	**3,886**	8,119
	823,280	481,310

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

As at 31 December 2023, the Group's bills payable are secured by mortgages over the Group's inventories and bank deposits, which had an aggregate carrying value of approximately RMB275,604,000(2022: RMB169,339,000) and RMB445,057,000 (2022: RMB240,215,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2023, the National Economy Rebounded and Improved, with High-quality Development Solidly Promoted.

In 2023, in the face of the complicated and severe international environment and the arduous and challenging task of domestic reform, development and stabilisation, under the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core, China's economy rebounded to a positive trend, supply and demand steadily improved, restructuring and upgrading were actively promoted, employment and prices were generally stable, people's livelihood was strongly and effectively safeguarded, and high-quality development was solidly pushed forward, with the major expected goals being successfully accomplished.

According to the data released by the National Bureau of Statistics, the annual gross domestic product of China for the year amounted to RMB126,058.2 billion, representing a year-on-year increase of 5.2% at constant prices calculation. The total national value added of the industrial enterprises above the designated size for the year recorded a year-on-year increase of 4.6%. The total retail sales of consumer goods for the year amounted to approximately RMB47,149.5 billion, representing a year-on-year increase of 7.2%. By consumption type, retail sales of commodities amounted to RMB41,860.5 billion, representing a year-on-year increase of 5.8%; and retail sales of automobiles amounted to RMB4,861.4 billion, representing a year-on-year increase of 5.9%; online retail sales amounted to RMB15,426.4 billion, representing a year-on-year increase of 11.0%. Consumer price inflation (CPI) recorded a year-on-year increase of 0.2%. The national per capita disposable income for the year was RMB39,218, representing a year-on-year nominal growth of 6.3%, or an actual growth of 6.1% if price factors were excluded.

In addition, it should also be noted that the external environment has become more complicated, severe and uncertain, and economic development is still facing some difficulties and challenges.

In 2023, Shaanxi Province, a place where the Group's principal business is located, achieved a GDP of approximately RMB3,378,607 million, representing a year-on-year increase of 4.3% at constant prices calculation. In 2023, the value added of the industrial enterprises above the designated size of Shaanxi Province recorded a year-on-year increase of 5.0%. Among them, the automobile manufacturing industry recorded growth of 39.8%. The total retail sales of social consumer goods in Shaanxi Province recorded a year-on-year increase of 3.4% in 2023. With consumer demand for upgraded goods being continuously unleashed, retail sales of automobile commodities above the quota increased by 14.6%, among which new energy vehicles increased by 1.0 time.

Jiangsu Province, another place where the Group's principal business is located, recorded a GDP of RMB12.82 trillion, representing a year-on-year growth of 5.8%. The per capita disposable income of urban and rural residents reached RMB63,200 and RMB30,500, respectively, representing a year-on-year growth of 5% and 7%, respectively. The total retail sales of consumer goods increased by 6.5%, and the investment in major provincial projects exceeded RMB700 billion. Jiangsu has been recognised as the "Province with the Best Reputation for Its Business Environment (營商環境最佳口碑省份)" for five consecutive years. In 2023, Jiangsu Province sold 1.589 million passenger vehicles, representing a year-on-year increase of 3.5%, among which new energy passenger vehicles recorded 593,000 units of sales, representing a year-on-year increase of 42%, with a penetration rate of more than 37%. In order to promote automobile consumption, Jiangsu organised and launched a series of automobile consumption promotion themed activities including "Jiangsu New Consumption - Happy Automobile Purchase (蘇新消費・汽車享購全省行)" in 2023. In order to facilitate the transaction of second-hand vehicles, the Jiangsu Automobile Circulation Management Information Service Platform (For second-hand vehicles) was launched, which is currently widely used in second-hand vehicle markets across the province.

Review of China's Automobile Market in 2023

The China Association of Automobile Manufacturers announced the automobile production and sales situation in 2023. According to statistics, in 2023, the annual automobile production and sales volume in China reached 30.161 million units and 30.094 million units, respectively, representing a year-on-year growth of 11.6% and 12%, respectively, which hit a record high and achieved double-digit growth, and ranked number one in the world for 15 consecutive years. In 2023, the passenger vehicle market maintained a good momentum of growth, playing an important role in stabilising automobile consumption. According to the data released by the China Passenger Car Association (the "**CPCA**"), the passenger vehicle market recorded accumulative retail sales of 21,699,000 units in 2023, representing a year-on-year increase of 5.6%; new energy vehicles continued to grow rapidly, with production and sales exceeding 9 million units and market share exceeding 30%, becoming an important force leading the transformation of the global automobile industry.

According to the data released by the China Association of Automobile Manufacturers, in 2023, the sales volume of domestically-produced high-end brand passenger vehicles recorded 4,516,000 units, representing a year-on-year increase of 15.4%, which was 11.2 percentage points higher than the overall growth rate of domestic passenger vehicle sales, continuing the double-digit growth trend that had been in place for years.

According to the statistics of the Ministry of Public Security of China, in 2023, China's motor vehicle ownership volume reached 435 million units, of which the automobile ownership volume was 336 million units; and the number of motor vehicle drivers reached 523 million, and there were 24.29 million newly licensed drivers, of which 486 million were automobile drivers. In 2023, there were 34.80 million newly registered motor vehicles, representing an increase of 16,000 units or 0.05% as compared with that of 2022. Specifically, there were 24.56 million newly registered automobiles, representing an increase of 1.33 million units or 5.73% as compared with that of 2022.

As at the end of 2023, the new energy vehicle ownership volume in China reached 20.41 million units, accounting for 6.07% of the total volume of automobiles. Specifically, the battery electric vehicle ownership volume was 15.52 million units, accounting for 76.04% of the total number of new energy vehicles. In 2023, 7.43 million new energy vehicles were newly registered, accounting for 30.25% of the total number of newly registered automobiles, and representing an increase of 2.07 million units or 38.76% as compared with 2022. Such number has increased rapidly from 1.20 million units in 2019 to 7.43 million units in 2023, demonstrating a high-speed growth trend.

There are 94 cities with car ownership volume of more than 1 million units in China, representing an increase of 10 cities as compared with 2022. Specifically, there are 43 cities with a car ownership volume of more than 2 million units and 25 cities with more than 3 million units, and five cities, including Chengdu, Beijing, Chongqing, Shanghai and Suzhou, have a car ownership volume of more than 5 million units.

The number of automobile transfer registrations continued its growth and the used car trading market was active. In 2023, public security and traffic control departments in China have handled a total of 34.15 million cases of motor vehicle transfer registration, among which 31.87 million cases were automobile transfer registration, accounting for 93.32% of all the cases. The Ministry of Public Security, together with the Ministry of Commerce and other departments, introduced a series of reform measures to facilitate the registration of cross-location transactions and better promote the circulation of used cars. Since 2020, the number of used cars registered nationwide has exceeded the number of new car registration for four consecutive years.

According to the official sales data released by Porsche, its global sales in 2023 amounted to 320,221 vehicles, representing an increase of 3% as compared with 2022. A total of 79,283 new vehicles were delivered to customers in China, of which 16% were new energy models. Among the Porsche brand's benchmark products, the sales volume of the 911 Series have surged by 36% year-on-year, and the demand for the electric sports car Taycan has also been very high, with the amount of delivered new vehicles increased by 41% year-on-year. To meet the charging needs of its customers, Porsche has set up 338 charging piles in more than 90 cities in China, covering 124 Porsche centres and 214 public areas such as high-end business districts, luxury hotels and highway service areas. With regard to the development trend in the field of new energy vehicles, Porsche indicates that it will soon launch the new battery electric Macan model.

According to the data released by the BMW Group, in 2023, the BMW Group delivered a total of 2,555,341 BMW, MINI and Rolls-Royce vehicles globally, representing a year-on-year increase of 6.5%, hitting a new record for the sales volume of the BMW Group. With 2,253,835 units sold, the BMW brand remains the number one brand of the luxury car segment worldwide. Sales of BMW's battery electric models increased by 92.2% year-on-year to 330,596 units. In 2023, the BMW Group delivered a total of 824,932 BMW and MINI vehicles to the Chinese market, representing a year-on-year increase of 4.2%, and continued to lead the luxury car segment in China in terms of total sales volume. Specifically, the sales volume of BMW brand battery electric models was outstanding, with nearly 100,000 vehicles delivered throughout the year, which became an important pillar of BMW's overall sales growth. In 2023, the sales volume of BMW's battery electric models soared, with 99,972 units delivered throughout the year, representing a year-on-year increase of more than 138%. Specifically, the sales of BMW battery electric models exceeded 10,000 units per month for two consecutive months in last November and December. In 2023, the BMW brand had a total of six battery electric models available for sale in China, of which the BMW i3 and BMW iX3 were the two battery electric products with the highest sales volume.

In 2023, Mercedes-Benz Group sold 2,492,000 new vehicles globally, representing a year-on-year growth of 1.5%. Specifically, the sales volume in China reached 765,000 units, accounting for 29.58% of Mercedes-Benz's global sales volume, which the delivery level remained basically the same as that in 2022, achieving high-quality development in several strategic business segments. Among them, the annual delivery of battery electric models achieved more than a double, and plug-in hybrid models once again took the lead in the luxury car market. In 2024, Mercedes-Benz will continue its product strategy of "parallel operation of both fuel and electric models" and bring to the Chinese market more than 15 new and next-generation products covering different drive modes and market segments. In the high-end luxury product matrix, the new battery electric G-Class SUV, being the first battery electric product of the legendary G-Class, the new Maybach EQS battery electric SUV, being the first mass-produced pure electric model of the Mercedes-Maybach brand, and the new AMG battery electric EQE 53 SUV, will debut this year, further accelerating the progress of electrification of the high-end luxury product matrix. In the core luxury product matrix, the new long-wheelbase GLC SUV plug-in hybrid and the new long-wheelbase E-Class plug-in hybrid will be launched this year. In the new generation luxury product matrix, the new generation EQA and EQB battery electric SUV models will also enter the Chinese market, bringing the latest design elements, luxury driving and intelligent experience of the battery electric family. Up to now, Mercedes-Benz public charging service has covered nearly 590,000 public charging piles in more than 340 cities across China.

According to the official data released by Audi, Audi delivered a total of 1.90 million vehicles worldwide in 2023, representing a year-on-year growth of 17%. Specifically, Audi sold more than 178,000 battery electric vehicles globally, representing a year-on-year growth of 51%. In China's market, Audi delivered 729,000 vehicles in 2023, representing a year-on-year increase of 13.5%, of which 31,025 were delivered to customers of Audi's battery e-tron series. In the face of the complex market environment, the outstanding sales performance has laid the foundation for the development of Audi's electrification transformation. In the first quarter of 2024, the Q6 e-tron, the key product of Audi's intensified electrification campaign, will be presented globally. As for future development, Mr. Wen Zeyue, president of Audi China, said that Audi will launch a number of new models between 2024 and 2025 to diversify and strengthen its product portfolio. At the same time, Audi will simultaneously promote the development and launch of the new generation of internal combustion engine models and plug-in hybrid models to meet the needs of different consumers and further strengthen its brand positioning.

According to the official data released by Lexus, Lexus achieved a sales volume of 181,000 vehicles in China in 2023, representing a year-on-year increase of 3%, and continued to maintain the first position in the sales volume list of imported car brands.

Business Review

In 2023, the Group proactively adjusted its operating strategies amidst rapid changes in the competitive landscape of the automobile market. By adhering to the business development pace, continuously improving the derivative horizontal business, focusing on the potential of the accident business and strengthening the core competence of the used car business, the Group achieved the "best customer experience" while responding to the market changes in a sound manner. In 2023, the Group realised operating income and gross operating profit of RMB10,977.8 million and RMB420.1 million, respectively.

As at 31 December 2023, 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

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

In 2023, the Group continued to adhere to the strategy of "increment-oriented, structural optimisation, schedule first", and eventually sold 32,204 new vehicles, representing a year-on-year increase of 0.8 percentage point; among which, the sales volume of new energy vehicles was still the key direction of improvement, and achieved a year-on-year increase of 33%, accounting for 6.6% of the total sales volume of new vehicles.

The Group continued to promote prior order execution, conducted advance warning and assessment of inventory turnover, and initiated intra-brand resource sharing to accelerate turnover while maximising profit. The Group also strengthened sales process management, and provided guidelines and rectification to various brand stores through spot check, inspections and data benchmarking analysis.

As competition in the automobile market further intensified, price cuts and promotions were intensified. Under such circumstance, the Group focused on increasing the contribution of the horizontal business on the sales side. Through restructuring of the finance business and redevelopment of derivative business, the horizontal business contribution increased by 2.52 percentage points year-on-year, which compensated for the impact of the price cuts of new vehicles on the Company's profit.

Through intensive cultivation of customer portraits, the Group effectively improved the quality of in-store invitations. The Group focused on internet lead maintenance, new media live streaming, Xiaohongshu and other online marketing channels to improve sales volume while expanding leads. The Group 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 and replacement subsidies through the membership centre platform and capitalising on the "Member Centre Activity Month" campaign.

Expanded Fundamental Customer Base with Optimised Service and Focused on Exploring Accidental Maintenance Business

As competition in the market intensified in 2023, the after-sales business will be in the spotlight as a major profit contributor for dealership stores. In adherence to customer-centric principle, the Group further strengthened the function of customer management center, developed personalised products to meet individual needs, improved the efficiency of solicitation through accurate contact and maintenance, and attracted lost customers back. Leveraging on its quality services, expertise and innovative business model, the Group achieved steady growth in after-sales fundamental customers, representing an increase of 15% as compared with 2022.

Intensified competition in the accidental maintenance market caused lower profitability to insurance companies after several fee reforms, contracting the room for compensation. The Group focused on the insurance renewal business and has developed its own insurance renewal business management system, with the number of renewed policies increased by 8.1% year-on-year and premiums increased by 6% year-on-year. This enabled the Group to maintain the initiative in co-operation with insurance companies. On the other hand, the Group 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 2023 increased by 18% as compared with the same period in 2022.

In respect of electromechanical business, the Group continued to promote prior technical diagnosis to strengthen its professional expertise, and continuously created a technology-leading brand image of Sunfonda. In addition, the Group launched service marketing competitions to reasonably increase the scale of its business.

In respect of the accident business, in 2023, by relying on the industrial zone-based layout, the Group carried out sheet metal spraying centre projects in key cities, which achieved certain intensification results. Looking ahead, the sheet metal spraying centres will attach more importance to technological innovation and service quality improvement, such as the use of more environmentally friendly materials and optimisation of the spraying process. The Group will improve efficiency and control costs to give full play to the advantages of the sheet metal spraying centres while reducing its footprints to the environment.

The Group's revenue from after-sales services in 2023 was RMB1,260.5 million, up by 10.4% from RMB1,141.4 million during the same period in 2022, and the gross profit of after-sales services was RMB504.1 million, up by 5.3% from RMB478.7 million during the same period in 2022.

In terms of decoration business, the Group's competitiveness was enhanced through refined operations to meet the individual needs of customers. In respect of products, the Group consolidated its supply resources to reduce the cost of product supply. In respect of human resources, the Group will improve the efficiency of its technical staff and the marketing capability of its sales staff. Looking ahead, the Group will continue to reduce costs and increase efficiency while increasing the scale of its business in order to enhance the profit contribution of this segment.

Used Car Business Grabs Market Development Opportunities and Will Serve as a New Growth Driver for Profit Contribution in the Future

The used car segment is the Group's focus of business development at this stage. Through continuous enhancement of its core competence in used cars, the Group has improved its systems for the acquisition, evaluation, testing, pricing and disposal of used cars to ensure that its business is carried out in a compliant manner and that its profits are maximised. The Group strictly controlled the inventory turnover of used vehicles and formulated a clear inventory management system for both retail and wholesale vehicles to ensure its healthy inventory and sound operation.

In 2023, the Group continued to focus on the development of in-use vehicles and the intranet auction business, and proactively expanded its used car sourcing channels to meet the demand for used car retail resources of the same brand. By leveraging on the regional strengths of the nationwide dealer group and through the integration of advantageous resources, the Group was able to maximise the profitability of the sales of vehicles of the same brand and achieve efficient turnaround. The average turnover days of used vehicles were only 14 days, achieving healthy operation. In addition, the Group continued to promote its used car certification system and build up the Sunfonda certified used car brand, which boosted the retail business and drove the growth of extended business such as transfer, finance, insurance, insurance renewal and decoration.

The used car replacement rate recorded a year-on-year increase of 3.3%, the volume of used car transactions amounted to 7,380 units, representing a year-on-year increase of 5.7%. Specifically, 2,904 units were distributed, representing a year-on-year increase of 25.1%, and gross profit on distribution was RMB20.0 million, representing a year-on-year increase of 24.3%.

In the future, the core 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.

Automobile Financing Agency Business

In 2023, the Group continued to strengthen its total-to-total co-operation with financial institutions and further optimised its financial services and financial product structure to provide customers 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 2023, income from the Group's automobile financing agency business recorded more than a double year on year.

Achieved "Best Customer Experience" 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, enhanced customer loyalty through good customer relationship management, and offered the best customer experience, thereby steadily improving customer retention and continuously enhancing profit margins.

In 2023, the Group used the digital management platform to integrate customer resources, provided customers with quality after-sales services and support through the collection of customer profiles and data analyses, supplemented by various customer communication channels such as Enterprise WeChat and Internet telephony. The Group conducted customer portrait analysis to accurately select customers, developed corresponding customer benefit cards and coupons, and improved the re-development of existing customers through precise promotion using Enterprise WeChat, WeChat mini program, WeChat Moments and other multiple channels. The Group also tapped into high-value and loyal customers, collected customer feedback and opinions, and optimised operational processes to meet customer needs and enhance customer loyalty.

In the future, the Group will consistently adhere to customer-centric principle, fully utilising its digital management platform to understand customers' needs in depth, provide multi-dimensional services to customers, and facilitate the development of the entire business chain, with a view to achieving the best customer experience and customer satisfaction, and sustained profit enhancement.

Carried out Multi-form Co-operation with Emerging Brands and Optimised Brand and Network Deployment

The Group is concerned about the changes in the overall economic environment and demand in the consumer market in 2023, the trend of rapid growth of new energy brands in the automobile market and the intensification of price wars in the automobile dealership industry. The Group is firmly confident that it will be able to tap into the room for development of the existing business of the automobile segment through a number of measures, such as enhancing the integrated control capability of the internal business, and further stabilising the base of the Group's existing automobile 4S shops as its main business. In response to changes in the Group's consumer demand in the automobile market in different regions, the Group proactively continued to optimise its brand stores so as to maintain the profitability of the Group's branded outlets in different regions. Meanwhile, the Group continued to focus on key regions covered by its brand network, and promoted the network construction of its dominant luxury brands and new energy brands, with a view to enhancing the Group's brand network advantage in key cities.

Since 2023, the Group has proactively and steadily pushed forward its brand network development plan, completing the construction of the Xi'an Chanba Porsche Project and the Beijing Xiaopeng Project in the first half of the year, of which, the Xi'an Chanba Porsche Centre, as a pilot store of the Destination Porsche Programme, will improve the Xi'an Chanba brand network and enhance the quality of service provided by Sunfonda Group. The opening of the Xiaopeng Project in Beijing has provided the Group with experience in the development of new energy brands in key cities, which will be conducive to the rapid expansion of the Group's new energy brand network in the future. In addition, the Group made timely optimisations to some of its sales points in order to maintain the Group's overall profitability and continue with the integration of resources and optimisation of network resources.

The Group has entered into various forms of cooperation in 2023 with emerging new energy vehicle brands with strong market competitiveness, including venue leasing mode and business cooperation mode, and is steadily pushing forward with various matters of cooperation, among which the Group has obtained the authorisation of the business module of the NIO Authorised Service Centre in Weinan City, Shaanxi Province.

As at 31 December 2023, the Group had a total of 43 sale points in operation.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2023 was RMB10,977.8 million, representing an increase of RMB54.1 million or 0.5% as compared to that for the corresponding period in 2022. Among which, revenue from the sales of new automobiles was RMB9,295.6 million, representing a decrease of RMB122.4 million or 1.3% as compared to that for the corresponding period in 2022. Among which, revenue from after-sales service business was RMB1,260.5 million, representing an increase of RMB119.1 million or 10.4% as compared to that for the corresponding period in 2022; and revenue from the sales of used cars was RMB421.7 million, representing an increase of RMB57.4 million or 15.8% 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 vehicles, accounting for 84.7% of our revenue for the year ended 31 December 2023 (2022: 86.2%). In addition, revenue generated from after-sales service business accounted for 11.5% of the revenue for the year ended 31 December 2023 (2022: 10.5%), and revenue from the sales of used cars accounted for 3.8% of the revenue for the year ended 31 December 2023 (2022: 3.3%). 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					
	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	**7,667,818**	**21,928**	**349.7**	7,521,478	20,165	373.0
Mid-end market brands	**1,627,824**	**10,276**	**158.4**	1,896,555	11,784	160.9
Sub-total/Average	**9,295,642**	**32,204**	**288.6**	9,418,033	31,949	294.8
Sales of used cars	**421,652**	**2,904**	**145.2**	364,272	2,321	156.9
After-sales services	**1,260,529**			1,141,373		
Total	**10,977,823**			10,923,678		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2023 was RMB10,557.7 million, representing an increase of RMB349.8 million or 3.4% as compared to that for the corresponding period in 2022. Among which, cost of sales of new automobiles for the year ended 31 December 2023 was RMB9,399.6 million, representing an increase of RMB202.6 million or 2.2% as compared to that for the corresponding period in 2022. Cost of after-sales services business for the year ended 31 December 2023 was RMB756.4 million, representing an increase of RMB93.7 million or 14.1% as compared to that for the corresponding period in 2022. Cost of sales of used cars for the year ended 31 December 2023 was RMB401.7 million, representing an increase of RMB53.5 million or 15.4% as compared to that for the corresponding period in 2022.

Gross Profit

Gross profit for the year ended 31 December 2023 was RMB420.1 million, representing a decrease of RMB295.6 million or 41.3% as compared to that for the corresponding period in 2022. Of which, sales of new automobiles recorded a negative gross profit of RMB104.0 million, as compared to the gross profit of sales of new automobiles of RMB221.0 million for the corresponding period in 2022. The change of position from gross profit to negative gross profit for the sales of new automobiles was mainly due to the decline in the terminal transaction price in the automobile dealership market as affected by certain factors such as the macroeconomic environment and fierce competition in the automobile consumer market, resulting in the decreased profitability of the overall sales of new vehicles. Gross profit of after-sales service business was RMB504.1 million, representing an increase of RMB25.4 million or 5.3% as compared to that for the corresponding period in 2022. For the year ended 31 December 2023, gross profit of after-sales services accounted for 120.0% of our total gross profit (2022: 66.9%). Gross profit of used car business was RMB20.0 million, representing an increase of RMB4.0 million or 24.3% as compared to that for the corresponding period in 2022.

Gross profit margin for the year ended 31 December 2023 was 3.8% (2022: 6.6%).

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 2023 amounted to RMB477.4 million, representing an increase of 69.8% as compared with RMB281.2 million for the year ended 31 December 2022. The increase was mainly due to the increase in commission income from the automobile financing agency business as a result of the Group's focus on horizontal gross profit contribution and negotiations on commission rates with automobile financing companies on multiple occasions.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2023 amounted to RMB543.2 million, representing an increase of RMB35.7 million or 7.0% as compared with RMB507.5 million for the year ended 31 December 2022, The increase was mainly due to increase in expenses associated with newly opened stores. As a percentage of revenue, the selling and distribution expenses increased over the corresponding period last year from 4.6% for the year ended 31 December 2022 to 4.9% for the year ended 31 December 2023, up by 0.3 percentage point.

Administrative Expenses

Administrative expenses for the year ended 31 December 2023 amounted to RMB241.2 million, representing a decrease of RMB11.5 million or 4.6% as compared with RMB252.7 million for the year ended 31 December 2022. The decrease was mainly attributable to the decrease in compensation of administrative personnel. As a percentage of revenue, the administrative expenses decreased as compared with the corresponding period last year, decreased from 2.3% for the year ended 31 December 2022 to 2.2% for the year ended 31 December 2023, down by 0.1 percentage point.

Finance Costs

Finance costs for the year ended 31 December 2023 amounted to RMB95.2 million, representing a decrease of 11.4% as compared with RMB107.4 million for the year ended 31 December 2022. The decrease was mainly due to rationalisation of the loan structure and reduction in financing fee expenses.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2023 amounted to RMB18.0 million, representing a decrease of RMB111.4 million or 86.1% as compared with RMB129.4 million for the year ended 31 December 2022.

Income Tax Expense

Income tax expense for the year ended 31 December 2023 amounted to RMB6.1 million, representing a decrease of RMB42.0 million or 87.3% as compared with RMB48.1 million for the year ended 31 December 2022, which was primarily 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 year ended 31 December 2023 was approximately 34.1% (2022: 37.2%).

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2023 amounted to RMB11.9 million, representing a decrease of RMB69.4 million or 85.4% as compared with RMB81.3 million for the year ended 31 December 2022.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2023, profit for the year attributable to owners of the parent amounted to RMB11.9 million, representing a decrease of RMB69.4 million or 85.4% as compared with RMB81.3 million for the year ended 31 December 2022.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2023, the Group's net cash inflow generated from operating activities was RMB365.7 million, as compared with RMB113.3 million of its net cash inflow generated from operating activities for the year ended 31 December 2022. The increase in net cash inflow from operating activities was mainly due to a decrease in the scale of inventory purchases during the Period.

For the year ended 31 December 2023, the Group's net cash outflow of investing activities was RMB209.7 million, as compared with RMB307.5 million of its net cash outflow of investing activities for the year ended 31 December 2022. The decrease in net cash outflow of investing activities was mainly attributable to the imminent completion of project investments.

For the year ended 31 December 2023, the Group's net cash outflow of financing activities was RMB120.6 million, as compared with RMB37.0 million of its net cash outflow of financing activities for the year ended 31 December 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 31 December 2023, the Group's net current assets amounted to RMB616.9 million, as compared with RMB376.8 million of its net current assets as at 31 December 2022.

Inventories

The Group's inventories primarily consist of new automobiles, used cars, spare parts and decoration accessories. As at 31 December 2023, the Group's inventories amounted to RMB1,277.5 million, representing a decrease of 5.2% as compared with RMB1,346.9 million as at 31 December 2022, mainly due to the increase in sales volume during the Period.

In 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 year and multiplied by 360 days) were 45.6 days, representing an 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 31 December 2023, the Group's bank loans and other borrowings were RMB2,521.1 million, representing an increase of 1.6% 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:

	As at 31 December			
	2023		2022	
	Effective interest rate *(%)*	**Amount** *RMB'000*	Effective interest rate *(%)*	Amount *RMB'000*
CURRENT				
Bank loans	**2.9-5.8**	**1,464,660**	3.2-5.9	1,667,657
Other borrowings	**1.3-8.5**	**347,040**	1.8-8.5	452,020
Sub-total		**1,811,700**		2,119,677
NON-CURRENT				
Bank loans	**3.5-5.8**	**709,402**	3.5-5.9	361,456
Sub-total		**709,402**		361,456
Total		**2,521,102**		2,481,133
Among which:				
Secured loans		**1,818,526**		1,882,047
Unsecured loans		**702,576**		599,086
Total		**2,521,102**		2,481,133

As at 31 December 2023, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 49.2% (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 transmit and pledged bank deposits.

Pledge of Assets

As at 31 December 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 31 December 2023 consisted of: (i) inventories amounting to RMB665.5 million; (ii) property, plant and equipment amounting to RMB374.6 million; (iii) land use rights amounting to RMB289.5 million; (iv) construction in progress amounting to RMB428.5 million; and (v) pledged bank deposits amounting to US$3.6 million (equivalent to RMB25.9 million) and RMB108.1 million.

As at 31 December 2023, certain of the Group's inventories amounting to RMB275.6 million and pledged bank deposits amounting to RMB445.1 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. For the year ended 31 December 2023, the Group's total capital expenditures were RMB339.7 million, representing a decrease of RMB169.7 million as compared with the RMB509.4 million for the year ended 31 December 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 31 December 2023, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2023, the Group had 3,156 employees (as at 31 December 2022: 3,555 employees). Staff cost of the Group increased by 9.3% from RMB353.1 million for the year ended 31 December 2022 to RMB386.0 million for the year ended 31 December 2023, mainly attributable to the increase in staff remuneration as a result of the increase in the number of newly opened stores, as well as the impact on staff remuneration as a result of the closure of stores in the corresponding period of 2022 due to the impact of the pandemic. The Group 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

Forecast of China's Economic Trend in 2024 – Rebounding and Positive, Achieving High-Quality Development

According to Wei Jianguo, former Vice Minister of the Ministry of Commerce, China's economy will be "on the rise" in 2024. In terms of foreign trade, the inflection point has already appeared, and foreign trade imports and exports will stabilise and rebound this year. The consumer market is also picking up rapidly, with increasing contribution of domestic demand to economic growth. He expects that the consumption potential will be further unleashed from the Spring Festival onwards, which will boost and pull China's economy.

"China's economy is in the midst of recovery, and some of the economic indicators are already showing the signs." Zhao Bo, an associate professor (employed on a long-term contract) of economics at Peking University's National Development Research Institute, said China's economy will be on a rebound in 2024, but some short-term challenges should be handled with caution. The key to whether China can increase its potential growth rate in the future is to find a new impetus to achieve high-quality development, to comprehensively upgrade its technological and innovation capabilities, to practically achieve the continuous upgrading and digital transformation of the manufacturing industry, to continuously deepen reforms, to increase the degree of liberalisation of the service industry, and to improve the certainty of policies, the transparency of policies as well as the compatibility of policies in terms of incentives.

Regarding the exchange rate trend of RMB, Guan Tao, Global Chief Economist of BOC International (China), estimated that the exchange rate of Renminbi may show a trend rebound in 2024. According to Guan Tao, cross-border capital flows and fluctuations in the Renminbi exchange rate should be viewed in a normal manner, as China is a large open economy with a much stronger risk-resistant capacity and policy manoeuvrability than a small open economy. Meanwhile, it is necessary to better co-ordinate financial openness and security, and continuously improve the management of cross-border capital flows and risk response capabilities.

Yu Yongding, a member of the Chinese Academy of Social Sciences, said that China's GDP growth could reach 5% in 2024. Considering the base number of 2023, this 5% growth target is a more realistic percentage.

According to Liu Qiao, Dean of Guanghua School of Management of Peking University, looking ahead to 2024, the effect of growth stabilisation policies will continue to take effect, domestic demand is expected to continue to recover, and the economic growth rate is expected to return to the potential growth level. The economic growth target of around 5.0% is in line with China's potential level of economic growth and maintains the reasonableness and consistency of China's economic growth target.

Xi'an – Regarding High-quality Construction of the "Dual Centres" as its Foundation

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. At the Sixth Plenary Meeting of the 14th Xi'an Municipal Committee of the Communist Party of China, Fang Hongwei, Secretary of the Xi'an Municipal Committee, emphasised the need to accelerate the construction of the "dual centres" in Xi'an is to achieve a new breakthrough in shaping the momentum, to make the construction of the "dual centres" in Xi'an the basis of the foundation of Xi'an, and to comprehensively strengthen the leading role of the Qinchuangyuan Innovation Platform, strengthen the construction of national strategic science and technology force, promote enterprises to become the real innovation main body, accelerate the industrialisation of Hard & Core Technology, promote integrated development by the power of innovation, steadily enhance the ability of scientific and technological innovation protection, and push the construction of "dual centres" to achieve actual operation and substantial progress, thereby making it a gold-lettered signboard for Xi'an to attract talents from all over the world, nurture emerging industries and breed future industries. At the same time, the integrated development of Xi'an and Xianyang will be deepened, the creation of an advanced zone for the transformation of scientific and technological achievements in Qinchuangyuan will be accelerated, and the development of the county economy, private economy, open economy and digital economy will be vigorously pursued, so as to accelerate the construction of a modern "famous city in the western China and the silk road capital".

Chinese Passenger Vehicle Market in 2024

Cui Dongshu, Secretary General of the CPCA, forecasts that the total retail sales of passenger vehicles will reach 22.2 million units in 2024, representing a 3% growth as compared with 2023, and that the new energy market will continue to maintain strong growth momentum, with wholesale sales expected to reach 11 million units, representing a net increase of 2.3 million units, a year-on-year growth of 22% and a penetration rate of 40%.

Cui Dongshu believes that in 2024, China's car market will be higher and stronger. Firstly, from the perspective of the total number of working days and the seasonal consumption characteristics of passenger vehicles, 2024 is a big year as one of the manifestations is that the later the spring festival is, the longer the pre-spring festival hot market period is, and the more it will bring consumption growth in the automobile market. Meanwhile, from the policy side, Cui Dongshu believes that, compared to 2023, as affected by the withdrawal of vehicle purchase tax concessions and new energy subsidy, the automobile market in 2024 is not subject to major policy changes and thus will maintain a better trend. In addition, a number of international organisations have recently raised their forecasts for China's economic growth, indicating that China's economic growth will be more dynamic in 2024.

Price wars will be a key word for the automobile market in 2023. Moving into 2024, Cui Dongshu believes that price wars may continue in the new energy market, which is due to the recent decline in lithium carbonate prices, lower battery prices, and the continuing trend of oil-to-electricity conversion. The fuel vehicle market, however, is still in a difficult situation. The overall profit of automobile manufacturers is at a low level. "It should be taken into account that the fuel vehicle is still an important vehicle model to protect the people's livelihood, most of the automobile manufacturers in the past two years will focus on the new energy market, but the fuel vehicle market should not be ignored." Cui Dongshu commented.

Looking at the new energy market in a specific manner, according to Cui Dongshu, from the perspective of the three major purchasing groups (namely, for leasing, company use and private use), the current market size of rental cars and ride-hailing is close to temporary saturation, and the industry is about to reshuffle and optimise. The market demand for battery electric and plug-in hybrid models gradually slowed down, extended range electric vehicles maintained the growth of the last few months. In the private market, the proportion of new energy vehicles in cities with restriction on purchase decreased, the proportion of electric vehicles purchased by high-end groups in large cities decreased, and the increase in the proportion of sales in small and medium-sized cities and county and rural markets was relatively large.

Fu Yuwu, Honorary Chairman of the China Society of Automotive Engineers, said that the automobile market is strongly correlated with GDP and other national economic indices. The good development of automobiles is conditional upon good national economy and high GDP. The automobile market growth was previously 2 times or 1.5 times the GDP growth, but in the last two years, the annual growth of the automobile market was lower than the GDP growth rate, which illustrates the national economy is not good enough with weak domestic demand growth. Therefore, the automobile market in 2024 should be cautiously optimistic, and the total amount is expected to record a slight growth over this year.

To Steadily Promote the Brand Network Development Programme to Capture the Benefits of New Energy Vehicle Market Development

In respect of the development of branded sales points, in the face of the increasingly competitive domestic automobile market environment, the Group has been steadily and consistently optimising and further focusing on the enhancement of its brand positioning, service quality and customer experience to provide customers with safer, energy-saving and environmentally friendly automobile brands and services that are more cost-effective. In terms of the expansion of its brand network, the Group has been more inclined to choose advantageous brands that are trusted by a wide range of customer groups. Since 2023, the Group's Xi'an Gaoxin Audi store and Xi'an Fengdong BMW store are also under construction, and are planned to be officially put into operation in the third quarter of 2024, by which time the Group's dominance as a luxury brand in Shaanxi will be further consolidated; In addition, the Group will actively implement the development direction of new energy brands, draw upon its own property resources, and communicate and cooperate with automobile brand manufacturers with outstanding performance to increase the number of sales points of new energy brands, so as to adapt to changes in the market while maximising the revitalisation of existing resources. The Group will also capture the benefits of the development of the automobile market and improve the Group's new energy brand structure in an orderly manner.

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

The Group's "FUN TIME LANE" automobile fashion street zone project, which was innovatively built by combining the Group's resource advantages in the automobile industry, has been undergoing rapid construction in 2023, with the main project of "FUN TIME LANE" in Xi'an having been fully completed, and planning acceptance of the project having been completed as of 31 December 2023, while investment promotion is underway. It is planned that the investment promotion will be completed and the project will be put into operation in 2024. Meanwhile, the BMW and GAC Toyota 4S stores in the "FUN TIME LANE" project in Lanzhou were officially opened in December 2023, which have become representatives of high-quality stores in the region and attracted the intention of other brands to move in.

To Assist Online Operation with Intelligent Services, and to Creates a New Channel for Service Interaction through Enterprise WeChat

In 2023, the Group's private traffic user pool had begun to take shape, with a cumulative total of 324,000 registered users in the Membership Centre; 210,000 users were added to Enterprise WeChat, including 170,000 users of the business database linked to vehicle registration numbers.

In 2023, more and more intelligent tools have gradually played a key role in the production business: the customer management system basically covers the daily solicitation of retained customers; the after-sales callback system automatically schedules tracking visits to all after-sales work orders; the intelligent accident clue reporting system, which accumulated 4,200 Xi'an road accidents throughout the year, greatly supplemented the source of the after-sales accident business of the stores; and the clue management tool obtained 16,000 clues for sales, after-sales, used cars and other business categories throughout the year, of which more than 9,000 clues were related to online coupons collected by customers on their own initiative.

In 2024, the Group will continue to build its customer portrait database in depth and enhance the resolution capability of the algorithm to interface with the business. At the same time, through the in-depth development of the Enterprise WeChat function, it will provide functions such as WeChat customer service and online interactive material database function, which will help the frontline staff to carry out a richer and more intuitive presentation of materials in the interactive services with customers.

To Further Transform Traditional Marketing Methods and to Constantly Improve the Group's Innovative and Diversified Marketing

In the face of the rapid development of digitisation, artificial intelligence technology and mobile social networking in the context of the Internet+ era, the Group will change its traditional marketing methods and approaches, make full use of digital marketing methods and approaches, emphasise the maintenance and marketing of private traffic, increase close interaction with more customer groups, and grasp the customer portraits, understand customer needs, and increase the number of customers in the market in a timely manner through digitalisation and big data analysis. Through digital marketing means and big data analysis, the Group can accurately and timely grasp customer portraits and understand customer needs, so as to improve the efficiency and quality of brand services. Meanwhile, with the development of diversification and individualisation of customer needs, the Group will focus on customer experience and provide personalised services to different customer groups, and through an in-depth understanding of customers' needs and preferences, the Group will attach great importance to circle marketing and build a circle platform to meet the needs of the circle, so as to provide its customers with more considerate and convenient private tailor-made services in line with their needs, thereby enhancing the efficiency of brand services and improving the quality of brand services. The Group will also further focus on the development of heterogeneous resources, and through cross-industry co-operation, customers will be connected to each other with shared resources and for shared success. Moreover, along with the changes in user habits and the consideration of customer acquisition costs, the Group will not be confined to a single means of marketing in the future, but will attach greater importance to integrated marketing, and will comprehensively promote the commencement of various marketing activities by means of online new media marketing and offline all-round experience of precise marketing strategies, and will attach importance to the strategy of green, healthy and sustainable development, so as to promote the Group's comprehensive enhancement of its market share, brand influence and customer loyalty.

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 C1 to the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (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 2023.

MATERIAL LITIGATION

During the year ended 31 December 2023, 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.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2024 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 C3 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 2023.

AUDIT COMMITTEE

The Board has established the audit committee of the Company (the "**Audit Committee**") which comprises three independent non-executive Directors, namely Dr. Han Qinchun (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 2023. 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 2023 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

The Board resolved not to recommend the payment of any final dividend for the year ended 31 December 2023 to the shareholders of the Company.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2024 AGM will be held on Thursday, 30 May 2024 and the notice thereof will be published and made available 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 2024 AGM, the register of members of the Company will be closed from Monday, 27 May 2024 to Thursday, 30 May 2024 (both days inclusive). In order to be entitled to attend and vote at the 2024 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, 24 May 2024.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The Company's 2023 annual report will be made available to the shareholders of the Company and published on the websites of the Company and the Stock Exchange 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, 28 March 2024

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.

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.