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 2024

FINANCIAL HIGHLIGHTS

During the period from 1 January 2024 to 30 June 2024, the Group has recorded:

- Revenue of RMB4,515.1 million, which was down by 14.3% from the same period in 2023, including:
  - Sales volume of new vehicles down by 5.5% to 14,079 units, and revenue from the sales of new vehicles down by 17.2% to RMB3,703.2 million;
  - Revenue from after-sales services down by 3.9% to RMB596.3 million; and
  - Revenue from the sales of used cars up by 20.2% to RMB215.7 million.
- Gross profit of RMB11.3 million, which was down by 95.8% from the same period in 2023.
- Gross profit margin was 0.2% (same period in 2023: 5.1%).
- Loss before tax for the Period was RMB96.3 million (same period in 2023: profit of RMB14.8 million).

Loss attributable to owners of the parent for the Period was RMB96.9 million (same period in 2023: profit of RMB8.2 million).

Basic and diluted loss per share attributable to ordinary equity holders of the parent amounted to RMB0.16 for the Period (same period in 2023: earnings of RMB0.01).

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 2024 (the "**Period**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

	Notes	**2024** **Unaudited** ***RMB'000***	2023 Unaudited *RMB'000*
Revenue	*4(a)*	**4,515,142**	5,271,183
Cost of sales and services	*5(b)*	**(4,503,891)**	(5,004,984)
Gross profit		**11,251**	266,199
Other income and gains, net	*4(b)*	**297,150**	210,350
Selling and distribution expenses		**(234,583)**	(272,039)
Administrative expenses		**(120,919)**	(137,985)
(Loss)/profit from operations		**(47,101)**	66,525
Finance costs	*6*	**(49,206)**	(51,738)
(Loss)/profit before tax	*5*	**(96,307)**	14,787
Income tax expense	*7*	**(559)**	(6,580)
(Loss)/profit for the period		**(96,866)**	8,207
Attributable to:			
Owners of the parent		**(96,866)**	8,207
(Loss)/earnings per share attributable to ordinary equity holders of the parent	*9*		
Basic and diluted (*RMB*)		**(0.16)**	0.01

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	2024	2023
	Unaudited	Unaudited
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE PERIOD	**(96,866)**	8,207
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**802**	1,277
Total comprehensive income for the period, net of tax	**(96,064)**	9,484
Attributable to:		
Owners of the parent	**(96,064)**	9,484

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

	Notes	30 June 2024 Unaudited RMB'000	31 December 2023 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,794,609**	1,847,499
Right-of-use assets		**656,524**	693,722
Intangible assets		**10,013**	10,449
Prepayments		**23,448**	22,237
Goodwill		**10,284**	10,284
Deferred tax assets		**71,666**	63,976
Total non-current assets		**2,566,544**	2,648,167
CURRENT ASSETS			
Inventories	*10*	**1,121,745**	1,277,491
Trade receivables	*11*	**34,336**	37,307
Prepayments, other receivables and other assets	*12*	**966,641**	1,016,344
Financial assets at fair value through profit or loss		**2,681**	2,665
Pledged bank deposits		**475,724**	579,065
Cash in transit		**20,960**	14,917
Short-term deposits		**110,840**	93,280
Cash and cash at banks		**549,779**	653,932
Total current assets		**3,282,706**	3,675,001
CURRENT LIABILITIES			
Bank loans and other borrowings	*13*	**1,503,485**	1,811,700
Trade and bills payables	*14*	**831,218**	823,280
Other payables and accruals		**311,278**	380,676
Lease liabilities		**7,689**	16,780
Income tax payable		**19,170**	25,642
Total current liabilities		**2,672,840**	3,058,078
NET CURRENT ASSETS		**609,866**	616,923
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,176,410**	3,265,090

	Notes	30 June 2024 Unaudited RMB'000	31 December 2023 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*13*	**737,209**	709,402
Lease liabilities		**20,733**	71,854
Deferred tax liabilities		**48,505**	20,986
Total non-current liabilities		**806,447**	802,242
NET ASSETS		**2,369,963**	2,462,848
EQUITY			
Equity attributable to owners of the parent			
Share capital		**377**	377
Reserves		**2,369,586**	2,462,471
Total equity		**2,369,963**	2,462,848

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	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*
As at 1 January 2024 (audited)	**377**	**87,282**	**118,045**	**188,530**	**157,947**	**11,418**	**40,392**	**1,858,857**	**2,462,848**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(96,866)**	**(96,866)**
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**802**	**–**	**802**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**802**	**(96,866)**	**(96,064)**
Equity-settled share award expense	**–**	**–**	**–**	**–**	**–**	**3,179**	**–**	**–**	**3,179**
As at 30 June 2024 (unaudited)	**377**	**87,282**	**118,045**	**188,530**	**157,947**	**14,597**	**41,194**	**1,761,991**	**2,369,963**

	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 (audited)	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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 2024 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 2023.

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 2023, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")*
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "**2022 Amendments**")*
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

The revised HKFRSs had no significant financial effect on the 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 Chinese Mainland and over 90% of the Group's non-current assets and liabilities were located in Chinese Mainland 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

An analysis of revenue is as follows:

	For the six months ended 30 June 2024 Unaudited ***RMB'000***	For the six months ended 30 June 2023 Unaudited *RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Types of goods or service		
Revenue from the sale of motor vehicles	**3,918,879**	4,650,376
Others	**596,263**	620,807
Total revenue from contracts with customers	**4,515,142**	5,271,183
Timing of revenue recognition		
At a point in time	**4,515,142**	5,271,183

(b) Other income and gains, net:

	For the six months ended 30 June 2024 Unaudited ***RMB'000***	For the six months ended 30 June 2023 Unaudited *RMB'000*
Commission income	**268,085**	178,717
Logistics and storage income	**12,530**	12,909
Government grants	**75**	676
Interest income	**4,673**	4,713
Net gain on disposal of items of property, plant and equipment	**5,669**	10,641
Net gain/(losses) on disposal of items of right-of-use assets	**5,843**	(878)
Fair value losses, net:		
Financial assets at fair value through profit or loss		
– Financial product	**16**	(48)
Others	**259**	3,620
	297,150	210,350

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June 2024 Unaudited *RMB'000*	For the six months ended 30 June 2023 Unaudited *RMB'000*
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**119,993**	144,538
Equity-settled share award expense	**3,179**	10
Other welfare	**25,397**	28,857
	148,569	173,405
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**4,138,210**	4,632,951
Others*	**365,681**	372,033
	4,503,891	5,004,984

* There were employee benefit expenses of RMB24,802,000 (six months ended 30 June 2023: RMB28,732,000) included in the cost of sales and services.

	For the six months ended 30 June 2024 Unaudited *RMB'000*	For the six months ended 30 June 2023 Unaudited *RMB'000*
(c) Other items		
Depreciation and impairment of property, plant and equipment	**84,669**	82,297
Depreciation of right-of-use assets	**13,672**	24,278
Amortisation of intangible assets	**436**	403
Advertisement and business promotion expenses	**26,914**	35,342
Lease expenses	**1,652**	2,187
Bank charges	**1,972**	2,128
Office expenses	**13,872**	18,332
Logistics expenses	**10,364**	13,601
Net (gain)/loss on disposal of items of right-of-use assets	**(5,843)**	878
Net gain on disposal of items of property, plant and equipment	**(5,669)**	(10,641)

6. FINANCE COSTS

	For the six months ended 30 June 2024 Unaudited ***RMB'000***	For the six months ended 30 June 2023 Unaudited *RMB'000*
Interest on bank borrowings and other borrowings	**55,402**	54,638
Interest expense on lease liabilities	**2,234**	2,492
Less: Interest capitalised	**(8,430)**	(5,392)
	49,206	51,738

7. INCOME TAX

	For the six months ended 30 June 2024 Unaudited ***RMB'000***	For the six months ended 30 June 2023 Unaudited *RMB'000*
Current Mainland China corporate income tax	**8,502**	15,031
Deferred tax	**(7,943)**	(8,451)
	559	6,580

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% (2023: 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% from 1 January 2008.

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

8. DIVIDENDS

No interim dividend has been paid or declared by the Company during the period (six months ended 30 June 2023: Nil).

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share for the six months ended 30 June 2024 is based on the (loss)/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 2023: 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 2024 Unaudited ***RMB'000***	For the six months ended 30 June 2023 Unaudited *RMB'000*
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	**(96,866)**	8,207

	For the six months ended 30 June 2024	For the six months ended 30 June 2023
Shares		
Weighted average number of ordinary shares in issue during the period	**600,000,000**	600,000,000
(Loss)/earnings per share		
Basic and diluted *(RMB)*	**(0.16)**	0.01

10. INVENTORIES

	30 June 2024 Unaudited ***RMB'000***	31 December 2023 Audited *RMB'000*
Motor vehicles	**1,016,584**	1,174,678
Spare parts	**105,161**	102,813
	1,121,745	1,277,491

As at 30 June 2024, certain of the Group's inventories with an aggregate carrying amount of approximately RMB493,379,000 (31 December 2023: RMB665,455,000) and RMB245,445,000 (31 December 2023: RMB275,604,000) were pledged as securities for the Group's bank loans and other borrowings (note 13(a)) and bills payable (note 14), respectively.

11. TRADE RECEIVABLES

	30 June 2024 Unaudited ***RMB'000***	31 December 2023 Audited *RMB'000*
Trade receivables	**34,336**	37,307

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 2024 Unaudited ***RMB'000***	31 December 2023 Audited *RMB'000*
Within 3 months	**31,756**	35,925
More than 3 months but less than 1 year	**2,258**	882
Over 1 year	**322**	500
Total	**34,336**	37,307

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2024	31 December 2023
	Unaudited	Audited
	RMB'000	*RMB'000*
Prepayments and deposits to suppliers	**360,533**	450,954
Vendor rebate receivables	**310,219**	338,325
VAT recoverable	**109,098**	105,617
Others	**186,791**	121,448
	966,641	1,016,344

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 2024		31 December 2023	
	Unaudited		Audited	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(%)	***RMB'000***	*(%)*	*RMB'000*
CURRENT:				
Bank loans	**2.9-5.8**	**1,009,693**	2.9-5.8	1,464,660
Bank loans	**3.5-5.8**	**149,104**	–	–
Other borrowings	**1.3-8.5**	**344,688**	1.3-8.5	347,040
		1,503,485		1,811,700
NON-CURRENT:				
Bank loans	**3.5-5.8**	**737,209**	3.5-5.8	709,402
		2,240,694		2,521,102
Bank loans and other borrowings represent:				
secured loans *(a)*		**1,695,077**		1,818,526
unsecured loans		**545,617**		702,576
		2,240,694		2,521,102

	30 June 2024	31 December 2023
	Unaudited	Audited
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable		
Within one year	**1,158,797**	1,464,660
In the second year	**355,064**	324,568
In the third to fifth years, inclusive	**210,515**	200,886
Over fifth years	**171,630**	183,948
	1,896,006	2,174,062
Other borrowings repayable		
Within one year	**344,688**	347,040
Total	**2,240,694**	2,521,102

(a) As at 30 June 2024, 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 RMB493,379,000 (31 December 2023: RMB665,455,000) (note 10);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB359,052,000 (31 December 2023: RMB374,588,000);

(iii) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB285,177,000 (31 December 2023: RMB289,486,000);

(iv) mortgages over the Group's construction in progress, which had an aggregate carrying value of approximately RMB440,275,000 (31 December 2023: RMB428,483,000);

(v) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately RMB93,416,000 (31 December 2023: RMB108,104,000), US$3,706,000 (equivalent to RMB26,412,000) (31 December 2023: US$3,657,000 (equivalent to RMB25,904,000)).

(b) Except for the secured bank loan amounting to HK$54,400,000 (equivalent to RMB49,650,000) (31 December 2023: HK$54,400,000 (equivalent to RMB49,298,000) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

14. TRADE AND BILLS PAYABLES

	30 June 2024 Unaudited *RMB'000*	31 December 2023 Audited *RMB'000*
Trade payables	**92,092**	121,454
Bills payable	**739,126**	701,826
Trade and bills payables	**831,218**	823,280

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

	30 June 2024 Unaudited *RMB'000*	31 December 2023 Audited *RMB'000*
Within 3 months	**187,404**	470,210
3 to 6 months	**635,024**	317,114
6 to 12 months	**4,349**	32,070
Over 12 months	**4,441**	3,886
Total	**831,218**	823,280

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 2024, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB245,445,000 (31 December 2023: RMB275,604,000) (note 10).

As at 30 June 2024, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB327,216,000 (31 December 2023: RMB445,057,000).

15. COMMITMENTS

Capital commitments

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

	30 June 2024	31 December 2023
	Unaudited	Audited
	RMB'000	*RMB'000*
Contracted, but not provided for buildings	**17,989**	23,656

16. EVENTS AFTER THE REPORTING PERIOD

On 20 July 2024, certain subsidiaries within the Group entered into the agreements with Zhongsheng Holdings Co., Ltd. to dispose of in aggregate the entire equity interests in Suzhou Sunfonda Toyota, Wuxi Sunfonda and Yangzhou Sunfonda Junsheng, respectively. Upon the completion of the above transactions, the Group will cease to own any equity interests in these subsidiaries. For further details, please refer to the announcement of the Company dated 20 July 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The National Economy Was Generally Stable in the First Half of the Year, with Progress Being Made Amidst Stability

According to the data released by the National Bureau of Statistics, the gross domestic product ("**GDP**") of China for the first half of the year amounted to RMB61,683.6 billion, representing a year-on-year increase of 5.0% at constant prices calculation. In the first half of the year, the total national value added of the industrial enterprises above the designated size recorded a year-on-year increase of 6.0%, and the total retail sales of consumer goods amounted to RMB23,596.9 billion, representing a year-on-year increase of 3.7%. National consumer price index (CPI) recorded a year-on-year increase of 0.1%. The national per capita disposable income was RMB20,733, representing a year-on-year nominal growth of 5.4%, or an actual growth of 5.3% if price factors were excluded. Overall, China's economic performance in the first half of the year was generally stable, with steady progress in restructuring and upgrading. At the same time, it should be noted that the current external environment is complex and sophisticated, effective domestic demand remains insufficient, and the foundation for economic recovery still needs to be consolidated.

In the first half of 2024, the economy of Shaanxi Province, which is covered by the Group's main business network, recorded a GDP of RMB1,625,747 million, representing a year-on-year increase of 4.3% at constant prices calculation. In the first half of the year, the value added of the industrial enterprises above the designated size in the province recorded a year-on-year increase of 7.3%. The output of automobiles recorded a year-on-year increase of 23.4%, of which new energy vehicles increased by 20.6% year-on-year. In the first half of the year, the total retail sales of social consumer goods in the province amounted to RMB556,677 million, representing a year-on-year increase of 4.6%. The retail sales of consumer goods of enterprises (entities) above designated size in the province recorded a year-on-year increase of 5.4%. There was strong consumer demand for automobiles, the sales of which recorded a year-on-year increase of 10.9%, among which new energy vehicles increased by 79.2% year-on-year.

Passenger Vehicle Market Performance in the First Half of 2024

In the first half of 2024, Chinese passenger vehicle market achieved a steady year-on-year growth in sales volume. According to the data released by the China Association of Automobile Manufacturers, in the first half of 2024, the production and sales volume of passenger vehicles was 11.886 million units and 11.979 million units, respectively, representing a year-on-year growth of 5.4% and 6.3%, respectively. According to the data released by the China Passenger Car Association (the "**CPCA**"), the cumulative retail sales volume of Chinese passenger vehicle market in the first half of the year was 9.841 million units, representing a year-on-year increase of 3.3%. Specifically, only SUV models achieved positive sales growth, while sales of sedan and MPV models declined to varying degrees. The cumulative retail sales volume of SUV models was 4.88 million units, up by 9.6% year-on-year; the cumulative retail sales volume of sedans was 4.482 million units, down by 1.6% year-on-year; and the cumulative retail sales volume of MPV models was 0.48 million units, down by 8.2% year-on-year.

Against the backdrops of different taxes and rights for fuel and electric models, there is an increasingly evident gap between the high growth of new energy vehicles and the negative growth of fuel vehicles. With the introduction of the implementation details of the national trade-in policy and the continuation of the local new energy subsidy policy, new energy passenger vehicles continued to maintain a high growth trend. According to the data of the CPCA, the cumulative retail sales volume of new energy passenger vehicles in China from January to June 2024 was 4.111 million units, representing a year-on-year growth of 33.1%. According to Cui Dongshu, Secretary General of the CPCA, the increasingly large promotions in the first half of 2024 disrupted the normal price trend of the automobile market, the terminal price restoration will take a period of time, coupled with the overdraft effect of the super-strong promotional efforts in the second quarter of the year on the consumption of automobile purchasers in the second half of the year, the price-for-volume effect is likely to be weakened in July. Automobile enterprises will also optimise and adjust their market expectations, product structure and launch schedule in the light of the performance of the first half of the year, and may enter a period of strength building.

According to the statistics of the Ministry of Public Security, as of June 2024, China's motor vehicle ownership volume reached 440 million units, of which the car ownership volume was 345 million units; and the new energy vehicle ownership volume amounted to 24.72 million units, accounting for 7.18% of the total number of vehicles. Among them, the battery electric vehicle ownership volume amounted to 18.134 million units, accounting for 73.35% of the total number of new energy vehicles. As of the end of June, there are 96 cities with car ownership volume of more than 1 million units in China, representing a year-on-year increase of 8 cities. 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.

In the first half of 2024, the number of automobile transfer registrations continued its growth, with a total of 16.26 million automobile transfer registrations nationwide, representing a year-on-year increase of 53.79%. The used car trading market was active across the country, with 2.706 million transactions of used small passenger vehicles registered in different places. The reform measures of used car transactions and registration in different places had remarkable effects in facilitating the work of the public and enterprises and promoting the circulation of used cars.

According to the sales data officially released by Mercedes-Benz, Mercedes-Benz delivered a total of more than 352,600 new automobiles to Chinese customers in the first half of 2024, and the delivery in the second quarter has increased by nearly 10% as compared with the previous quarter. Specifically, deliveries of the core luxury product matrix grew by nearly 6% in the first half of the year and by more than 15% in the second quarter as compared with the previous quarter. Looking ahead to the second half of the year, Mercedes-Benz will continue to push forward the electric transformation, with a number of heavyweight new energy products, including the new pure-electric G-Class crossover, the new long-wheelbase GLC plug-in hybrid SUV, the new-generation EQA and EQB pure-electric SUVs, and the latest facelift of the pure-electric EQE, set to be launched during the year. In addition, Mercedes-Benz is actively investing in local R&D and value chain deployment in response to the forward-looking needs of Chinese customers in terms of intelligence and digitalisation.

According to the sales data officially released by BMW Group, BMW delivered 1,096,500 vehicles in the first half of 2024, representing a year-on-year increase of 2.3%. Specifically, sales of electric vehicles reached 179,600 units, representing a year-on-year growth of 34.1%. BMW (including MINI) recorded a sales volume of 375,900 units in the Chinese market in the first half of the year, representing a year-on-year decrease of 4.2%; the electric vehicles and high-end models under BMW brand achieved double-digit growth, and BMW 7 series family posted a year-on-year global sales growth of 22%. In addition, BMW X1 and BMW 3 series also achieved strong growth in the world as compared with the same period last year.

Audi Group's financial report shows that in China, the Audi brand sold 320,400 vehicles in the first half of 2024, representing a year-on-year decrease of 1.9%. FAW Audi sold 244,900 vehicles, representing a year-on-year decrease of 14.75% as compared with 287,200 vehicles in the same period last year.

According to the data officially released by Porsche, global sales in the first half of 2024 were 155,945 units, representing a year-on-year decrease of 7%, of which 29,551 units were sold in the Chinese market, representing a decrease of 33% as compared with 43,832 units sold in the same period last year. At present, Porsche's five models, namely Cayenne, Panamera, Macan, Taycan and 911, are at the replacement stage, which will inevitably have an impact on the supply in some markets.

According to the data of the CPCA, the sales volume of Lexus in the first half of 2024 was 84,823 units, representing a year-on-year increase of 20.3%. Specifically, the sales volume of Lexus from January to May was 69,147 units, representing a year-on-year increase of approximately 28%. In June, the sales volume of Lexus was 15,674 units, representing a year-on-year decrease of 4.1%.

BUSINESS REVIEW

In the first half of 2024, the Group proactively adjusted its operating strategies amidst rapid changes in the competitive landscape of the automobile market. By "grasping the rhythm and adjusting the structure" in the sales of new vehicles, continuously improving the derivative horizontal business, focusing on exploring the potential of the post-sale accident business, and "staying focus on existing customers and expanding the number of new customers" in used car business, the Group has been responding to market changes in a sound manner while developing a "customer ecosystem".

In the first half of 2024, the Group realised revenue and gross profit of RMB4,515.1 million and RMB11.3 million, respectively.

As at 30 June 2024, the Group had a total of 40 sale points in operation:

	Northwestern China	Jiangsu	Other regions	Total
Number of sale points	29	6	5	40
Of which: Number of sale points for luxury brands	21	3	5	29

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

Under the impact of new energy brands in the first half of 2024, the Group paid close attention to the changes in the relevant policies of the national and local governments, and made timely adjustments to its corporate development strategies and operating strategies so as to adapt to the changes in the policy environment. Through the sales policy of "grasping the rhythm and adjusting the structure", the Group achieved a sales volume of 14,079 new vehicles, representing a year-on-year decrease of 5.5 percentage points.

As a result of changes in the macroeconomic environment, the Group enhanced its operational efficiency and competitiveness through process optimisation and cost control. At the same time, the Group continued to promote prior order execution, launched intra-brand resource sharing program, and carried out early warning and assessment of inventory turnover so as to achieve maximised profit while accelerating turnover.

In the 2024, fierce competition in the automobile consumer market led to a decline in end-transaction prices, which in turn affected the profitability of new automobile sales. In the face of the severe challenges in the market, the Group continued to focus on horizontal business contribution on the sales side. Through restructuring of the finance business and redevelopment of derivative business, the horizontal business contribution increased by 3.35 percentage points year-on-year, which, to a certain extent, alleviated the impact of the price cuts of new vehicles on the Company's profit.

The Group stepped up its marketing efforts to enhance brand awareness and reputation. The Group focused on internet lead maintenance, new media live streaming, Xiaohongshu and other online marketing channels to improve sales volume while expanding leads. Meanwhile, the Group continued to strengthen circle marketing and customer retention. Therefore, customer retention rate and the number of referrals significantly increased by taking measures such as the grant of referral benefits to existing customers and replacement subsidies by capitalising on its member centre.

Automobile Financing Agency Business

In the first half of 2024, income from the Group's automobile financing agency business increased by 66.5% year on year. The Group continued to strengthen its total-to-total co-operation with financial institutions and 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.

Focused on Detail Management and Achieved Steady Growth in After-sales Fundamental Customers

As competition in the market intensified in 2024, the after-sales business has become a major profit contributor for dealership stores. Starting from customer experience, the Group has focused on customer needs and launched the sale of personalised appealing products at both the sales and after-sales ends to satisfy the needs of different customers, resulting in an increase in the penetration rate of appealing products to over 50%. Leveraging on its quality services, expertise and innovative business model, the Group achieved steady growth in after-sales fundamental customers, representing an increase of 6% as compared with the same period in 2023.

The accidental maintenance market was affected by the repeated fee reforms by insurance companies, resulting in increasingly fierce competition and lower profitability for dealers. The Group focused on the insurance renewal business, leveraged on the insurance business management system for refined management and piloted the insurance renewal centre project in certain regions, which led to a year-on-year increase of 8.1% in the number of renewed policies and a year-on-year increase of 9% in premiums. 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 acquire accident clues through multiple channels and closely monitored the conversion of the clues. In the first half of 2024, amidst the overall market downturn, the Group's accident revenue increased by 3% as compared with the same period in 2023.

In respect of electromechanical business, the Group continued to promote prior technical diagnosis to strengthen its professional expertise, increase the penetration rate of key spare parts, and continuously created a technology-leading brand image of Sunfonda. In addition, the Group launched service marketing competitions to enhance profit contribution.

In terms of staff efficiency, in 2024, by relying on the industrial zone-based layout, the Group established sheet metal spraying centres, warranty renewal centres and customer service centres in key cities, which achieved better pooling results and improved both staff efficiency and service quality.

The Group's revenue from after-sales services in the first half of 2024 was RMB596.3 million, down by 3.9% from RMB620.8 million for the same period in 2023. Gross profit of after-sales services was RMB230.6 million, representing a decrease of 7.3% as compared with RMB248.8 million for the same period in 2023.

As the decoration business is an important component of its horizontal business, the Group selected marketable products to meet the needs of different customers so as to enhance the competitiveness of this business segment. The Group enhanced the effectiveness of its technical staff in the construction process through the establishment of a industrial zone-based construction team. In addition, the Group strengthened the quality and frequency of training for the front-line team to enhance the professional competence of its refined business, and fully explored the potential of repeated recommendation for its decoration business, thereby enabling the Group to enhance the profit contribution of this segment while increasing the scale of its business.

"Staying Focus on the Existing Customers and Expanding the Number of New Customers" in Used Car Business Will Serve as a New Growth Driver for Profit Contribution in the Future

In the first half of 2024, the price war in the new car market led to confusion in used car prices and slow turnover. The Group proactively responded to the market changes by adopting the business strategy of "staying focus on existing customers and expanding the number of new customers", which resulted in the sustained growth of the used car business and the efficient and stable inventory turnover, and further consolidated the business pattern of dealership and retailing. In the first half of 2024, the Group's used car sales volume through dealerships was 1,479 units, representing a year-on-year increase of 19.3% and realising a year-on-year increase of 0.2 percentage points in gross profit margin, and the number of inventory turnover days was controlled at 17.3 days. In the first half of 2024, the Group's overall new to used car ratio was 25.7%, representing an increase of 3.7 percentage points from the same period in 2023.

In 2024, the Group will build a used car centre store model by establishing used car sales centres in three cities (namely Xi'an, Lanzhou and Yinchuan), with the construction of the used car sales centres in Xi'an and Lanzhou already completed. At the same time, the Group will further improve its used car sales and service system by launching services of 72-hour no-excuse returns and exchanges, in order to provide customers with a high-quality service experience. The Group's diversified sales strategy and the quality assurance of its used car sources have increased the sales volume while driving the growth of extended businesses such as finance, insurance and extended warranty.

The Group continued to strengthen its core competence in used cars by improving its assessment, inspection, re-inspection, refurbishment, pricing and disposal capabilities, implementing standardised business controls, strictly controlling inventory turnover, and formulating refined inventory management and inventory levelling mechanisms for retail and wholesale vehicles respectively to ensure healthy inventory and operations, as well as continuing to promote the development of derivative businesses such as used car finance, decoration and extended warranty to enhance the profitability of used cars and realise the value chain cycle throughout the whole life cycle of customers' vehicles. Through integration of advantageous resources and a marketing matrix that combines new media and vertical media, the Group strengthened the construction of private domains to promote its online transactions and maximise the profitability and efficient turnover of its used car sales.

Adopted a Customer-centric Approach to Establish a "Customer Ecology"

The Group adheres to the philosophy that "customers are the carrier for enterprises to achieve sustainable development, and customer satisfaction is the basis of customer management". The Group integrated customer resources through its customer operation platform to enhance customer loyalty and increase profit margins.

In the first half of 2014, the Group integrated customer resources through its digital management platform, analysed business touchpoints around customers' vehicle usage cycles, obtained multi-dimensional customer profiles and life touchpoints, and implemented multi-channels such as new media, Enterprise WeChat and WeChat mini programs to realise business opportunity attraction, customer experience and sales conversion. As a result, the Group continuously improved its customer acquisition, retention and revenue, growing in both scale and strength.

The Group's customer management centre will continue to build a centralised operation model in cities including Xi'an, Lanzhou and Yinchuan, making full use of its customer operation platform to enhance customer care, explore customer needs in depth and promote the upgrading of customer service while achieving business growth, aiming at ultimately building a sustainable customer ecosystem.

Strengthened Multi-model Cooperation with New Energy Brands and Continued to Optimise and Adjust Brand Networking

The Group attaches great importance to the changes in the market share of new energy vehicles and the competitiveness of new energy brands, and has been actively cooperating with key new energy brands. The traditional brand network is actively introducing new energy brand business in accordance with the business capacity of stores. The Group introduced authorised business of new energy brands in the existing store premises in Weinan City and Yan'an City, respectively, aiming to supplement the business saturation of the existing stores and improve the efficiency of resources utilisation while accumulating experience in the new energy automobile business.

During the same period, the Group proactively co-ordinated with the manufacturers through proactive communication with the brands to face difficulties and solve problems together. At the same time, in order to adapt to the long-term changes in the market, we continued to optimise and adjust the Group's brands and closed down some of the brand stores with poor performance to ensure the overall health of the Group's operations. For some of the brand stores under construction, we postponed the construction of projects in accordance with the brand's overall construction postponement plan, so as to allow for a better market observation period. Meanwhile, in respect of new energy brands, the Group has obtained the brand authorisation by Anhui Volkswagen in respect of Volkswagen's new electric vehicles in Xi'an. The construction of the store was completed in the second quarter of 2024 and the store was officially opened in July, which will enrich the Group's electric vehicle brands after its opening.

FINANCIAL REVIEW

Revenue

Revenue for the Period was RMB4,515.1 million, representing a decrease of RMB756.1 million or 14.3% as compared to that for the corresponding period in 2023. Among which, revenue from the sales of new automobiles was RMB3,703.2 million, representing a decrease of RMB767.8 million or 17.2% as compared to that for the corresponding period in 2023; revenue from after-sales service business was RMB596.3 million, representing a decrease of RMB24.5 million or 3.9% as compared to that for the corresponding period in 2023; and revenue from the sales of used cars was RMB215.7 million, representing an increase of RMB36.3 million or 20.2% as compared to that for the corresponding period in 2023.

A substantial portion of the revenue of the Group was generated from sales of new vehicles, accounting for 82.0% of our revenue for the Period (corresponding period in 2023: 84.8%). Besides, revenue generated from after-sales service business accounted for 13.2% of the revenue for the Period (corresponding period in 2023: 11.8%), and revenue generated from used car sales accounted for 4.8% of the revenue for the Period (corresponding period in 2023: 3.4%). Revenue of the Group was mainly derived from our operations in the PRC.

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

	For the six months ended 30 June/unaudited					
	2024			2023		
	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	**3,061,961**	**9,647**	**317.4**	3,721,436	10,243	363.3
Mid-end market brands	**641,241**	**4,432**	**144.7**	749,563	4,648	161.3
Sub-total/Average	**3,703,202**	**14,079**	**263.0**	4,470,999	14,891	300.2
Sales of used cars through dealerships	**215,677**	**1,479**	**145.8**	179,377	1,240	144.7
After-sales services	**596,263**			620,807		
Total	**4,515,142**			5,271,183		

Cost of Sales and Services

Cost of sales and services for the Period was RMB4,503.9 million, representing a decrease of RMB501.1 million or 10.0% as compared to that for the corresponding period in 2023. Among which, cost of sales of new automobiles was RMB3,932.9 million, representing a decrease of RMB529.0 million or 11.9% as compared to that for the corresponding period in 2023. Cost of after-sales business was RMB365.7 million, representing a decrease of RMB6.3 million or 1.7% as compared to that for the corresponding period in 2023. Cost of sales of used cars was RMB205.3 million, representing an increase of RMB34.2 million or 20.0% as compared to that for the corresponding period in 2023.

Gross Profit

Gross profit for the Period was RMB11.3 million, representing a decrease of RMB254.9 million or 95.8% as compared to that for the corresponding period in 2023. Of which, sales of new automobiles recorded gross loss of RMB229.7 million, while a gross profit of RMB9.1 million was recorded for the corresponding period in 2023. Gross profit of after-sales service business was RMB230.6 million, representing a decrease of RMB18.2 million or 7.3% as compared to that for the corresponding period in 2023. Gross profit of used car business was RMB10.4 million, representing an increase of RMB2.1 million or 25.3% as compared to that for the corresponding period in 2023. The decrease in gross profit for the Period as compared to that for the corresponding period in 2023 was mainly due to the decrease in profitability of sales of new automobiles as compared to that for the corresponding period in 2023 affected by certain factors such as the macroeconomic environment and the intensified competition in the automobile industry.

Gross profit margin for the Period was 0.2% (corresponding period in 2023: 5.1%).

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 gain on disposal of property, plant and equipment, and interest income.

Other income and gains, net for the Period was RMB297.2 million, representing an increase of 41.3% as compared with RMB210.4 million for the corresponding period in 2023. The increase was mainly due to the significant increase in commission income from automobile financing agency business as a result of the Group's focus on horizontal gross profit contribution and the negotiation of commission rates with automobile financing companies on a number of occasions.

Selling and Distribution Expenses

Selling and distribution expenses for the Period amounted to RMB234.6 million, representing a decrease of RMB37.4 million or 13.8% as compared with RMB272.0 million for the corresponding period in 2023. Such decrease was mainly attributable to the decrease in remuneration of sales and distribution employees due to the adjustment of staffing and remuneration packages, as well as the decrease in advertising expenses due to the application of new media marketing. As a percentage of revenue, the selling and distribution expenses were unchanged from the same period of the previous year, both at 5.2%.

Administrative Expenses

Administrative expenses for the Period amounted to RMB120.9 million, representing a decrease of RMB17.1 million or 12.4% as compared with RMB138.0 million for the corresponding period in 2023. Such decrease was mainly due to a reduction in staffing under the centralised management of operations and a reduction in remuneration of administrative employees as a result of the adjustment of remuneration packages. As a percentage of revenue, the administrative expenses increased from 2.6% for the corresponding period in 2023 to 2.7% for the Period, up by 0.1 percentage points.

Finance Costs

Finance costs for the Period amounted to RMB49.2 million, representing a decrease of RMB2.5 million or 4.8% as compared with RMB51.7 million for the corresponding period in 2023. Such decrease was mainly due to the reasonable control of the scale of inventory procurement, and the improvement of the efficiency of capital use, thereby reducing the financing scale.

Loss Before Tax

As a result of the foregoing, loss before tax for the Period amounted to RMB96.3 million, representing a decrease of RMB111.1 million as compared with the profit before tax of RMB14.8 million for the corresponding period in 2023.

Income Tax Expense

Income tax expense for the Period amounted to RMB0.6 million, representing a decrease of RMB6.0 million as compared with RMB6.6 million for the corresponding period in 2023.

Loss for the Period

As a result of the foregoing, loss for the Period amounted to RMB96.9 million, representing a decrease of RMB105.1 million as compared with the profit for the period of RMB8.2 million for the corresponding period in 2023.

Loss for the Period Attributable to Owners of the Parent

For the Period, loss for the period attributable to owners of the parent was RMB96.9 million, representing a decrease of RMB105.1 million as compared with the profit for the period attributable to owners of the parent of RMB8.2 million for the corresponding period in 2023.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

For the Period, the Group's net cash inflow generated from operating activities was RMB270.5 million, as compared with its net cash inflow generated from operating activities of RMB348.3 million for the six months ended 30 June 2023. The decrease in net cash inflow from operating activities was mainly due to the decrease in gross profit of the new vehicle business resulting from the fierce competition in the automobile market.

For the Period, the Group's net cash outflow of investing activities was RMB18.4 million, as compared with its net cash outflow of investing activities of RMB150.2 million for the six months ended 30 June 2023. The decrease in net cash outflow of investing activities was mainly due to lower expenditures towards the end of project construction.

For the Period, the Group's net cash outflow of financing activities was RMB343.9 million, as compared with its net cash outflow of financing activities of RMB246.5 million for the six months ended 30 June 2023. The increase in net cash outflow of financing activities was mainly attributable to the decrease in financing scale resulting in an increase in expenditures on loan repayment.

Net Current Assets

As at 30 June 2024, the Group's net current assets amounted to RMB609.9 million, as compared with its net current assets of RMB616.9 million as at 31 December 2023.

Inventories

The Group's inventories primarily consist of new automobiles, used cars, spare parts and decoration accessories. As at 30 June 2024, the Group's inventories amounted to RMB1,121.7 million, representing a decrease of 12.2% as compared with RMB1,277.5 million as at 31 December 2023, which was mainly attributable to the Group's emphasis on inventory management and reasonable control of the scale of inventory procurement.

In the first half of 2024, 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 180 days) were 49.2 days, representing a slight increase as compared with 45.6 days in 2023, which was mainly attributable to the slight decrease in sales volume for the Period.

Bank Loans and Other Borrowings

As at 30 June 2024, the Group's bank loans and other borrowings were RMB2,240.7 million, representing a decrease of 11.1% as compared with RMB2,521.1 million as at 31 December 2023.

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

	30 June 2024 Unaudited		31 December 2023 Audited	
	Effective interest rate *(%)*	**Amount** ***RMB'000***	Effective interest rate *(%)*	Amount *RMB'000*
CURRENT				
Bank loans	**2.9-5.8**	**1,009,693**	2.9-5.8	1,464,660
Bank loans	**3.5-5.8**	**149,104**	–	–
Other borrowings	**1.3-8.5**	**344,688**	1.3-8.5	347,040
Sub-total		**1,503,485**		1,811,700
NON-CURRENT				
Bank loans	**3.5-5.8**	**737,209**	3.5-5.8	709,402
Sub-total		**737,209**		709,402
Total		**2,240,694**		2,521,102
Among which:				
Secured loans		**1,695,077**		1,818,526
Unsecured loans		**545,617**		702,576
Total		**2,240,694**		2,521,102

As at 30 June 2024, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 48.2% (31 December 2023: 49.2%). 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 2024, 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 2024 consisted of: (i) inventories amounting to RMB493.4 million; (ii) property, plant and equipment amounting to RMB359.1 million; (iii) land use rights amounting to RMB285.2 million; (iv) construction in progress amounting to RMB440.3 million; and (v) pledged bank deposits amounting to US$3.7 million (equivalent to RMB26.4 million) and RMB93.4 million.

As at 30 June 2024, certain of the Group's inventories amounting to RMB245.4 million and pledged bank deposits amounting to RMB327.2 million were pledged as securities for bills payable.

Capital Expenditures and Investment

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. During the Period, the Group's total capital expenditures were RMB77.6 million, representing a decrease of RMB121.5 million as compared with RMB199.1 million for the corresponding period in 2023.

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 2024, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 30 June 2024, the Group had 2,803 employees (as at 31 December 2023: 3,156 employees). Staff cost of the Group decreased by 14.2% from RMB202.1 million for the corresponding period in 2023 to RMB173.4 million for the Period, mainly due to the Group's active adjustment of staffing and performance plans resulting in the improvement of human resource efficiency. 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.

PRINCIPAL RISKS

Business Risk

The Group's rights on operating points of sales, the supply of automobiles and spare parts as well as other important aspects in the Group's businesses and operations are all subject to our dealership authorization agreements with automobile suppliers. The Group's dealership authorization agreements are non-exclusive, and generally have terms of one to three years with the option of renewal. The automobile suppliers may terminate the dealership authorization agreements by giving three to twelve months' written notice in general for various reasons or without reasons. Of course, the Group may terminate the dealership authorization agreements with the automobile suppliers based on reasons such as adjustment of business strategies of the Group or others. In case of any of the foregoing, the Group's business, operating conditions and future development may be affected. Accordingly, the Group communicated and exchanged views with each automobile supplier regularly with a view to achieving a win-win cooperation relationship.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations at a floating interest rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Exchange Rate Risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$, Euro and HK$ and certain loans denominated in HK$.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ as their functional currency, and the Group did not have material foreign currency transactions in Mainland China during the Period. Therefore, the Group had immaterial foreign currency risk.

FUTURE STRATEGY AND PROSPECTS

National Economy Builds up Strength and Moves Forward, and the Group's Headquarters in Xi'an Accelerates the Construction of "Dual Centres"

China's economy was generally stable in the first half of the year, with steady progress in restructuring and upgrading, accumulating favourable factors for the accomplishment of full-year development targets. The annual real GDP growth rate is expected to reach 5.2%, exceeding the annual economic growth target of approximately 5%. In terms of the pace, it is expected that the real GDP growth rate in the second half of the year will not fluctuate significantly, and the nominal GDP growth rate will recover slowly with the pick-up in inflation readings. According to Wen Bin, chief economist at China Minsheng Bank, looking ahead to the second half of the year, China will continue to enhance its policy, expand its domestic demand, strengthen its fundamentals and nurture its growth, thereby providing support for China's economy to continuously rebound and improve. Prices will continue to rebound moderately, and the CPI and the Industrial Producer Price Index (PPI) may rise above 1% and 0% year-on-year in a single month. The GDP deflator and nominal GDP will continue to rebound year-on-year, helping to enhance the sense of satisfaction of residents and enterprises, and bridging the gap between macro data and micro sentiments.

At the Sixth Plenary Meeting of the 14th Xi'an Municipal Committee of the Communist Party of China, it was proposed that Xi'an should accelerate the construction of the "dual centres" in Xi'an to achieve a new breakthrough in shaping the momentum, to make the construction of the "dual centres" in Xi'an the basis of its foundation, and to comprehensively strengthen the leading role of the Qinchuang Innovation Platform, strengthen the construction of national strategic science and technology force, promote enterprises to become the real innovation main body, and accelerate the industrialisation of Hard & Core Technology. On 22 July, Zhao Yide, Secretary of the Shaanxi Provincial Party Committee and Director of the Provincial Science and Technology Committee, stressed at the Provincial Science and Technology Committee the importance of constructing a comprehensive innovation system and mechanism to accelerate the shaping of new energy and new advantages for high-quality development.

Chinese Passenger Vehicle Market in 2024

Looking ahead to the second half of the year, according to a research report released by CITIC Securities, the market is generally concerned about the recent "policy retreat" and trade protection practices of "building high walls at small yards" for new energy vehicles in western countries. However, CITIC Securities is still optimistic about the outlook for the annual sales of new energy vehicles, especially the trade-in policy launched at the end of April, which is expected to significantly boost annual sales. According to the analysis of the China Association of Automobile Manufacturers ("**CAAM**"), passenger vehicle sales will continue to grow month-on-month in June 2024 thanks to the trade-in policy, sales promotion by automobile enterprises and factors such as the mid-year sprints. Meanwhile, the development of the passenger vehicle market is also facing a number of challenges, such as the uncertainty of the global economic situation, supply chain issues and changes in policies and regulations. In addition, factors such as changes in consumer demand and intensified market competition may also have an impact on the passenger vehicle market.

Overall, the passenger vehicle market is expected to maintain growth in the second half of 2024, but competition will become more intense. Automobile manufacturers will need to continue to innovate and enhance their product power to meet consumer demand. At the same time, the government will need to introduce relevant policies to promote the healthy development of the passenger vehicle market.

To Promote the Optimisation of Brand Networking to Lay a Foundation for Business Stability

In respect of the development of branded outlets, in the face of the severe "rat race" of the automobile market and the market environment of frequent "price wars" under fierce competition, the Group has been keeping a close watch on the policy changes, proactively adjusting its business strategies, promoting business transformation and upgrading, and optimising the branded outlet network. The Group carried out asset restructuring and transfers of certain stores in non-advantageous areas in order to focus on its strengths in advantageous areas. On 20 July 2024, certain subsidiaries within the Group entered into share disposal agreements with Zhongsheng Holdings Co., Ltd. to dispose of in aggregate the entire equity interests in three branded companies within the Group located in Yangzhou, Wuxi and Suzhou, Jiangsu Province, respectively. In an environment of intensified competition in the automobile market, the Group has taken multiple measures to maintain sufficient cash flow to cope with various market changes.

Since 2024, the Group has continued to focus on the changes in the development of new energy brands in selected cities, utilised the Group's brand optimisation and adjusted property resources, and communicated and co-operated 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 and improve the brand structure. In August 2024, the Group obtained the authorisation for 2 Formula Leopard 4S stores in Xi'an, 1 DENZA centre store in Lanzhou and 1 DENZA centre store in Yinchuan.

The automobile market landscape has undergone drastic changes under the intensely competitive market environment. Looking ahead to the second half of the year, the continued implementation of favourable policies, including the national and regional trade-in policy and the launch of new energy vehicles in the countryside, as well as the intensive listing of new car models by automobile manufacturers, will help to further unleash the consumption potential of the automobile market, and provide a boost to the annual sales growth of automobile manufacturers and dealers. Meanwhile, with the deepening of domestic reforms after the Third Plenary Session of the 20th Central Committee of the CPC, consumer confidence is expected to be further restored. In the future, the Group will continue to effectively operate its existing brands, and at the same time actively expand the share of its new energy brands through various channels, so as to realise brand restructuring and upgrading, and to adapt to the changes and competition in the market.

Of the two "FUN TIME LANE" automobile fashion street zone projects in Xi'an and Lanzhou, which were invested by Sunfonda Group, the "FUN TIME LANE" project in Lanzhou is undergoing the formalities related to government acceptance and filing. Most of the construction of the "FUN TIME LANE" project in Xi'an has been completed, while a small amount of remaining works are proceeding, and other relevant formalities are in progress.

Intelligent Services Lead Online Operations, Further Deepening Customer Connectivity

In the first half of 2024, the Group's private traffic user pool expanded significantly, with the number of registered users in the member centre significantly increasing to 338,000. The enterprise WeChat platform has become a powerful bridge to connect users, with the cumulative number of added users reaching 354,000, of which 260,000 users were successfully and accurately linked to the vehicle registration number business database through in-depth data integration, thereby further enhancing the personalisation and accuracy of user services. Meanwhile, the customer management system has been continuously optimised and upgraded, thus realising all-round and refined solicitation and management of retained customers, and effectively enhancing customer satisfaction and loyalty. The automation level of the after-sales visit system has reached a new level, with all after-sales work orders being able to be scheduled and accurately tracked for visits, so as to ensure the enhancement of both service quality and customer experience. The intelligent accident clue reporting system continued to play a powerful role, collecting more than 2,033 pieces of information on road accidents in Xi'an and the surrounding areas during the first half of the year, which injected strong momentum into the after-sales accident business of the stores. The continuous optimisation of the lead management tools and the online coupons that are actively claimed by customers through innovative strategies have achieved a double leap in customer engagement and conversion rates.

In terms of customer service and marketing, the Group introduced an AI-based intelligent customer service system and pilot work on a precision marketing platform. The intelligent customer service system can automatically identify customer issues and provide solutions, thus improving the efficiency and satisfaction of customer service. The precision marketing platform analyses customer behavioural data using AI algorithms, and screens high-intention customers to provide high-quality sales clues to the sales department, thus improving the efficiency of manpower and reducing labour costs of the sales department.

Through this series of initiatives, the Group will continue to broaden its service boundaries and deepen its connection with customers, thereby leading a new trend of online operation with intelligent services and laying a solid foundation for its sustainable and healthy development.

To Enhance Brand Popularity and Influence in a Comprehensive Manner by Adopting Customer-Centric Principle and Diversified Marketing Layout

With the profound changes in the automobile industry, the constantly fragmented media environment, the structure of young consumers and their unique preferences and behaviours towards automobile consumption are reshaping the future of the automobile industry. The Group has made full use of the dividends of the new media era and, with a result-oriented approach, has continued to optimise the content of live streaming and short videos, as well as to enhance the interactivity and professionalism of the new media. For example, in 2024, by drawing upon its membership centre, the Group recruited popular female vehicle owners to participate in its interview projects, with a view to effectively breaking the circle and establishing a close link with consumers through precise exposure through the dissemination of short videos. As at the end of June, the Group's new media orders recorded a year-on-year increase of 66%, effectively opening up channels. While the Group comprehensively promoted the creation of new media matrices at each brand store, including Douyin, Xiaohongshu and WeChat Video Channel, the Group encouraged its employees to actively participate in self-media operation and marketing to create their own personal IPs and to enhance the competitiveness of its brands in the market.

On the other hand, the Group has taken various measures to integrate customer profiles and deeply explore customer needs, and has enhanced customer service experience through a variety of marketing activities such as circle activities, regular customer retention and cross-brand alliances to enhance both popularity and reputation of its brand.

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 2024 (six months ended 30 June 2023: nil).

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 C1 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 (including sales of treasury shares (the "**Treasury Shares**") within the meaning under the Listing Rules). As at 30 June 2024, the Company did not hold any Treasury Shares.

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

On 20 July 2024, certain indirect wholly-owned subsidiaries of the Company entered into share disposal agreements with Zhongsheng Holdings Co., Ltd. (中升(大連)集團有限公司) (an indirect wholly-owned subsidiary of Zhongsheng Group Holdings Limited (Stock Code: 0881)) to dispose of in aggregate the entire equity interests (the "**Disposal**") in Suzhou Sunfonda Toyota Automobile Sales Services Co., Ltd.* (蘇州新豐泰豐田汽車銷售服務有限公司), Wuxi Fengtai Kaida Automobile Sales Services Co., Ltd.* (無錫豐泰凱達汽車銷售服務有限公司) and Yangzhou Sunfonda Junsheng Lexus Automobile Sales Services Co., Ltd.* (揚州新豐泰鈞盛雷克薩斯汽車銷售服務有限公司) (the "**Target Subsidiaries**") (each being an indirect wholly-owned subsidiary of the Company prior to the Disposal), respectively. Upon the completion of the Disposal, the Company will cease to own any equity interests in the Target Subsidiaries. For further details, please refer to the announcement of the Company dated 20 July 2024.

Save as disclosed above, there was no significant subsequent event undertaken by the Group after 30 June 2024 that need to be disclosed under the Listing Rules.

AUDIT COMMITTEE

The audit committee under the Board (the "**Audit Committee**") has reviewed the accounting standards and practices that the Company adopted, and discussed matters related to risk management, internal control and financial reporting. The Audit Committee has no disagreement with the accounting treatment adopted by the Company. The Audit Committee has reviewed the Company's 2024 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 2024 interim report will be made available 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, 29 August 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.

* *For identification purposes only*