



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



INTERIM
REPORT
2019



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CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

INVESTOR INQUIRIES

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BOARD OF DIRECTORS

Executive Directors

Mr. Wu Tak Lam (*Chairman of the Board*)

Ms. Chiu Man (*Chief Executive Officer*)

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

AUDIT COMMITTEE

Mr. Liu Jie (*Chairman*)

Mr. Song Tao

Dr. Liu Xiaofeng

NOMINATION COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

REMUNERATION COMMITTEE

Mr. Song Tao (*Chairman*)

Mr. Liu Jie

Dr. Liu Xiaofeng

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Ms. Chiu Man

Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam

Ms. Chan Sze Ting

COMPANY SECRETARY

Ms. Chan Sze Ting

HEADQUARTERS

Sunfonda Automobile Center

No. 1555 Ouya 1st Road

Beichen Avenue

Chanba Ecological District

Xi'an City, Shaanxi Province

PRC





CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG SHARE REGISTRAR

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As To PRC Law

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PRC

As To Hong Kong Law

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Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
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Central, Hong Kong

PRINCIPAL BANKERS

China CITIC Bank Corporation Limited, Xi'an Branch
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Xi'an City, Shaanxi Province
PRC

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Central, Hong Kong

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn



FINANCIAL HIGHLIGHTS

During the period from 1 January to 30 June 2019 (the “**Period**”), the Company has recorded:

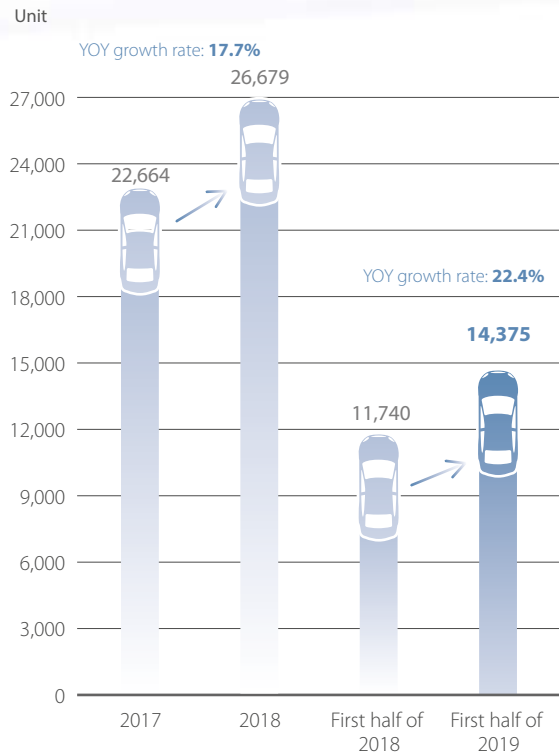
- Operating revenue of RMB4,529.3 million, which was up by 14.7% from the same period last year, including:
 - Sales volume of new vehicles up by 22.4% to 14,375 units, and sales revenue of new vehicles up by 15.2% to RMB3,990.0 million; and
 - Revenue from after-sales services, which was up by 11.0% to RMB539.3 million.
- Gross profit of RMB325.8 million, which was down by 11.9% from the same period last year.
- Gross profit margin was down by 2.2 percentage points to 7.2% (same period in 2018: 9.4%).
- Profit attributable to owners of the parent for the Period was down by 26.5% to RMB74.8 million (same period in 2018: RMB101.7 million).
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent was down by RMB0.05 to RMB0.12 for the Period as compared to RMB0.17 for the same period last year.



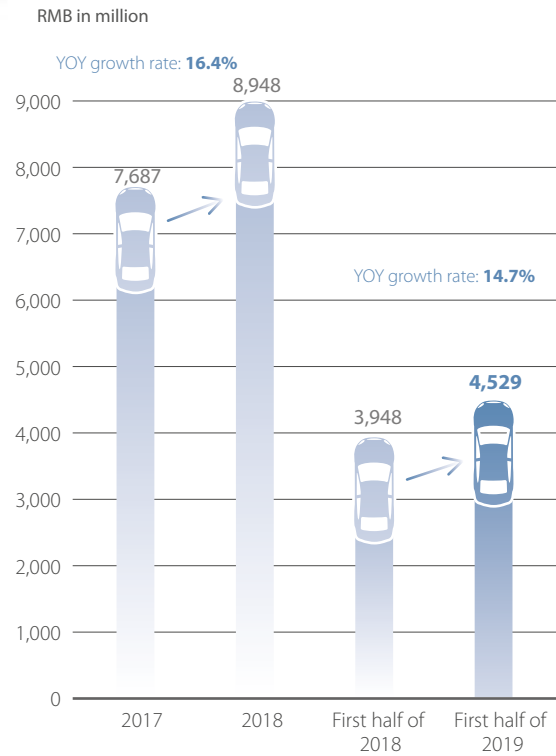


FINANCIAL HIGHLIGHTS

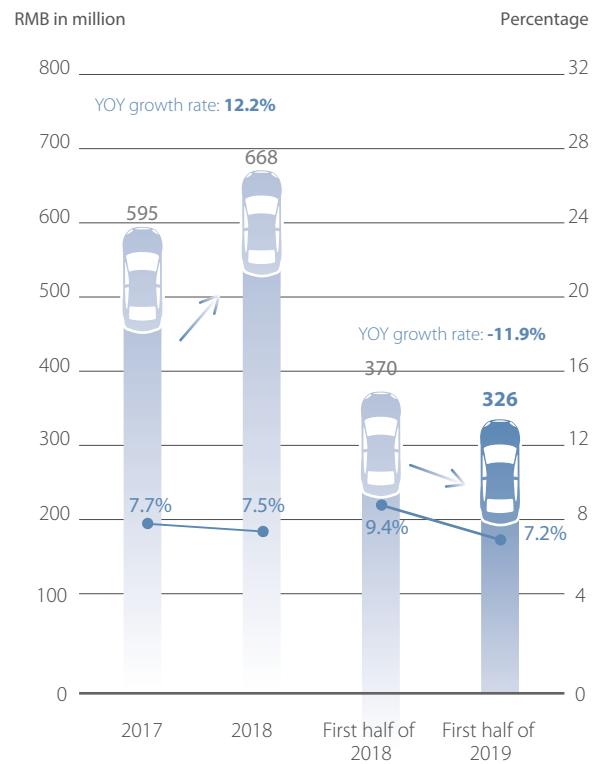
Sales volume of new vehicles



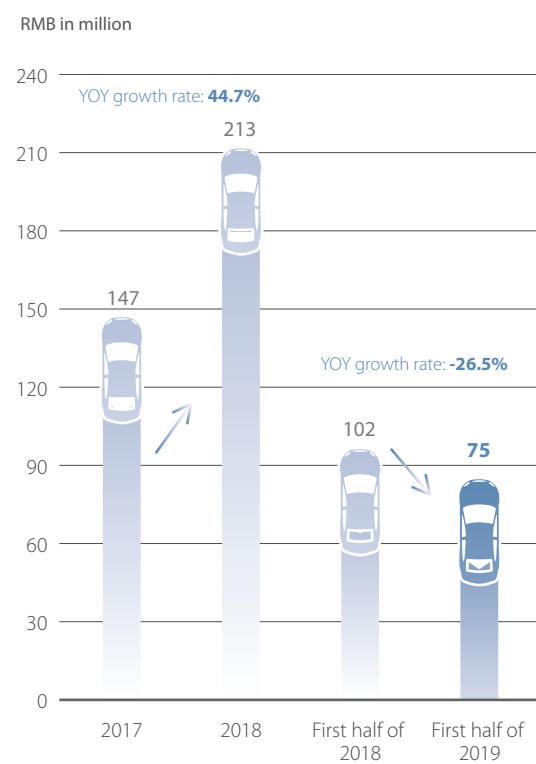
Revenue



Gross profit and gross profit margin



Profit for the year attributable to owners of the Group



Note: "YOY" refers to year-on-year.



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the “**Board**”) of Sunfonda Group Holdings Limited (the “**Company**”), I am pleased to present the interim report of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019.

According to the relevant data published by the National Bureau of Statistics, in the first half of 2019, China's GDP grew by 6.3% year-on-year, and the economic structure continued to be optimized. The driving force on economic growth by investment was also rising. The GDP growth rate of Xi'an where the headquarter of the Group is located reached 7%, continuing to exceed China's GDP growth level. As more and more companies listed in the Global 500 based in Xi'an successively, Xi'an has become the core area of Shaanxi Free Trade Zone. The Xixian New District, also as National Service Trade Innovation and Development Pilot and the National Open Economy Comprehensive Pilot, has been gradually and solidly promoted.

In 2019, China's automobile consumer market is still affected by many macro factors such as China's economic development adjustment and Sino-US trade war. Additionally, dozens of cities in the PRC announced the implementation of China VI emission standard in advance on 1 July 2019. These factors have brought significant impact on the fiercely competitive automobile retail industry. The implementation of China VI emission standard in advance also promoted the phased blowouts of the new car sales of China V emission standard in May and June, and led to the further improvement and optimization of the new car inventories.

According to the data published by the China Association of Automobile Manufacturers, the sales volume of passenger automobiles of China was 10.127 million units in the first half of the year. The retail sales of 20 luxury brand automobile dealers reached 1.542 million, an increase of 16.9% year-on-year, and the luxury branch automobile market resumed a double-digit growth. Benefiting from the outstanding performance of Lexus, Mercedes-Benz, BMW, Cadillac, Porsche, Hongqi, FAW Toyota, GAC Toyota and other brands, the new car sales of the Group's relevant stores recorded different increments. In the second half of the year, the relevant brands will launch a number of new models and facelift products. Among which, the supply of newly launched HS7 SUV products under Hongqi brand will also increase, which in turn will provide positive and strong support for the Group's operating performance in the second half of the year.

During the first half of 2019, the Group's revenue from the sale of new automobiles was RMB3,990.0 million with a sales volume of 14,375 units, up by 15.2% year-on-year; revenue from after-sales services was RMB539.3 million, up by 11.0% year-on-year; gross profit amounted to RMB325.8 million, down by 11.9% year-on-year; and profit attributable to owners of the parent for the period amounted to RMB74.8 million, representing a year-on-year decrease of 26.5%.





CHAIRMAN'S STATEMENT

Although it is full of challenges in 2019, the Group maintained a steady pace of development and successively secured the licenses from several brands and their new stores commenced operation, including Xi'an GAC Honda 4S store newly opened in the first half of the year, as well as the newly acquired licenses of the BMW Xi'an Project and Yinchuan Lexus brand. As recognized by industry professionals, the BMW brand will fully enter into the major year of product in 2020, and the Lexus brand will continue to grow steadily. The acquisition of licenses from the two brands and their subsequent opening will definitely bring strong support to the Group's business improvement this year and will continue to assist the Group's future development.

The Group continuously communicates with various brand manufacturers and further actively expands the layout of relevant brands within the Group's coverage. Among which, with the obtaining of Xi'an BMW brand, the Group has achieved a comprehensive coverage of ABB (Audi, Mercedes-Benz and BMW brands) in Xi'an, and the strength of its business operation has been greatly enhanced, which provides customers with more comprehensive high-quality services.

While proactively applying for the licenses of more outstanding brands, the Group also conducts new retail businesses layout, and commenced the construction of the "FUN TIME LANE (豐泰里)" automobile street zone project combining with the land reserves located at the gateway of Chanba Ecological District in Xi'an. The phase I of the project plans to introduce about 5 stores of high-end automobile brands, boutique experience centers of integrated automobile brands, used car trading centers, automobile culture experience centers. The project also has a few complementary popular businesses such as retail, catering and entertainment, to support the principal business and improve the customers' experience.

After the efforts of all employees in 2018, the Group won many recognitions and awards from China Automobile Dealers Association (中國汽車流通協會) and many mainstream medias in the first half of 2019. Through optimization of its operational system, the Group strengthened the brand management model, continued to improve the inventory level of new automobiles, sped up inventory flow, used car replacement and retail business, thereby ensuring a steady increase in profitability of the Group.



CHAIRMAN'S STATEMENT

We can only set ourselves apart from others by well performing the basic management and paying attention to improving the satisfaction of the customer experience in such a severe competitive market. Since the official launching of the mini program of "Sunfonda Group Membership Center (新豐泰集團會員中心)" in January 2019, the number of members of the Group in aggregate as of the end of June was over 49,000. The member attention rates of the sales end and after-sales service end have reached 80%. The Group's e-commerce team will further optimize and enrich the member interaction content and experience projects, and strive to make this membership center become the best choice for automobile lifestyle of Sunfonda customers. Meanwhile, the membership center will gradually become a high-value marketing platform from an information collection center and follow-up platform to improve customer experience satisfaction, as well as making big data analysis a reality.

Just as the performance of the aforesaid segments, the Group will continue to maintain a steady and optimistic development. Through further enhancing the Group's innovation and intelligence, continuing to attach importance to the improvement projects of customer service experience, paying close attention to the loyalty and capability improvement of the management team, the Group strives to build Sunfonda into a sustainable and innovative enterprise.

In face of both competition and opportunity, we will gain satisfactory achievement as long as we unify and make every effort, uphold the original mission, stick to our origin, steadily and innovatively move forward. In the end, I would like to extend my sincere gratitude to all parties again for their unreserved support.

Wu Tak Lam

Chairman

28 August 2019





MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's economic trend was stable in the first half of 2019

In the first half of 2019, China's GDP increased by 6.3% year-on-year, in line with the target range of 6.0%-6.5% in 2019. The proportion of the added value of the tertiary industry has also increased compared with the same period of last year, and the economic structure has continued to optimize. The expansionary effect of investment on economic growth has also increased. Besides, the consumption data also presents a rebound indication. Total retail sales of consumer goods increased by 8.4% year-on-year, mainly due to the rapid growth in car consumption in June on a year-on-year base.

The private economy is an important field in entrepreneurship and employment and an important part of technological innovation in China. The private economy enjoys a policy dividend and its vitality and confidence are significantly enhanced. In the first half of 2019, among all the new tax reduction projects, the tax reduction of private economic taxpayers reached RMB671.2 billion, accounting for 65% of the total tax reduction. The tax reduction and fee reduction policy has significantly enhanced the vitality of corporate innovation and entrepreneurship, and boosted market confidence.



MANAGEMENT DISCUSSION AND ANALYSIS

Performance of Passenger Vehicle Market in the First Half of 2019

According to the data published by the China Association of Automobile Manufacturers, the sales volume of passenger automobiles of China was 10.127 million units in the first half of the year. The retail sales volume of 20 luxury brand dealers reached 1.542 million units, a year-on-year increase of 16.9%. The luxury car market resumed a double-digit growth. The three German luxury brands ABB (ie, Audi, Mercedes-Benz, BMW) still occupied the majority of the market, and the total market share of such brands reached 70.3%. In addition, Lexus and Cadillac followed closely and also performed well.

In the first half of the year, many cities sorted out the vehicles of China V emission standard, which made the entire industry smoothly cleaned up the inventory. Both vehicle enterprises and dealers can easily prepare for the vehicle market for the second half of the year, which is conducive to the price stability of new cars. There are many important meetings to be held in the second half of this year, and the China-US trade talks are expected to have a stage result. It is expected that the domestic economic situation will be better than that of the first half of the year, and the positive effect of the VAT reduction in the first half of the year will gradually emerge. The luxury brand automobile market will have a more relaxed development space in the second half of the year.

As of the first half of the year, based on the data of the Traffic Management Bureau under the Ministry of Public Security, there were 29 cities with car ownership volume of more than 2 million units, and 11 cities with car ownership volume of more than 3 million units, i.e. Beijing, Chengdu, Chongqing, Suzhou, Shanghai, Zhengzhou, Shenzhen, Xi'an, Wuhan, Dongguan and Tianjin. The car ownership volume of Beijing and Chengdu was more than 5 million units; the top ten cities in terms of sales volume of luxury automobiles in the first half of this year are Beijing, Shanghai, Guangzhou, Chengdu, Chongqing, Zhengzhou, Suzhou, Hangzhou, Xi'an and Shenzhen, of which the sales volume of luxury automobiles in Guangzhou, Suzhou, Hangzhou and Xi'an maintained double-digit growth. These information further ensured the foundation for business improvement in the second half of the year and in the next few years.

At the same time, the overall new car sales volume of the Group in the first half of the year increased by 22.4% year-on-year. Due to the outstanding performance of Lexus, Mercedes-Benz, BMW, Cadillac, Porsche, Hongqi, FAW Toyota, GAC Toyota and other brands, the sales volume of new automobiles in each of the Group's related stores recorded a certain increase. In the second half of the year, the relevant brands will launch a number of new models and facelift products. Among which, the supply of Hongqi's new launched HS7 SUV products will increase, which will provide positive and strong support for the Group's operating performance in the second half of the year.





MANAGEMENT DISCUSSION AND ANALYSIS

Key areas covered by the network of Sunfonda Group were developing rapidly in the first half of 2019

In the first half of 2019, the economy of Xi'an, where the Group is located, continued to develop healthily, and the growth rate of GDP reached 7%, continuing to exceed the PRC's GDP growth level. This shows that Xi'an has entered into a period of rapid development. Xi'an has successfully held the Euro Asia Economic Forum and four Silk Road City Roundtable Meetings, and built the first inland port with international and domestic double codes. The Xixian Airport Bonded Logistics Center was jointly approved by four ministries and commissions, including the General Administration of Customs, and opened four Sino-European international freight trains and flights. The Silk Road economy has led a new starting point and has taken a solid step.

The urban development pattern in Xi'an has been further optimized. Xi'an was awarded as the "Happiest City of China" for five consecutive years and has won the honorary title of "National Civilized City". Under the premise of modernization of the infrastructure and gradual improvement of the quality of life, the style of the ancient city is highlighted. Xi'an also deeply explored the contemporary value of Zhou, Qin, Han and Tang cultures. In addition, five heritage sites such as the Weiyang Palace site in Han Chang'an City have been successfully applied, and Xi'an has formed an urban construction style with historical culture and modern atmosphere.

Besides, the economy of other areas covered by the operating network of Sunfonda Group is running smoothly. According to relevant data of National Bureau of Statistics, Jiangsu, one of the Group's key development areas, ranks second in China in terms of GDP in the first half of this year, with a growth rate of 6.5%. In particular, the nominal growth rate in Nanjing was 8.73%, nominal growth rate in Wuxi was 7.71%, nominal growth rate in Yangzhou was 6.13%, and nominal growth rate in Suzhou was 4.81%. Besides, Ningxia, Shanxi and Gangsu, the areas covered by the network of the Group, also had steady growth along with other areas within the network.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

In the first half of 2019, the Group followed the national policy and conducted scientific research and judgment. We took advantage of the situation to grasp business opportunities and achieved growth against the trend. On the one hand, we have carried out refined management to ensure the implementation of the Group's business strategy; on the other hand, we constantly adjusted the inventory structure and optimize resource allocation. While consolidating the existing core business, we continued to promote innovation and development. We have kept up with the national policy orientation and gradually realized business transformation. Thanks to the joint efforts of all the employees of the Group, the brands stores owned by the Group performed well. In the first half of 2019, the number of new car sales of the Group reached 14,375 units, an increase of 22.4% compared with 11,740 units in the same period of last year; revenue from after-sales service reached RMB539.3 million, an increase of 11.0% compared with RMB485.8 million in the same period of last year. In the overall complex market environment, our gross profit still reached RMB325.8 million.

In terms of sales, in the first half of 2019, under the sluggish environment of the new car market, the Group focused on implementing destocking measures to maintain an effective control of inventory levels. Besides, we closely followed national policies and market changes, and formulated strategies in response, for example, in face of the replacement of cars of China V emission standards with China VI emission standards, we actively carried out forward-looking sales work, seized the opportunity, and achieved record high sales in May and June. The Group implemented a balanced scoring assessment model with a long-term perspective, grasped the opportunities for principal and extended business sales, and improved overall profitability. Through the refined management of the Group's operations, the price management tools have been fully implemented, effectively improving the sales quality.

In terms of after-sales service, in the first half of 2019, the Group's after-sales service revenue increased by 11.0% year-on-year. On the one hand, the Group provided services and conducted our marketing based on customer needs, and enhanced the customer experience by improving service facilities and providing digital reception. On the other hand, through service process reengineering and optimization, organizational structure adjustment, and multi-dimensional interaction with customers, we maintained and ensured a stable growth of after-sales customer base. In terms of business development, we further strengthened the business promotion and advertising, and at the same time, optimized the maintenance and repair business, reduced the customer's car use cost, and achieved a win-win business model with customers and insurance companies. Besides, we strengthened the advantages of grouping and provided personalized customer service, which will lay a solid foundation for the long-term development of the Group.





MANAGEMENT DISCUSSION AND ANALYSIS

In the used car business, in the first half of 2019, with the development of the replacement market, the used car market was growing well. The Group planned in advance, to actively developed business, increased business scale, and strengthened derivative businesses such as finance and insurance, which comprehensively enhanced the quality of the used car business operation.

The unremitting efforts of the Group in the first half of the year have laid a good foundation for the stably-improving operation for the second half of the year and the future. Afterwards, the Group will always maintain a sense of crisis and hard work, lay a solid foundation, be brave to take responsibility and to improve the actual combat capability, focus on process management, and develop craftsman's spirit to ensure the leading position under the tough competitive environment.

FINANCIAL REVIEW

Revenue

Revenue for the Period was RMB4,529.3 million, representing an increase of RMB580.9 million or 14.7% as compared to that for the corresponding period in 2018, of which, revenue obtained from the sales of new automobiles was RMB3,990.0 million, representing an increase of RMB527.4 million or 15.2% as compared to that for the corresponding period in 2018. The increase in revenue from the sales of new automobiles was mainly attributable to the increase in sales volume of new vehicles during the Period as compared to the same period in 2018. Among them, sales of new vehicles of luxury and ultra-luxury brands increased from 8,491 units in the same period in 2018 to 10,262 units in the Period. In addition, revenue from after-sales services was RMB539.3 million, representing an increase of RMB53.5 million or 11.0% as compared to that for the corresponding period in 2018. The increase in revenue from after-sales services was attributable to the increase in business volume through strengthening the after-sales customer management system of the Group. A substantial portion of the revenue of the Group was generated from sales of new automobiles, accounting for 88.1% of our revenue for the Period (the same period in 2018: 87.7%). During the Period, the remaining part of revenue of the Group was generated from after-sales services business, accounting for 11.9% of our revenue for the Period (the same period in 2018: 12.3%). Revenue of the Group was mainly derived from our operations in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June/unaudited 2019			2018		
	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)
Sales of passenger vehicles						
Luxury and ultra-luxury brands	3,448,789	10,262	336	3,032,976	8,491	357
Mid-end market brands	541,169	4,113	132	429,617	3,249	132
Sub-total (Average)	3,989,958	14,375	278	3,462,593	11,740	295
After-sales services	539,314			485,773		
Total	4,529,272			3,948,366		

Cost of sales and services

Cost of sales and services for the period was RMB4,203.5 million, representing an increase of RMB624.9 million or 17.5% as compared to that for the corresponding period in 2018. Cost of sales of new automobiles for the period was RMB3,906.7 million, representing an increase of RMB587.0 million or 17.7% as compared to that for the corresponding period in 2018. The increase in cost of sales of new automobiles was attributable to the corresponding increase in cost of sales resulting from the increase in sales volume of new automobiles. Cost of after-sales services for the period was RMB296.8 million, representing an increase of RMB37.9 million or 14.6% as compared to that for the corresponding period in 2018. The increase in cost of after-sales services was attributable to the increase in business volume of after-sales services.





MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit for the Period was RMB325.8 million, representing a decrease of RMB43.9 million or 11.9% as compared to that for the corresponding period in 2018, of which, gross profit of sales of new automobiles was RMB83.3 million, representing a decrease of RMB59.6 million or 41.7% as compared to that for the corresponding period in 2018; gross profit of after-sales services business was RMB242.5 million, representing an increase of RMB15.7 million or 6.9% as compared to that for the corresponding period in 2018. Gross profit of after-sales services for the Period accounted for 74.4% of our total gross profit (corresponding period in 2018: 61.3%). Gross profit margin for the Period was 7.2% (corresponding period in 2018: 9.4%), of which, gross profit margin for sales of new automobiles was 2.1% (corresponding period in 2018: 4.1%) and gross profit margin for after-sales services was 45.0% (corresponding period in 2018: 46.7%).

Other Net Income and Gains

Other net income and gains mainly consist of commission income from automobile insurance agency and automobile financing agency businesses, logistics and storage income, interest income as well as net gains from disposal of property, plant and equipment.

Other net income and gains for the Period amounted to RMB91.7 million, representing a decrease of RMB17.2 million as compared with RMB108.9 million for the corresponding period in 2018. The decrease was mainly due to: 1) the decrease in commission income from automobile insurance and financing agency businesses as compared with the same period in 2018; 2) the decrease in government grants as compared with the same period in 2018; and 3) the decrease in net gain on disposal of items of property, plant and equipment as compared with the same period in 2018.

Selling and Distribution Expenses

Selling and distribution expenses for the Period amounted to RMB174.6 million, representing a decrease of 1.5% as compared with RMB177.3 million for the corresponding period in 2018, mainly due to: 1) the decline in sales of ultra-luxury new vehicles, which led to the decrease in the consumption tax as compared with the same period of last year; and 2) the decrease in advertising and promotion expenses as compared to the corresponding period in 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses for the Period amounted to RMB99.3 million, representing a decrease of 6.9% as compared with RMB106.7 million for the corresponding period in 2018. The decrease in administrative expenses was mainly attributable to the decrease in office expenses and public utility expenses as compared to the corresponding period in 2018.

Finance Costs

Finance costs for the Period amounted to RMB53.6 million, representing an increase of 14.0% as compared with RMB47.0 million for the same period in 2018. The increase was mainly due to the increase in the scale of current borrowings used for inventory procurement as compared to the corresponding period in 2018.

Profit Before Tax

As a result of the foregoing, profit before tax for the Period amounted to RMB90.0 million, representing a decrease of 39.0% as compared with RMB147.6 million for the corresponding period in 2018.

Income Tax Expense

Income tax expense for the Period amounted to RMB15.2 million, representing a decrease of 66.7% as compared with RMB45.6 million for the same period in 2018. The effective income tax rate of the Group for the Period was approximately 16.9% (corresponding period in 2018: 30.9%). The decrease in income tax expense was mainly due to the decrease in profit for the Period and recognition of deferred tax assets for some unrecovered losses.

Profit for the Period

As a result of the foregoing, profit for the Period was RMB74.8 million, representing a decrease of 26.7% as compared with RMB102.0 million for the same period in 2018.

Profit for the Period Attributable to Owners of the Parent

For the Period, profit for the period attributable to owners of the parent was RMB74.8 million, representing a decrease of 26.5% as compared with RMB101.7 million for the same period in 2018.





MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the period, our net cash inflow generated from operating activities was RMB144.8 million, as compared with net cash inflow generated from operating activities of RMB280.4 million for the six months ended 30 June 2018. The decrease in net cash inflow from operating activities was mainly attributable to the increase in inventories and prepayments procurement due to the increase in the sale of new automobiles.

For the period, our net cash outflow for investing activities was RMB106.3 million, as compared with net cash outflow for investing activities of RMB682.0 million for the six months ended 30 June 2018. The decrease in net cash outflow for investing activities was mainly attributable to the significant reduction in the investment in land acquisition for the period.

For the period, our net cash inflow for financing activities was RMB4.9 million, as compared with net cash inflow for financing activities of RMB671.3 million for the six months ended 30 June 2018. The fluctuation was mainly due to 1) the decrease in the net increase in bank loans and other borrowings for the period as compared with the increase in the same period in 2018, and 2) the receipt of transfer payment in advance for disposal of a subsidiary to the third party in the same period of 2018.

Net Current Assets

As at 30 June 2019, the Group's net current assets amounted to RMB319.6 million, representing an decrease of RMB25.5 million as compared to the net current assets of RMB345.1 million as at 31 December 2018.

Inventories

Our inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 30 June 2019, our inventories amounted to RMB983.5 million, representing an increase of 4.0% as compared with RMB945.6 million as at 31 December 2018, which was mainly attributable to the inventories for the increase in sales of new automobiles.



MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, our average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 180 days) were 41.0 days, which were slightly longer than the 38.0 days in 2018, which was mainly attributable to the increase in sales of new vehicles, resulting in an increase in average inventory stocks for the period as compared with the same period in 2018.

Bank Loans and Other Borrowings

As at 30 June 2019, our bank loans and other borrowings were RMB2,044.9 million, representing an increase of 5.2% as compared with RMB1,943.5 million as at 31 December 2018, which was mainly attributable to the increase of scale of current financing loans used for increase in inventory procurement in relation to the new car sales as compared to the end of 2018.

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

	30 June 2019 Unaudited		31 December 2018 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	3.2-7.0	1,620,208	3.3-7.0	1,483,380
Other borrowings	5.0-8.5	214,329	5.6-8.5	246,504
Sub-total		1,834,537		1,729,884
NON-CURRENT				
Bank loans	3.3-5.5	210,388	3.3-5.5	213,616
Total		2,044,925		1,943,500
Of which:				
secured loans		1,667,013		1,697,500
unsecured loans		377,912		246,000
Total		2,044,925		1,943,500

As at 30 June 2019, our gearing ratio, which is the total liabilities divided by the equity attributable to owners of the parent, was 102.6%. Total liabilities mainly includes bank loans and other borrowings, trade and bills payables, and other payables and accruals, etc.





MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 30 June 2019, certain of our bank loans were secured by charges or pledges over our assets. Our assets subject to these charges or pledges as at 30 June 2019 consisted of: (i) inventories amounting to RMB493.2 million; (ii) buildings amounting to RMB380.0 million; (iii) land use rights amounting to RMB150.9 million; and (iv) pledged bank deposits of HK\$17.4 million (equivalent to RMB15.3 million) and US\$8.9 million (equivalent to RMB61.1 million).

As at 30 June 2019, certain of our inventories amounting to RMB165.4 million and pledged bank deposits amounting to RMB200.5 million were pledged as securities for bills payable.

Capital Expenditures and Investment

Our capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the six months ended 30 June 2019, our total capital expenditures were RMB151.9 million, representing a decrease of approximately RMB521.9 million as compared with the RMB673.8 million for the six months ended 30 June 2018.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees.

Interest Rate Risk and Foreign Exchange Risk

The Group's exposure to the risk of changes in market interest rates is primarily related to the Group's long-term debt obligation with a floating interest rate. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

The Group's main businesses are located in Mainland China and major 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\$ and HK\$ and certain bank loans denominated in HK\$.

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



MANAGEMENT DISCUSSION AND ANALYSIS

Staff Cost and Employee Remuneration Policies

As at 30 June 2019, the Group had 3,022 employees. Staff cost of the Group increased by 3.3% from RMB131.1 million for the six months ended 30 June 2018 to RMB135.4 million for the Period, which was mainly attributable to the increase in number of headcount in newly opened stores, the increase in base number of social security contribution. The Group commits to create a good working environment, diversified training programs and attractive compensation packages to the employees. The remuneration packages comprise of 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 our network, the Group also continued to build up its quality talent pool and prudently manage its human resources and made corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group increased its efforts in talent pool and talent construction. Regular trainings 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

Headquarter Base of Sunfonda Group – Xi’an, China leading the development of Northwest China

According to relevant government plans, the urban competitiveness of Xi’an has been significantly improved in the ranking of comparable cities in China. As an important economic center, international exchange center, silk road science and technology innovation center, silk road cultural highland, inland open highland and national comprehensive transportation hub in Western China, the development pattern of “Great Xi’an” has taken initial shape. The city’s cohesion, radiation, competitiveness in the western region and international influence have been continuously enhanced. The construction of the national central city has begun to take shape, and the international metropolis has been initially built. Under the national strategy of “Belt and Road”, the development of the northwestern region will be led by Xi’an. It is expected that the comprehensive economic strength and development vitality of Xi’an will be enhanced notably in the future.





MANAGEMENT DISCUSSION AND ANALYSIS

Further Optimization and Improvement of Brand Structure

The Group started to operate the Xi'an Guangqi Honda brand 4S stores successfully in the first half of 2019. It also secured authorizations from Xi'an BMW 4S store and Yinchuan Lexus 4S store recently, and the stores are expected to open to operate in the fourth quarter of this year. With the addition of Xi'an BMW brand, the Group has further enhanced the coverage at Xi'an headquarters after achieving "ABB" (Audi, Mercedes-Benz, BMW) full-brand operation, so that the Group could provide a full range of services to its customers.

Intelligence Project – Smooth Operation of Customer Management Center System and Fully Upgrading of Customer Experience

The Group continued to focus on customer experience satisfaction. In January 2019, the mini program "Sunfonda Group Membership Center" was launched officially, and was successfully followed and used by more than 49,000 customers after half a year. The Group will make full use of this system to release business related information, customer vehicle usage information enquiry, test ride and test drive and purchase consultation, owners club event recruitment, gift giving and other diversified interactive sections, in order to make this mini program gradually become a high-frequency used life travel steward for the customers and big data analysis become possible.

At the same time, the frequency and form of "marketing for retained customers" activities online and offline have been enhanced, providing better service experience for retained customers. On the one hand, retained customers will help the Group's promotion through their WeChat; on the other hand, through good reputation of retained customers, the Company will improve customer repurchase rate, customer recommended purchase rate and other business indicators. The Group also successfully organized the first "immersive" SUV test drive experience activity of Volkswagen family, which received positive response from customers and media groups. In the second half of the year, we will carry out experiential test drive activities for brands such as "ABB" (Audi, Mercedes-Benz, BMW), Porsche and Lexus, further expand the participation and satisfaction of customers in the form of activities, and fully enhance the enthusiasm of customers to actively promote the activities.

Promotion Channels Meeting Customer Preferences Better and More Networked

Continuing the effective promotion model of past years, the Group further reduced the expenses in relation to placement of advertisement on online apps and traditional newspapers, LED large screens, and increasing the frequency and attractiveness of offline activities. We have adopted different plans for different appeals such as gathered customer, customer feedback, brand building and media relations. Besides, the Group added popular publicity methods and channels such as "Douyin" and "Xiaohongshu", and all the members of our stores participated in the creative short videos and achieved good results. For example, the business promotion creative short video issued by an Audi brand store of the Group has won more than 60,000 likes. The Group will continue to increase incentives to promote "creative" activities in the second half of the year.



CORPORATE GOVERNANCE AND OTHER INFORMATION

EQUITY INTEREST

As at 30 June 2019, the authorized share capital of the Company was US\$100,000 divided into 1,000,000,000 shares, of which 600,000,000 shares were issued and credited as fully paid.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests of the directors of the Company (the "Directors") in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) Long positions in ordinary shares of the Company

Name of Director	Capacity/ Nature of Interest	Note	Number of Shares	Approximate Percentage* of Shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	356,640,000	59.44%
Ms. Chiu Man	Interest held by controlled corporations	1	356,640,000	59.44%
Mr. Gou Xinfeng	Beneficiary of a trust Beneficial owner	2	110,000	0.02%
			90,000	0.01%
			200,000	0.03%
Ms. Chen Wei	Beneficiary of a trust Beneficial owner	3	82,000	0.01%**
			82,000	0.01%**
			164,000	0.03%**





CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

1. These shares are held as to 351,000,000 shares by Top Wheel Limited ("**Top Wheel**") and 5,640,000 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed Enterprises Limited ("**Golden Speed**"), a corporation wholly owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force Enterprises Limited ("**Win Force**"), a corporation wholly owned and controlled by Ms. Chiu Man. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are deemed to be interested in the 351,000,000 shares held by Top Wheel pursuant to Part XV of the SFO.

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 5,640,000 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are also deemed to be interested in the 5,640,000 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

2. Mr. Gou Xinfeng is deemed to be interested in these 110,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.
3. Ms. Chen Wei is deemed to be interested in these 82,000 awarded shares, which have been granted to her (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 30 June 2019.

** As the numbers are the results of rounding adjustments, there is a discrepancy after aggregating the numbers.

(B) Long positions in the shares of associated corporations of the Company

Name of Associated Corporation	Name of Director	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage* of Shareholding in the Associated Corporation
Golden Speed Enterprises Limited	Mr. Wu Tak Lam	Beneficial owner	1	100%
	Ms. Chiu Man	Interest of spouse	1	100%
Top Wheel Limited	Mr. Wu Tak Lam	Interest held by a controlled corporation	14,000	70%
		Interest of spouse	6,000	30%
	Ms. Chiu Man	Interest held by a controlled corporation	20,000	100%
		Interest of spouse	6,000	30%
			14,000	70%
			20,000	100%



CORPORATE GOVERNANCE AND OTHER INFORMATION

Note: Mr. Wu Tak Lam holds the entire issued share capital of Golden Speed which holds 70% of the issued share capital of Top Wheel. The remaining 30% of the issued share capital of Top Wheel is indirectly held by his wife, Ms. Chiu Man (an executive Director of the Company), through her wholly-owned investment company, Win Force. As Top Wheel holds more than 50% of the issued share capital of the Company and Golden Speed holds more than 50% of the issued share capital of Top Wheel, Top Wheel and Golden Speed are the associated corporations of the Company within the meaning of Part XV of the SFO.

* The percentage represents the number of ordinary shares interested divided by the number of issued shares of the associated corporation as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions in ordinary shares of the Company

Name of Shareholder	Capacity/ Nature of Interest	Notes	Number of Shares	Approximate Percentage* of Shareholding in the Company
Top Wheel Limited	Beneficial owner	1	351,000,000	58.50%
	Founder of a discretionary trust	1	5,640,000	0.94%
			<hr/>	
			356,640,000	59.44%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	356,640,000	59.44%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	356,640,000	59.44%





CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

(1) The above interests of Top Wheel, Win Force and Golden Speed were also disclosed as the interests of each of Mr. Wu Tak Lam and Ms. Chiu Man in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

On 18 January 2014, the Company's adoption of a share option scheme was approved by the then shareholders (the "**Share Option Scheme**") for the purposes of recognizing and acknowledging the contributions of the qualified participants, attracting skilled and experienced personnel in order to incentivize them to remain with the Company and motivate them to strive for the future development and expansion of the Group.

Up to the date of this report, no share options were granted by the Company under the Share Option Scheme.

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As of 30 June 2019, the Company has granted an aggregate of 6,048,000 shares to grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme were disclosed in the Company's Prospectus and Note 16 to the interim condensed consolidated financial statements.

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the Period.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

The Board believes effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Board is of the view that, during the Period, the Company has complied with the code provisions set out in the CG Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL LITIGATION AND ARBITRATION

During the six months ended 30 June 2019, 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.

EVENTS AFTER THE PERIOD

There was no significant subsequent event undertaken by the Group after 30 June 2019 that need to be disclosed.





CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company 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 2019 interim report, announcement of interim results and unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules, as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, all of them confirmed that they had complied with the Model Code throughout the six months ended 30 June 2019.

COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has established written guidelines for the relevant employees of the Company (the "**Relevant Employees**") in respect of their dealings in the securities of the Company (the "**Written Guidelines**") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employees" include any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company for the six months ended 30 June 2019.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Revenue	4(a)	4,529,272	3,948,366
Cost of sales and services	5(b)	(4,203,454)	(3,578,640)
Gross profit		325,818	369,726
Other income and gains, net	4(b)	91,736	108,857
Selling and distribution expenses		(174,610)	(177,321)
Administrative expenses		(99,347)	(106,654)
Profit from operations		143,597	194,608
Finance costs	6	(53,574)	(47,026)
Profit before tax	5	90,023	147,582
Income tax expense	7	(15,203)	(45,579)
Profit for the period		74,820	102,003
Attributable to:			
Owners of the parent		74,820	101,676
Non-controlling interests		-	327
		74,820	102,003
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic and diluted (RMB)		0.12	0.17





INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
PROFIT FOR THE PERIOD	74,820	102,003
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	35	1,182
Total comprehensive income for the period, net of tax	74,855	103,185
Attributable to:		
Owners of the parent	74,855	102,858
Non-controlling interests	-	327
	74,855	103,185



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,160,265	1,121,870
Land use rights		643,814	599,340
Intangible assets		11,517	12,005
Prepayments		31,893	73,447
Goodwill		10,284	10,284
Right-of-use assets		41,364	–
Deferred tax assets		29,678	12,317
Total non-current assets		1,928,815	1,829,263
CURRENT ASSETS			
Inventories	10	983,470	945,585
Trade receivables	11	38,964	35,229
Prepayments, deposits and other receivables	12	667,678	652,395
Amounts due from a related party	20(b)	13,870	12,300
Pledged bank deposits		277,838	277,073
Cash in transit		41,288	20,797
Short-term deposits		97,886	96,234
Cash and cash in banks		836,858	794,390
Total current assets		2,957,852	2,834,003
CURRENT LIABILITIES			
Bank loans and other borrowings	13	1,834,537	1,729,884
Trade and bills payables	14	485,427	423,587
Other payables and accruals		299,248	323,303
Income tax payable		19,077	12,146
Total current liabilities		2,638,289	2,488,920
NET CURRENT ASSETS		319,563	345,083
TOTAL ASSETS LESS CURRENT LIABILITIES		2,248,378	2,174,346





INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	13	210,388	213,616
Deferred tax liabilities		5,923	7,627
Lease liabilities		40,371	–
Total non-current liabilities		256,682	221,243
NET ASSETS		1,991,696	1,953,103
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	377	377
Reserves	17	1,991,319	1,952,726
Total equity		1,991,696	1,953,103

Director
Wu Tak Lam

Director
Chiu Man



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the parent								Total equity RMB'000
	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	
At 1 January 2019	377	287,922	118,045	90,671	157,947	9,929	35,596	1,252,616	1,953,103
Profit for the period	-	-	-	-	-	-	-	74,820	74,820
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	35	-	35
Total comprehensive income for the period	-	-	-	-	-	-	35	74,820	74,855
Final 2019 dividend declared	-	(36,960)	-	-	-	-	-	-	(36,960)
Equity-settled share award expense (note 16)	-	-	-	-	-	698	-	-	698
At 30 June 2019 (Unaudited)	377	250,962	118,045	90,671	157,947	10,627	35,631	1,327,436	1,991,696

	Attributable to owners of the parent									Non-controlling interests RMB'000	Total equity RMB'000
	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 RMB'000		
At 1 January 2018	377	335,442	124,227	77,826	157,947	8,240	37,515	1,052,299	1,793,873	3,148	1,797,021
Profit for the period	-	-	-	-	-	-	-	101,676	101,676	327	102,003
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,182	-	1,182	-	1,182
Total comprehensive income for the period	-	-	-	-	-	-	1,182	101,676	102,858	327	103,185
Final 2018 dividend declared	-	(47,520)	-	-	-	-	-	-	(47,520)	-	(47,520)
Equity-settled share award expense (note 16)	-	-	-	-	-	1,011	-	-	1,011	-	1,011
At 30 June 2018 (Unaudited)	377	287,922	124,227	77,826	157,947	9,251	38,697	1,153,975	1,850,222	3,475	1,853,697



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Operating activities			
Profit before tax		90,023	147,582
Adjustments for:			
Depreciation and impairment of property, plant and equipment	5(c)	62,402	65,392
Depreciation of right-of-use assets	5(c)	5,526	–
Amortisation of land use rights	5(c)	2,592	4,896
Amortisation of intangible assets	5(c)	482	529
Interest income	4(b)	(4,962)	(3,259)
Net gain on disposal of items of property, plant and equipment	4(b)	(1,487)	(2,654)
Equity-settled share award expense	5(a)	698	1,011
Reversal of the impairment provision of inventories		(10,087)	–
Finance costs	6	53,574	47,026
		198,761	260,523
(Increase)/Decrease in pledged bank deposits		(765)	60,090
Increase in cash in transit		(20,491)	(17,491)
(Increase)/Decrease in trade receivables		(3,735)	13,495
(Increase)/Decrease in prepayments, deposits and other receivables		(16,481)	183,775
Increase in inventories		(27,798)	(12,404)
Increase/(Decrease) in trade and bills payables		61,840	(80,392)
Decrease in other payables and accruals		(17,618)	(47,943)
Increase in amounts due from a related party		(1,570)	(41,980)
Cash generated from operations		172,143	317,673
Tax paid		(27,336)	(37,288)
Net cash generated from operating activities		144,807	280,385



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(139,339)	(159,637)
Proceeds from disposal of items of property, plant and equipment	40,684	35,990
Purchase of land use rights	(12,600)	(513,934)
Interest received	4,962	3,259
Increase of time deposits of maturity over three months	-	(47,657)
Net cash used in investing activities	(106,293)	(681,979)
Financing activities		
Proceeds from bank loans and other borrowings	3,578,638	3,261,357
Repayment of bank loans and other borrowings	(3,477,863)	(2,957,696)
Advances from a third party for disposal of a subsidiary	-	462,218
Principal portion of lease payments	(6,134)	-
Interest paid for bank loan and other borrowings	(52,761)	(47,026)
Dividends paid	(36,960)	(47,520)
Net cash generated from financing activities	4,920	671,333
Net increase in cash and cash equivalents	43,434	269,739
Cash and cash equivalents at the beginning of each period	890,624	615,571
Effect of foreign exchange rate changes, net	686	1,659
Cash and cash equivalents at the end of each period	934,744	886,969





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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”).

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year end 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). The interim condensed consolidated financial statements were presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The interim condensed consolidated financial statements have not been audited.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted the following new standards, interpretations and amendments for the first time for the financial year beginning on 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards has had no significant financial effect on these financial statements. The nature and impact of HKFRS 16 are described below:

- (a)** HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (*continued*)

(a) Adoption of HKFRS 16 (*continued*)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Adoption of HKFRS 16 *(continued)*

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease;





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (Continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	46,890
Decrease in prepaid land lease payments	(1,198)
Increase in total assets	(45,692)
Liabilities	
Increase in lease liabilities	45,692
Increase in total liabilities	45,692

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	51,950
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments at 1 January 2019	45,692
Lease liabilities as at 1 January 2019	45,692

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Adoption of HKFRS 16 *(continued)*

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of property and other equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period as follow:

	Right-of-use assets		Lease liabilities RMB'000
	Building and Land RMB'000	Land use rights RMB'000	
As at 1 January 2019	37,674	9,216	45,692
Depreciation charge	(4,095)	(1,431)	–
Interest expense	–	–	813
Payments	–	–	(6,134)
As at 30 June 2019	33,579	7,785	40,371

The Group recognised rental expenses from short-term leases of RMB1,296,000 for the period.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

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

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Revenue from contracts with customers Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	3,989,958	3,462,593
Others	539,314	485,773
Total revenue from contracts with customers	4,529,272	3,948,366
Timing of revenue recognition		
At a point in time	4,529,272	3,948,366

(b) Other income and gains, net:

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Commission income	66,632	81,516
Logistics and storage income	18,164	19,562
Interest income	4,962	3,259
Net gain on disposal of items of property, plant and equipment	1,487	2,654
Government grants	–	1,354
Others	491	512
	91,736	108,857



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	89,847	87,143
Equity-settled share award expense	698	1,011
Other welfare	19,845	17,845
	110,390	105,999
(b) Cost of sales and services:		
Cost of sales of motor vehicles	3,906,663	3,319,696
Others*	296,791	258,944
	4,203,454	3,578,640
(c) Other items		
Depreciation and impairment of property, plant and equipment	62,402	65,392
Depreciation of right-of-use assets	5,526	-
Amortisation of land use rights	2,592	4,896
Amortisation of intangible assets	482	529
Advertisement and business promotion expenses	29,179	30,994
Lease expenses	1,296	3,948
Bank charges	2,699	2,596
Office expenses	13,397	13,543
Logistics expenses	5,908	6,305
Net gain on disposal of items of property, plant and equipment	(1,487)	(2,654)

* There were employee benefit expenses of RMB25,022,000 (six months ended 30 June 2018: RMB25,113,000) included in the cost of sales and services.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

6. FINANCE COSTS

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Interest on bank borrowings and other borrowings	52,761	47,026
Interest expense on lease liabilities	813	–
	53,574	47,026

7. INCOME TAX

	For the six months ended 30 June 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Current Mainland China corporate income tax	34,268	43,738
Deferred tax	(19,065)	1,841
	15,203	45,579

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% 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 of the Mainland China subsidiaries is 25%.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

7. INCOME TAX (continued)

According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, Xi'an Sunfonda Jinghe Logistics Development Co., Ltd. and Shaanxi Sunfonda Jinda Industrial Development Co., Ltd. were entitled to a preferential income tax rate of 15%.

8. DIVIDENDS

The Board of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

The calculation of the basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to owners of parent, and the weighted average number of ordinary shares of 600,000,000 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 2019 Unaudited RMB'000	For the six months ended 30 June 2018 Unaudited RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	74,820	101,676
Shares		
Weighted average number of ordinary shares in issue during the period	600,000,000	600,000,000
Earnings per share		
Basic and diluted (RMB)	0.12	0.17





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

10. INVENTORIES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Motor vehicles (at cost or at net realizable value)	916,023	880,383
Spare parts (at cost)	67,447	65,202
	983,470	945,585

As at 30 June 2019, certain of the Group's inventories with an aggregate carrying amount of approximately RMB493,211,000 (31 December 2018: RMB543,236,000) were pledged as security for the Group's bank loans and other borrowings (note 13(a)).

As at 30 June 2019, certain of the Group's inventories with an aggregate carrying amount of approximately RMB165,411,000 (31 December 2018: RMB135,264,000) were pledged as security for the Group's bills payables (note 14).

11. TRADE RECEIVABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade receivables	38,964	35,229

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.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

11. TRADE RECEIVABLES (continued)

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

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 3 months	35,338	33,382
More than 3 months but less than 1 year	1,807	1,016
Over 1 year	1,819	831
Total	38,964	35,229

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Prepayments and deposits to suppliers	336,742	355,235
Vendor rebate receivables	186,115	183,957
VAT receivables (i)	57,803	34,889
Others	87,018	78,314
Total	667,678	652,395

Notes:

- (i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable VAT rate for domestic sales of the Group reduced from 16% to 13% from 1 April 2019 according to the latest requirement of the State Council.

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.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

13. BANK LOANS AND OTHER BORROWINGS

	30 June 2019 Unaudited RMB'000		31 December 2018 Audited RMB'000	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	3.2-7.0	1,620,208	3.3-7.0	1,483,380
Other borrowings	5.0-8.5	214,329	5.6-8.5	246,504
		1,834,537		1,729,884
NON-CURRENT:				
Bank loans (b)	3.3-5.5	210,388	3.3-5.5	213,616
		2,044,925		1,943,500
Bank loans and other borrowings represent:				
– secured loans (a)		1,667,013		1,697,500
– unsecured loans		377,912		246,000
		2,044,925		1,943,500

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Analysed into:		
Bank loans repayable		
Within one year	1,620,208	1,483,380
In the second year	28,423	27,923
In the third to fifth years, inclusive	63,491	67,991
Over fifth years	118,474	117,702
	1,830,596	1,696,996
Other borrowings repayable		
Within one year	214,329	246,504
Total	2,044,925	1,943,500



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

13. BANK LOANS AND OTHER BORROWINGS (continued)

- (a) As at 30 June 2019, certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB150,898,000 (31 December 2018: RMB161,487,000);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB380,010,000 (31 December 2018: RMB436,213,000);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB493,211,000 (31 December 2018: RMB543,236,000) (note 10);
 - (iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately HK\$17,353,000 (equivalent to RMB15,265,000) (31 December 2018: HK\$10,800,000 (equivalent to RMB9,441,000)) and US\$8,888,000 (equivalent to RMB61,100,000) (31 December 2018: US\$8,630,000 (equivalent to RMB56,393,000)).
- (b) As at 30 June 2019, the Company had a long-term bank loan of HK\$223,000,000 with an interest rate at 1.8% over 12 months HIBOR from Nanyang Commercial Bank with the final maturity date on 31 December 2026. The bank loan shall be repaid according to the instalment arrangement from 31 December 2020 to 31 December 2026. This long-term bank loan is secured by mortgages over the Group's bank deposit of US\$8,888,000 mentioned in (a)(iv) above.

As at 30 June 2019, the Company had a long-term bank loan of RMB22,224,000 with a fixed interest rate at 5.5% from Ningxia Bank with the final maturity date on 27 March 2022. The bank loan shall be repaid according to the instalment arrangement from 31 December 2017 to 27 March 2022. This long-term bank loan is secured by mortgages over the Group's building mentioned in (a)(ii) above.

- (c) Except for the secured bank loan amounting to HK\$334,000,000 (equivalent to RMB293,806,440) (31 December 2018: HK\$277,000,000 (equivalent to RMB242,707,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

14. TRADE AND BILLS PAYABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade payables	161,840	135,899
Bills payable	323,587	287,688
Trade and bills payables	485,427	423,587

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

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 3 months	467,673	406,633
3 to 6 months	11,518	14,366
6 to 12 months	3,921	1,403
Over 12 months	2,315	1,185
Total	485,427	423,587

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 2019, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB165,411,000 (31 December 2018: RMB135,264,000) (note 10).

As at 30 June 2019 the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB200,465,000 (31 December 2018: RMB205,529,000).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

15. SHARE CAPITAL

Issued and fully paid

	No. of shares at US\$0.0001 each	Equivalent to RMB'000
Ordinary shares	600,000,000	377

16. SHARE-BASED PAYMENTS

(a) Pre-IPO SHARE AWARD SCHEME

The Company's Pre-IPO Share Award Scheme was approved and adopted on 8 January 2014 for the purpose of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

For the implementation of the Pre-IPO Share Award Scheme, a Management Trust was established by Top Wheel Limited which was fully owned by Mr. Wu Tak Lam and Ms. Chiu Man on 8 January 2014 with Cantrust (Far East) Limited acting as the trustee. On the same date, Top Wheel Limited transferred, for nil consideration, 9,000,000 Shares in the Company to the Management Trust pursuant to the Pre-IPO Share Award Scheme. The vest in full of the share award would, under the present capital structure of the Company, have no impact on the additional ordinary shares of the Company.

The following awarded shares were outstanding under the Scheme during the period:

	2019 Number of awarded shares '000	2018 Number of awarded shares '000
At 1 January	3,574	3,596
Granted during the period	–	800
Vested during the period	(886)	(820)
At 30 June	2,688	3,576

Under the Pre-IPO Share Award Scheme, vesting period is five years during which the awarded shares granted to any particular selected employee will vest on each anniversary of the grant date of the relevant awards in equal portions.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

16. SHARE-BASED PAYMENTS (continued)

(a) Pre-IPO SHARE AWARD SCHEME (continued)

Particulars of awarded shares as at 30 June 2019 and 31 December 2018 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at	
			30 June 2019 '000	31 December 2018 '000
5 years	15 May 2014	3.76	–	288
5 years	2 Jul 2015	2.95	232	244
5 years	6 Feb 2016	2.54	218	330
5 years	23 Jan 2017	2.19	998	1,312
5 years	8 Feb 2018	1.23	640	800
5 years	28 Dec 2018	1.00	600	600
			2,688	3,574

The fair value of the share awards granted was RMB830,000 for the period ended 30 June 2018.

The fair value of share awards granted was estimated, by reference to the market value of the share awards as at the date of grant, taking into account the terms and conditions upon which the share awards were granted.

The Group recognised a share awards expense of RMB698,000 (six months ended 30 June 2018: RMB1,011,000) during the six months ended 30 June 2019.

At the end of the period, the Company had 2,688,000 awarded shares (31 December 2018: 3,574,000) outstanding under the Pre-IPO Share Award Scheme.

(b) Share Option Scheme

On 18 January 2014, a share option scheme was approved and adopted by the then shareholder (the "Share Option Scheme") for the purposes of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

No share options were granted under the Share Option Scheme during the period ended 30 June 2019 (30 June 2018: Nil).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

17. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders..

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China.

(iv) Capital reserve

The capital reserve of the Group represents the capital contributions from the equity holders of the Company and the excess of the carrying amount of the non-controlling interests acquired over the consideration.

18. CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities.





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

19. COMMITMENTS

Capital commitments of the Group in respect of land use rights and property and equipment outstanding at each reporting date not provided for these financial statements as follows:

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Contracted, but not provided for land use rights and buildings	62,187	44,316

20. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Wu Tak Lam and Ms. Chiu Man are collectively the Controlling Shareholders (the "Controlling Shareholders") of the Group. They are also the key management personnel and considered to be related parties of the Group.

Mr. Zhao Yijian is a close family member of the Controlling Shareholders and considered to be a related party of the Group.

The Group had the following transactions with related parties during the reporting period:

(a) Transactions with related parties

The following transactions were carried out with a related company during the period:

	30 June 2019 Unaudited RMB'000	30 June 2018 Unaudited RMB'000
(i) Sales of motor vehicles and spare parts Yangzhou Sunfonda Automobile Co., Ltd *	-	4
(ii) Purchase of motor vehicles and spare parts Yangzhou Sunfonda Automobile Co., Ltd.*	2,349	1,040

* Yangzhou Sunfonda Automobile Co., Ltd. is controlled by Mr. Zhao Yijian.

The related party transactions above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.



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FOR THE SIX MONTHS ENDED 30 JUNE 2019

20. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Balances with related parties

Due from a related party:

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	13,870	12,300

(c) Compensation of key management personnel of the Group:

	30 June 2019 Unaudited RMB'000	30 June 2018 Unaudited RMB'000
Short term employee benefits	2,684	1,901
Equity-settled share award expense	49	238
Post-employee benefits	100	94
Total compensation paid to key management personnel	2,833	2,233





NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at each reporting date were as follows:

Financial assets

	Financial assets at amortised cost	
	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade receivables	38,964	35,229
Financial assets included in prepayments, deposits and other receivables	263,647	309,485
Amounts due from a related party	13,870	12,300
Pledged bank deposits	277,838	277,073
Cash in transit	41,288	20,797
Cash and cash in banks	934,744	890,624
	1,570,351	1,545,508

Financial liabilities

	Financial liabilities at amortised cost	
	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade and bills payables	485,427	423,587
Financial liabilities included in other payables and accruals	106,727	93,776
Bank loans and other borrowings	2,044,925	1,943,500
	2,637,079	2,460,863



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22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash in banks, short-term deposits, cash in transit, amounts due from related parties, pledged bank deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which are also approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 30 June 2019 was assessed to be insignificant.

23. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2019.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 August 2019.

