



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

2020 INTERIM REPORT





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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

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

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Xi'an City, Shaanxi Province

PRC

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As To Hong Kong Law

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AUDITORS

Ernst & Young
Certified Public Accountants
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Central, Hong Kong

PRINCIPAL BANKERS

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No. 1, Zhuque Avenue
Xi'an City, Shaanxi Province
PRC

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Xi'an City, Shaanxi Province
PRC

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Central, Hong Kong

STOCK CODE

01771

WEBSITE

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FINANCIAL HIGHLIGHTS



During the period from 1 January to 30 June 2020 (the “**Period**”), the Group has recorded:

- Revenue of RMB4,440.9 million, which was down by 2.0% from the same period in 2019, including:
 - Sales volume of new vehicles down by 7.5% to 13,296 units, and sales revenue of new vehicles down by 1.0% to RMB3,950.2 million; and
 - Revenue from after-sales services, which was down by 9.0% to RMB490.7 million.
- Gross profit of RMB314.3 million, which was down by 3.5% from the same period in 2019.
- Gross profit margin was down by 0.1 percentage point to 7.1% (same period in 2019: 7.2%).
- Profit attributable to owners of the parent for the Period was down by 37.8% to RMB46.5 million (same period in 2019: RMB74.8 million).
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent decreased to RMB0.08 for the Period as compared to RMB0.12 for the same period in 2019.

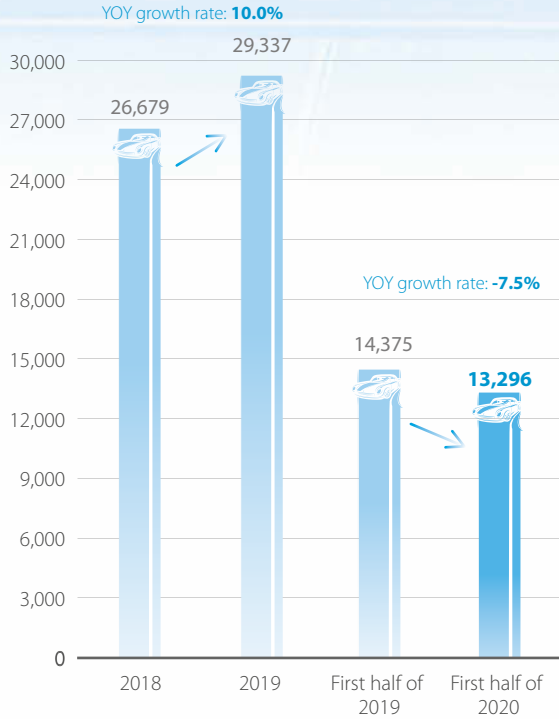


FINANCIAL HIGHLIGHTS



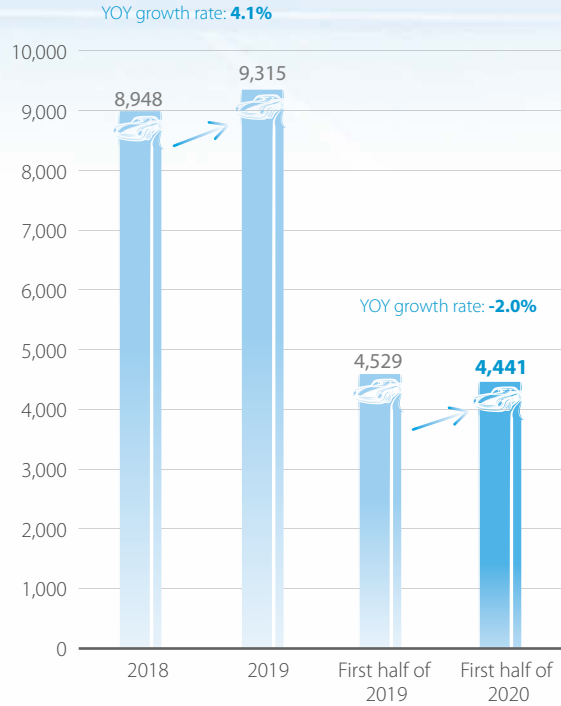
Sales volume of new vehicles

Unit



Revenue

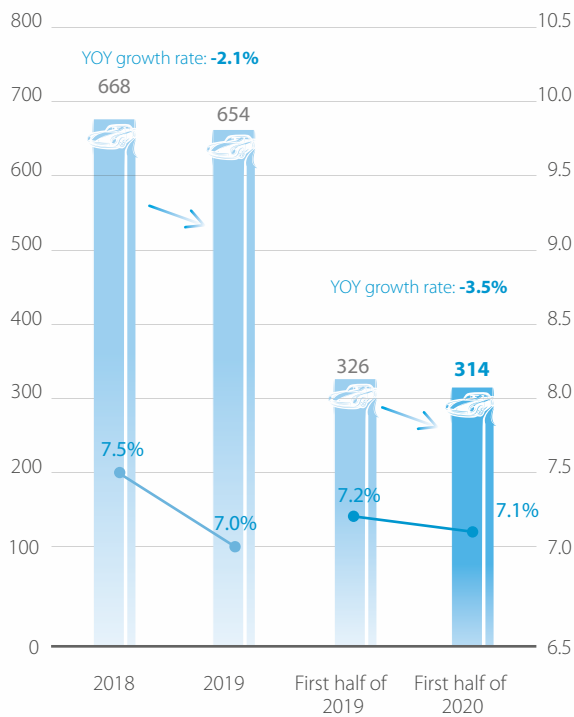
RMB in million



Gross profit and gross profit margin

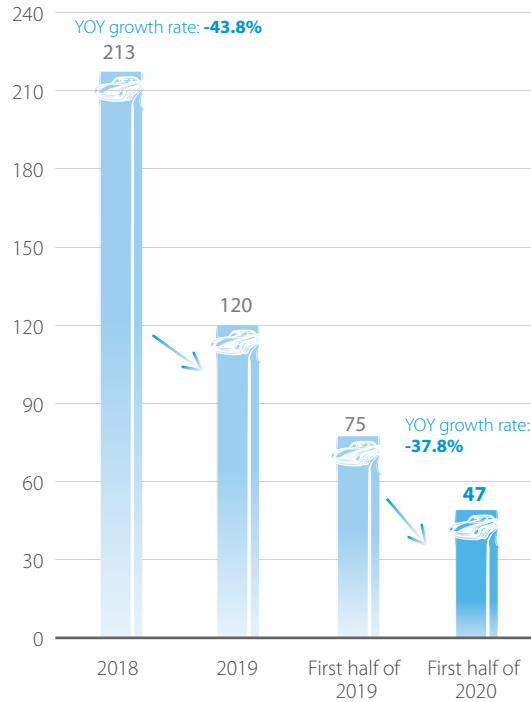
RMB in million

Percentage



Profit for the year attributable to owners of the Group

RMB in million



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 2020.

In the first half of 2020, the worldwide outbreak of the novel coronavirus pneumonia (the “**COVID-19**”) pandemic had an unprecedented impact on the global economy. Currently, the overseas pandemic status and the global economic situation are still relatively complicated. Fortunately, the outbreak has gradually been brought under control and the overall situation has improved in Mainland China. The Chinese government has also successively introduced various measures to promote economic recovery, and the Chinese economy has gradually overcome the adverse impact of the pandemic to enter a phase of gradual recovery. Various economic indicators are improving, China’s basic livelihood is under strong protection, and the long-term positive trend of the economy is relatively clear. In order to cope with the impact of the COVID-19 pandemic and promote the stable operation of the automobile economy, the state and local governments have successively introduced various stimulus policies since February 2020, including provision of financial subsidies, relaxation of purchase restrictions, introduction of “rural subsidy program for vehicles” and promotion of the development of used car market. On the whole, the comprehensive policy guidance for the resumption of work and production and the introduction of a series of policies on automobile consumption have promoted the obvious recovery of the domestic automobile market. According to the information published by the China Association of Automobile Manufacturers, despite a year-on-year decrease for the first half of the year due to the impact of the COVID-19 pandemic, the production and sales volume of passenger vehicles of China has grown for four consecutive months since February 2020, showing an obvious V-shaped recovery in the market, especially the luxury automobile market has continued strong growth, with its market share continuing to increase and reaching new high.

During the first half of 2020, in the circumstance of a decrease of business days due to the impact of the COVID-19 pandemic, the performance of the Group’s brand stores was better than expected. The Group sold 13,296 new automobiles. The revenue from sales of new vehicles amounted to RMB3,950.2 million, representing a slight decrease of 1.0% as compared with the same period in 2019; revenue from after-sales service reached RMB490.7 million, representing a slight decrease of 9.0% as compared with RMB539.3 million for the same period in 2019; and gross profit was approximately RMB314.3 million, representing a decrease of 3.5% as compared with RMB325.8 million for the same period in 2019.

The pandemic has also changed consumers’ travel habits and car purchase plans, and the demand of travelling by private cars has become stronger. In order to cope with the impact of the pandemic, the Group actively adjusted



CHAIRMAN'S STATEMENT



our operation strategies, and continued to promote innovative development while consolidating our existing core businesses, for which the specific measures it took included but not limited to the introduction and expansion of emerging sales models such as vertical network platforms and we-media, optimisation and adjustment of service processes and organizational structures to enhance customer service experience, etc. Particularly, since April 2020, the Group has launched a customer interview column, which was well received. Subsequently, the Group successfully organised test ride and test drive activities for the media, which were also widely recognised, and expanded brand awareness and comprehensive influence as well. Through unremitting efforts, the overall business of the Group has still maintained a good momentum of development in the spread of the pandemic. At the same time, the Group will always maintain a sense of crisis and fighting spirit to ensure that we can continuously exploit our pioneering advantages in a complex market environment.

Due to the impact of the pandemic, the global economy has been greatly impacted, and China's economy is also facing great challenges and pressures, consumers' purchasing power may decline under such circumstances. We expect that the domestic and even the global automobile markets will still face great challenges in the second half of 2020. In such a complex automobile market environment, on the one hand, the Group will stay alert to the macroeconomy, and timely adjust the brand structure according to the changes in market conditions and the market demand to enhance market competitiveness. On the other hand, the Group will focus on customer needs to develop new online sales models, improve efficiency through service process optimisation and digital services, and attract more customers by improving customer experience, in an effort to create more returns for shareholders.

On behalf of the Board, I would like to express our sincere gratitude to all shareholders and business partners for their continued trust and support to the Group, and our sincere gratitude to all employees for their unremitting efforts. In a complex economic environment, all staff across the Group are urged to make concerted efforts to work hard, steadily and innovatively move forward, and strive to promote overall business growth.

Chairman of the Board

Wu Tak Lam

28 August 2020



MARKET REVIEW

China's Economy Gradually Recovered in the First Half of 2020

In the first half of 2020, the sudden outbreak of the COVID-19 pandemic resulted in an unprecedented impact, and the world economy fell into the worst recession since World War II. Faced with severe risks and challenges, the Chinese economy has gradually overcome the adverse impact of the pandemic and achieved a gradual recovery, and various economic indicators for the second quarter improved significantly as compared with those for the first quarter. According to the data published by the National Bureau of Statistics of China, China's GDP in the first half of the year amounted to RMB45.6614 trillion, representing a decrease of 1.6% year-on-year calculated at comparable prices. China's GDP in the first quarter decreased by 6.8% year-on-year, and increased by 3.2% year-on-year in the second quarter; and on a month-on-month basis, the GDP in the second quarter increased by 11.5%. The value added of the industrial enterprises above designated size recorded an increase of 4.4% in the second quarter as compared with a decrease of 8.4% in the first quarter; the value added of the service industry recorded an increase of 1.9% in the second quarter as compared with a decrease of 5.2% in the first quarter; the decline in the total retail sales of consumer goods in the second quarter narrowed by 15.1 percentage points from the first quarter; the national per capita disposable income was RMB15,666 in the first half, representing a nominal growth rate of 2.4% over the same period in 2019, 1.6 percentage points higher than the first quarter, and after excluding inflation, the actual decline was 1.3%, 2.6 percentage points lower than the first quarter. Consumer prices increased by 3.8% year-on-year, 1.1 percentage points lower than the first quarter.

In order to cope with the impact of the pandemic and promote the stable operation of the automobile economy, the state and local governments have successively introduced various stimulus policies since February 2020. Up to now, more than 27 provinces and cities have issued policies on promoting automobile consumption, including financial subsidies, relaxation of purchase restrictions and promotion of "rural subsidy program for vehicles". The subsidies are provided to consumers, distributors and manufacturers, for which many cities under purchase restrictions have eased restrictions and increased the issuance of licenses.

The implementation of favourable policies has played a great role in heating up the automobile market and stimulating consumer demand. Local policies were intensively introduced in the second quarter, some of which adopted a joint mechanism between governments and enterprises, providing good support to the market. With the gradual improvement in the sales of non-necessities such as automobiles, tobacco and liquor, and cosmetics, the previously suppressed demand for car purchase has been released and the automobile market has been stabilised. On the whole, the comprehensive policy guidance for the resumption of work and production and the introduction of a series of policies on automobile consumption have promoted the obvious recovery of the domestic automobile market.

Performance of Passenger Vehicle Market in the First Half of 2020

According to the data on narrowly defined passenger vehicles published by the China Passenger Car Association (CPCA), in the first half of the year, wholesale of passenger vehicles was 7.667 million units, representing a decrease of 22.9% year-on-year; and retail sales were 7.709 million units, representing a decrease of 22.5% year-on-year. The growth rate of retail market in the first quarter and second quarter of the year was -41% and -3%, respectively. The year-on-year growth rate of the automobile market stabilized in the second quarter, and showed a V-shaped recovery from the first quarter.

According to the statistics of the Ministry of Public Security of China, China's motor vehicle ownership volume reached 360 million units as of June 2020, of which the car ownership volume was 270 million units, accounting for 75% of the total number of motor vehicles; the motorcycle ownership volume was 68.896 million units, accounting for 19.14%; and the new energy vehicle ownership volume was 4.17 million units, representing an increase of 0.36 million units or 9.45% as compared with the end of last year. There are 69 cities with car ownership volume of more than 1 million units in China, an increase of 3 cities as compared with the same period last year. In particular, there are a total of 31 cities with car ownership volume of more than 2 million units and 12 cities with more than 3 million units, i.e. Beijing, Chengdu, Chongqing, Suzhou, Shanghai, Zhengzhou, Xi'an, Wuhan, Shenzhen, Dongguan, Tianjin and Qingdao.

With the continuous recovery of China's automobile market, the luxury automobile market continued to show strong growth, playing a "pioneering" role. According to the data provided by the CPCA, luxury cars segment continued to grow at a high rate. In the first half of the year, the share of luxury cars was 13.7%, representing an increase of 3.1 percentage points from the same period last year, of which the share of luxury cars reached a record high of 14.8% in June 2020. The increase in share of luxury cars was mainly benefited from consumption upgrading, decreased prices, and that the customer group (such as the financial industry) of luxury cars was less affected by the pandemic.

According to the official information from Porsche, in the first half of 2020, the volume of new Porsche automobiles delivered around the globe reached 116,964 units, drop by 12% from the same period last year. China is still the largest single market for Porsche in the world, with the volume of new automobiles delivered amounting to 39,603 units, accounting for 34% of the volume of new automobiles delivered around the globe, drop by 7% from the same period in 2019 as a result of the impact of the pandemic, but the volume of new automobiles delivered in China from March to May 2020 maintained positive growth, and the order volume in June hit a record high.

MANAGEMENT DISCUSSION AND ANALYSIS



According to the sales data officially released by Mercedes-Benz, in the first half of 2020, Mercedes-Benz brand sold 935,089 new automobiles globally, representing a decrease of 17.6% as compared with the same period in 2019; the global delivery of Smart brand was 10,101 units, representing a decrease of 83.3% as compared with the same period in 2019; overall, Mercedes-Benz and Smart sold a total of 945,190 new automobiles globally, representing a decrease of 20.9% as compared with the same period in 2019. In the first half of 2020, Mercedes-Benz delivered a total of 346,067 automobiles in China, representing a slight increase of 0.4% over the same period in 2019.

According to the official information from BMW, in the first half of 2020, BMW sold 0.9626 million new automobiles (including BMW, MINI and Rolls-Royce brands) globally, down by 23% from the same period in 2019. BMW delivered a total of 329,069 new automobiles in China, of which sales in the second quarter increased by 17.1% year-on-year, maintaining the positive growth momentum of the market recovery since March this year.

According to the official data from Audi China, global sales volume under Audi brand reached 707,225 units in the first half of 2020, down by 22% year-on-year. Audi totally delivered 301,817 new automobiles in China, a decrease of 3.2% year-on-year, of which a total of 76,427 units of Audi A6L models were sold in the first half of the year, ranking first in terms of sales of luxury cars in the first half of 2020.

According to the official data from Lexus, the cumulative sales volume under Lexus brand in China for the first half of 2020 was 95,326 units, representing an increase of 1.6% year-on-year; of which the total sales volume of electrically engorged models was 35,267 units, representing an increase of 10.9% year-on-year. In June, the sales volume under Lexus brand in China was 22,014 units, representing an increase of 21.1% year-on-year.

According to the official data from Cadillac, the cumulative sales volume under Cadillac brand in China for the first half of 2020 was 84,357 units, having achieved a month-on-month growth for four consecutive months since February. The sales volume in June was 23,000 units, a year-on-year increase of 8.4%.

For the domestic and global automobile markets, the biggest challenge this year is undoubtedly the economic contraction and the decline in consumer purchasing power caused by the outbreak of the pandemic. Despite the phased achievements of the current pandemic prevention in China, the global pandemic status is still not optimistic, the automotive industry chain continues to be impacted, and there are various uncertainties in China's automotive industry. Although sales data indicates obvious signs of recovery in China's automobile market in the first half of the year, the customer's income or income expectations affected by the pandemic are difficult to quickly return to pre-pandemic levels. Meanwhile, the effect of favorable policies of local governments has weakened, and sales volume of passenger vehicles in the second half of the year is expected to turn positive year-on-year, but will face big pressure.

Key Areas Covered by the Network of Sunfonda Group Were Developing Steadily in the First Half of 2020

According to the data as set forth in the “Xi’an Economic Operations in the First Half of 2020” released by the Xi’an Bureau of Statistics, the GDP of Xi’an, which is covered by the Group’s major operating network, was RMB457.509 billion in the first half of 2020, a year-on-year increase of 2.8%. Production has resumed in an orderly manner, demand has gradually heated up, people’s livelihood has been protected, major indicators have turned from negative to positive, and economic operations have steadily recovered. Along with the official release of the Implementation Opinions on Accelerating the Construction of a Strong City of Advanced Manufacturing Industry in Xi’an, Xi’an is speeding up its transformation from a traditional equipment industrial base to a strong city of advanced manufacturing industry with industrial agglomeration characteristics, and striving to move towards the middle and high end of the industrial chain. The high-quality economic development is accelerating, the real economy is being strengthened and optimised, the pillar industry clusters are gradually expanding, and the transformation and upgrading of manufacturing industry is accelerating; the construction of the silk road science and technology innovation center and the international consumption center city has become the new direction of urban development; e-commerce economy, online consumption and other new business models are driving the city’s economy to rebound and continuously promoting consumption upgrading; high-tech industries are being developed vigorously; the business environment is being effectively improved, enabling enterprises and the common people to handle affairs more conveniently; the city’s comprehensive economic strength has jumped to a new high, and the construction of national center city is in a critical period of tackling challenges; and the construction of the comprehensive transportation hub and the promotion of the preparation work for the “Fourteenth National Games” have improved the urban infrastructure and enhanced the competitiveness of the city. The high-quality economic development of Xi’an is accelerating, and the city has great potential vitality.

According to the data on Jiangsu Province’s economic operations in the first half of 2020 jointly released by the Jiangsu Provincial Bureau of Statistics and the Jiangsu Survey Team of the National Bureau of Statistics, the provincial GDP was RMB4,672.292 billion, representing a year-on-year increase of 0.9% calculated at comparable prices. The economic and social development of Jiangsu, another important area where Sunfonda Group operates, has continuously improved, major economic indicators have continuously rose, economic development resilience has continuously increased, investment in key investment areas has been speeded up, the recovery of consumer goods market has accelerated, enterprise tax burden has been significantly reduced, employment has stabilised, and resident income has grew steadily.

Besides, the economy of other areas covered by the operating network of Sunfonda Group is gradually recovering, various economic performance indicators have shown a good development momentum, and the overall economic and social development is stable.



BUSINESS AND OPERATIONAL REVIEW

According to the consolidated sales data from CPCA, China's domestic automobile retail market continued to shrink due to the impact of the pandemic and other factors in the first half of 2020. Despite the overall decline in China's automobile market, luxury automobile brands still achieved growth against the trend as evidenced by the market share of luxury automobiles reaching a record high in June 2020. The prices of both luxury and joint venture vehicles are showing a downward trend, further intensifying the competition in passenger vehicle market.

Under the impact of the COVID-19 pandemic, the Group actively adjusted its operation strategies, grasped business opportunities, and continued to promote innovative development while consolidating its existing core businesses. On the one hand, the Group actively carried out marketing innovation management by proactively conducting the construction of new channels such as vertical network platforms and we-media, so as to expand brand influence and popularity while bringing consumers new vehicle buying experience; and on the other hand, the Group actively promoted life-cycle customer management, adopted new customer management models and utilised digital service facilities to improve the efficiency of after-sales service, so as to expand customer base, attract customers to visit again, enhance customer stickiness, and promote renewal of insurance, replacement, repurchase and remarketing to retained customers. In addition, according to the differences among various brands, the Group focused on establishing a KPI benchmarking management system with the characteristics of each brand, and continued to carry out profit improvement and follow-up guidance to maximise the profit of each dealership store.

Thanks to the concerted efforts of all staff of the Group, the performance of the brand stores of the Group was better than expected. During the Period, in the circumstance of a decrease of business days due to the impact of the pandemic, in the first half of 2020, the Group sold 13,296 new automobiles, representing a slight decrease of 7.5% as compared with 14,375 units in the same period of 2019; realised revenue from sales of new vehicles of RMB3,950.2 million, representing a slight decrease of 1.0% as compared with the same period in 2019; revenue from after-sales service reached RMB490.7 million, representing a slight decrease of 9.0% as compared with RMB539.3 million in the same period of 2019; and gross profit still amounted to RMB314.3 million in an overall complicated market environment, representing a decrease of 3.5% as compared with RMB325.8 million in the same period of 2019.

FINANCIAL REVIEW

Revenue

Revenue for the Period was RMB4,440.9 million, representing a decrease of RMB88.4 million or 2.0% as compared to that for the corresponding period in 2019, of which, revenue obtained from the sales of new automobiles was RMB3,950.2 million, representing a decrease of RMB39.8 million or 1.0% as compared to that for the corresponding period in 2019. The decrease in revenue from the sales of new automobiles was mainly attributable to the decrease in sales volume of new vehicles during the Period as compared to the same period in 2019. In addition, revenue from after-sales services was RMB490.7 million, representing a decrease of RMB48.6 million or 9.0% as compared to that for the corresponding period in 2019. The decrease in revenue from after-sales services was attributable to the decrease in business volume as a result of the impact of the COVID-19 pandemic. A substantial portion of the revenue of the Group was generated from sales of new automobiles, accounting for 89.0% of our revenue for the Period (same period in 2019: 88.1%). During the Period, the remaining part of revenue of the Group was generated from after-sales services business, accounting for 11.0% of our revenue for the Period (same period in 2019: 11.9%). Revenue of the Group was mainly derived from our operations in the PRC.

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

	For the six months ended 30 June/unaudited					
	Amount (RMB'000)	2020		Amount (RMB'000)	2019	
Sales volume (Unit)		Average selling price (RMB'000)	Sales volume (Unit)		Average selling price (RMB'000)	
Sales of passenger vehicles						
Luxury and ultra-luxury brands	3,418,630	9,616	356	3,448,789	10,262	336
Mid-end market brands	531,611	3,680	144	541,169	4,113	132
Sub-total (Average)	3,950,241	13,296	297	3,989,958	14,375	278
After-sales services	490,692			539,314		
Total	4,440,933			4,529,272		



Cost of Sales and Services

Cost of sales and services for the Period was RMB4,126.7 million, representing a decrease of RMB76.8 million or 1.8% as compared to that for the corresponding period in 2019. Cost of sales of new automobiles for the Period was RMB3,852.8 million, representing a decrease of RMB53.9 million or 1.4% as compared to that for the corresponding period in 2019. The decrease in cost of sales of new automobiles was attributable to the decrease in sales volume of new automobiles. Cost of after-sales services for the Period was RMB273.9 million, representing a decrease of RMB22.9 million or 7.7% as compared to that for the corresponding period in 2019. The decrease in cost of after-sales services was attributable to the decrease in business volume of after-sales services.

Gross Profit

Gross profit for the Period was RMB314.3 million, representing a decrease of RMB11.5 million or 3.5% as compared to that for the corresponding period in 2019, of which, gross profit of sales of new automobiles was RMB97.5 million, representing an increase of RMB14.2 million or 17.0% as compared to that for the corresponding period in 2019; gross profit of after-sales services business was RMB216.8 million, representing a decrease of RMB25.7 million or 10.6% as compared to that for the corresponding period in 2019. Gross profit of after-sales services for the Period accounted for 69.0% of our total gross profit (corresponding period in 2019: 74.4%). Gross profit margin for the Period was 7.1% (corresponding period in 2019: 7.2%), of which, gross profit margin for sales of new automobiles was 2.5% (corresponding period in 2019: 2.1%) and gross profit margin for after-sales services was 44.2% (corresponding period in 2019: 45.0%).

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 RMB80.0 million, representing a decrease of RMB11.7 million as compared with RMB91.7 million for the corresponding period in 2019. The decrease was mainly due to: 1) the decrease in commission income from automobile financing agency businesses as compared with the same period in 2019; and 2) the decrease in logistics and storage income.

Selling and Distribution Expenses

Selling and distribution expenses for the Period amounted to RMB170.6 million, representing a decrease of 2.3% as compared with RMB174.6 million for the corresponding period in 2019, mainly due to the decrease in performance-based bonus and the decrease in advertising and promotion expenses. As a percentage of revenue, the selling and distribution expenses decreased slightly as compared with the corresponding period in 2019, decreased from 3.9% for the same period in 2019 to 3.8% for the Period, down by 0.1 percentage point.

Administrative Expenses

Administrative expenses for the Period amounted to RMB101.7million, representing an increase of 2.4% as compared with RMB99.3 million for the corresponding period in 2019, mainly due to the increase in administrative expenses for the Period as compared with the same period in 2019 arising from the newly opened stores in the second half of 2019. As a percentage of revenue, the administrative expenses increased slightly as compared with the corresponding period in 2019, increased from 2.2% for the corresponding period in 2019 to 2.3% for the Period, representing an increase of 0.1 percentage point.

Finance Costs

Finance costs for the Period amounted to RMB51.4 million, representing a decrease of 4.1% as compared with RMB53.6 million for the same period in 2019. The decrease was mainly due to the decrease in the scale of current borrowings used for inventory procurement as compared to the corresponding period in 2019.

Profit before Tax

As a result of the foregoing, profit before tax for the Period amounted to RMB70.6 million, representing a decrease of 21.6% as compared with RMB90.0 million for the corresponding period in 2019.

Income Tax Expense

Income tax expense for the Period amounted to RMB24.1 million, representing an increase of 58.6% as compared with RMB15.2 million for the same period in 2019. The effective income tax rate of the Group for the Period was approximately 34.2% (corresponding period in 2019: 16.9%).

Profit for the Period

As a result of the foregoing, profit for the Period was RMB46.5 million, representing a decrease of 37.8% as compared with RMB74.8 million for the same period in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS



Profit for the Period Attributable to Owners of the Parent

For the Period, profit for the period attributable to owners of the parent was RMB46.5 million, representing a decrease of 37.8% as compared with RMB74.8 million for the same period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the Period, the Group's net cash inflow generated from operating activities was RMB178.8 million, as compared with its net cash inflow generated from operating activities of RMB144.8 million for the six months ended 30 June 2019. The increase in net cash inflow from operating activities was mainly attributable to the decrease in the working capital and the taxes paid for the Period.

For the Period, the Group's net cash outflow for investing activities was RMB60.4 million, as compared with its net cash outflow for investing activities of RMB106.3 million for the six months ended 30 June 2019. The decrease in net cash outflow for investing activities was mainly attributable to the decrease in investment in property, plant and equipment and intangible assets for the Period.

For the Period, the Group's net cash outflow for financing activities was RMB156.7 million, as compared with its net cash inflow for financing activities of RMB4.9 million for the six months ended 30 June 2019. The increase in the net cash outflow for financing activities was mainly attributable to the increase in net outflows of proceeds from bank loans and other borrowings for the Period.

Net Current Assets

As at 30 June 2020, the Group's net current assets amounted to RMB360.1 million, as compared to its net current assets of RMB263.4 million as at 31 December 2019.

Inventories

The Group's inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 30 June 2020, the Group's inventories amounted to RMB1,176.7 million, representing an increase of 0.6% as compared with RMB1,169.3 million as at 31 December 2019, which was mainly attributable to the inventories for the increased sales scale of stores newly opened in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS



In the first half of 2020, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that period and multiplied by 180 days) were 51.9 days, which were longer than the 44.8 days in 2019, mainly attributable to the decrease in sales of new vehicles, resulting in a decrease in cost of sales for the Period.

Bank Loans and Other Borrowings

As at 30 June 2020, the Group's bank loans and other borrowings were RMB2,133.9 million, representing a decrease of 3.4% as compared with RMB2,208.4 million as at 31 December 2019.

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

	30 June 2020 Unaudited		31 December 2019 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	3.6-6.0	1,439,956	3.3-6.7	1,691,680
Other borrowings	3.0-8.6	372,244	3.9-8.5	327,216
Current portion of long term bank loans	3.5-6.7	44,689		–
Current portion of long term other borrowings	4.5	21,500		–
		1,878,389		2,018,896
NON-CURRENT:				
Bank loans	3.5-6.7	244,731	3.3-6.7	189,507
Other borrowings	4.5	10,750		–
		255,481		189,507
		2,133,870		2,208,403
Bank loans and other borrowings represent:				
– secured loans		1,751,428		1,866,543
– unsecured loans		382,442		341,860
		2,133,870		2,208,403

As at 30 June 2020, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 47.7% (2019: 48.7%). Net debt includes bank loans and other borrowings, trade and bills payables and other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits.



Pledge of Assets

As at 30 June 2020, certain of the Group's bank loans were secured by charges or pledges over our assets. The Group's assets subject to these charges or pledges as at 30 June 2020 consisted of: (i) inventories amounting to RMB569.3 million; (ii) property, plant and equipment amounting to RMB428.1 million; (iii) land use rights amounting to RMB231.8 million; and (iv) pledged bank deposits amounting to HK\$4.8 million (equivalent to RMB4.4 million), US\$8.6 million (equivalent to RMB61.1 million) and RMB2.3 million.

As at 30 June 2020, certain of the Group's inventories amounting to RMB326.8 million and pledged bank deposits amounting to RMB425.0 million were pledged as securities for bills payable.

Capital Expenditures and Investment

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the six months ended 30 June 2020, the Group's total capital expenditures were RMB101.2 million, representing a decrease of approximately RMB50.7 million as compared with the RMB151.9 million for the six months ended 30 June 2019.

Contingent Liabilities

As at 30 June 2020, 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 all the transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US\$, Euro and HK\$ and certain bank loans denominated in HK\$.

The Group's assets and liabilities denominated in US\$, Euro and HK\$ were mainly held by the Company's certain subsidiaries incorporated outside Mainland China which had US\$, Euro 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.

Staff Cost and Employee Remuneration Policies

As at 30 June 2020, the Group had 2,985 employees. Staff cost of the Group decreased by 8.3% from RMB135.4 million for the six months ended 30 June 2019 to RMB124.1 million for the Period, which was mainly attributable to the decrease in performance-based bonus due to the decrease in sales volume, and the exemption from social security policy during the outbreak of the pandemic. The Group is committed to providing a good working environment, diversified training programs and attractive compensation packages to the employees, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contributions to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to maintain the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manage its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and teambuilding. 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.

New Auto Sales Business

In the first half of 2020, in response to the significant impact of the COVID-19 pandemic, the Group actively adjusted its operation strategies and proactively expanded new media and other sales models, coupled with promoting traditional sales models after the end of the outbreak, so that the sales volume can quickly restore. In addition, through strategy adjustment and making good use of various supportive policies provided by manufacturers, the impact of the COVID-19 pandemic on the Group has been greatly mitigated. Meanwhile, the training continuously provided by the Group during the outbreak of the COVID-19 pandemic has effectively improved the capabilities of employees, and the Group also optimised its service processes and accurately transmitted its brand advantages, thereby greatly improving customer satisfaction.

After-sales Services Business

In the first half of 2020, the Group's after-sales service number of units and revenue decreased as a result of the impact of the COVID-19 pandemic. However, the scale of after-sales service quickly recovered through adjustment to customer maintenance policies and other operation strategies after the end of the outbreak of the COVID-19 pandemic. On the one hand, the Group continued to promote customer experience upgrading during the outbreak of the pandemic by strengthening interaction with customers through the optimisation of service processes and organisational structure adjustment, thereby maintaining and ensuring the steady growth of the after-sales customer base. On the other hand, the Group used digital service facilities to improve the efficiency of after-sales



service, and optimised the internal reception quality of the stores to ensure the best reception and explanation for customers, thereby further guiding and meeting customer needs. Therefore, the competitiveness of brand stores of the Group in the market where they operate has been further enhanced, enabling the Group to provide life-cycle after-sales service for customers who have purchased cars.

Used Car Business

In the first half of 2020, with the development of sales and after-sales replacement business, the Group continued to optimise its used car business structure and expanded its business scale. The Group further explored and met the replacement needs of new car customers and the resale needs of after-sales customers. By strengthening the growth of finance, insurance, insurance extension, decoration and other derivative businesses, the Group comprehensively improved its operating quality of used cars, and provided customers with higher quality service experience.

Thanks to the unremitting efforts, the overall business of the Group maintained a good development momentum in the Period. At the same time, it has also laid a solid foundation for the stably-improving operation for the second half of 2020. In the second half of the year, the Group will always maintain a sense of crisis and hard work, focus on customer experience, and strengthen detail management to ensure the leading position in the severe market environment.

Enhancement of Operational Efficiency by Intelligent and Data-based Means

As of 30 June 2020, the online service platform “Sunfonda Group Membership Center” has accumulated 0.145 million registered users. In May 2020, through internal data integration, the Group has initially established a group data center covering all the stores in operation and including sales, after-sales and other derivative businesses. Through data analysis and processing, it currently enables stores to use data in an effective and reasonable manner in their production and operation activities such as market activities, after-sales marketing and used car business, and to explore sales and service opportunities. In addition, its store assistance functions such as smart online follow-up and delivery assistant have been launched successively, which can also reduce phone calls to customers and improve the work efficiency of store staff.



Brand Development and Network Expansion

In order to further expand its principal business activities and sale points in operation, the Group continued to communicate and cooperate with automobile suppliers of popular brands in China, striving to obtain automobile dealership authorisation from more brands and further optimise and improve the Group's brand structure. In addition, the Group continued to enrich and adjust its brand operation network in Northwestern China and Jiangsu region.

In the first half of 2020, in accordance with the target as planned at the beginning of the year, the Group quickly promoted the construction of the Lexus brand 4S store in Xi'an, Shaanxi Province and the GAC Toyota brand 4S store in Nanjing, Jiangsu Province, and these two brand 4S stores with competitive market advantages are expected to open for operation within this year, which will further enrich the Group's brand presence. Meanwhile, the Group is actively promoting the implementation of new brand projects in Shaanxi and other provinces in Northwestern China and Jiangsu, and will constantly adjust the brands that are not suitable for market consumer demand in accordance with changes in market conditions to enhance market competitiveness.

As of 30 June 2020, the Group had 37 sale points in operation.

FUTURE STRATEGY AND PROSPECTS

High Quality Development Is Accelerating in Xi'an Which Is Covered by Sunfonda Group's Major Operating Network

According to the forecast of development trend of Xi'an in 2020 as set out in the "Xi'an Economic Development Report (2020)", with the gradual realisation of strategic superimposition effects arising from the promotion of western development to build a new pattern in the new era, the "One Belt One Road" initiative, and the construction of pilot zone for comprehensive innovation and reform, innovation demonstration zone, national free trade zone and national center city, the overall macroeconomic environment of Xi'an is developing in a good direction, the various macroeconomic indicators will rise from a low level, the reform and innovation, industry upgrading and technological innovation will accelerate, the development of Xi'an into an inland reform and opening-up highland, a national center city and an international metropolis will continue to speed up, and the pace of high-quality economic development will continue to increase.



To Promote the Progressive Construction of Key Projects under Construction in an Orderly Manner

The construction of the “FUN TIME LANE (豐泰里)” automobile street zone project located at the headquarters of the Group is being carried out in an orderly manner as scheduled. Upon completion, the “FUN TIME LANE (豐泰里)” automobile street zone project will become the first model consumption upgrading project that integrates automobile themes with a small amount of retail, catering and other business formats in China. It will be connected with Sunfonda Chanba Automobile Park on the south side of Ouya No. 1 Road to create automobile business aggregation effects by contiguously developing the street zone adjacent to Ouya Avenue and on the northeast side of Beichen Avenue. The completion of this project will further improve the economic effect of business operations and achieve economies of scale, consolidate the Group’s leading position in Northwestern China, and provide strong support for the development and enhancement of the principal business.

In addition, the Nanjing Sunfonda Automobile 4S Store, which is located in Jiangsu Province, another key development area of the Group, is expected to be completed in the second half of this year, which will further improve the Group’s brand operating network structure in Jiangsu, thereby further consolidating the Group’s regional advantages, and improving the comprehensive strength of joint coordination between the regions where the Group operates and its business segments.

Customer Experience and the Group’s Brand Influence Are Constantly Improving

The Group continues to focus on improving customer satisfaction and trust by strongly launching a customer interview column since April 2020 with an aim to listen to customer feedback more truthfully and exhaustively and understand customers’ thoughts through close interviews with customers, thereby continuously exploring customer needs and improving customer experience. Up to now, the Group has successfully launched 4 episodes, which were well received by customers.

Meanwhile, the Group has further strengthened the development of customer and media maintenance activities. In the first half of the year, the Group successfully organised test ride and test drive for media, which were fully recognised by customers and media. In the second half of the year, the Group will officially launch its car owners club project to carry out resource grafting and various car owner activities to further enhance customer concentration and provide retained customers with high-quality service experience. In addition, the Group will also enhance multi-dimensional cooperation across the industry by sharing customer resources with each industry brand to attract customer traffic and enriching the form of activities to improve the enthusiasm and satisfaction of customers to participate in activities, thereby improving customers’ purchase rate, recommendation rate, after-sales output value and other business indicators, and expanding the Group’s comprehensive influence.



EQUITY INTEREST

As at 30 June 2020, 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 2020, the interests of the directors of the Company (the "**Director(s)**") 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	Notes	Number of Shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	356,025,400	59.34%
Ms. Chiu Man	Interest held by controlled corporations	1	356,025,400	59.34%
Mr. Gou Xinfeng	Beneficiary of a trust Beneficial owner	2	70,000	0.01%
			130,000	0.02%
			200,000	0.03%
Ms. Chen Wei	Beneficiary of a trust Beneficial owner	3	54,000	0.01%
			110,000	0.02%
			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 5,025,400 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 recognising 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 5,025,400 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 5,025,400 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 70,000 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 54,000 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 2020.

(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%
			20,000	100%
	Ms. Chiu Man	Interest held by a controlled corporation	6,000	30%
		Interest of spouse	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 2020.

Save as disclosed above, as at 30 June 2020, 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 2020, 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	5,025,400	0.84%
			356,025,400	59.34%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	356,025,400	59.34%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	356,025,400	59.34%
Affirma Capital Limited	Interest held by a controlled corporation	2	90,000,000	15%
Augusta Fund 1, LP	Interest held by a controlled corporation	2	90,000,000	15%
ICG Augusta Partners LP	Interest held by a controlled corporation	2	90,000,000	15%
Intermediate Capital Group plc	Interest held by a controlled corporation	2	90,000,000	15%

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".
- (2) These shares are held by Augusta Investments Zero Pte. Ltd. Augusta Investments Zero Pte. Ltd. is indirectly held as to 100% by Augusta Fund 1, LP, Augusta Fund 1, LP is held as to 97.97% by ICG Augusta Partners LP (as a limited partner of Augusta Fund 1, LP), and held as to 100% by Augusta GP Pte. Ltd. (as a general partner of Augusta Fund 1, LP) and Affirma Capital Managers (Singapore) Pte. Ltd. (as the investment manager of Augusta Fund 1, LP). Both Augusta GP Pte. Ltd. and Affirma Capital Managers (Singapore) Pte. Ltd. are indirectly held as to 100% by Affirma Capital Limited. ICG Augusta Partners LP is held as to 100% by ICG Augusta GP LP (as a general partner of ICG Augusta Partners LP). ICG Augusta GP LP is held as to 100% by ICG Augusta Associates LLC (as a general partner of ICG Augusta GP LP). ICG Augusta Associates LLC is indirectly held as to 100% by Intermediate Capital Group plc. Therefore, Intermediate Capital Group plc, ICG Augusta Partners LP, Augusta Fund 1, LP and Affirma Capital Limited are deemed to be interested in the shares held by Augusta Investments Zero Pte. Ltd.
- * The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, 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 2020, the Company has granted an aggregate of 5,756,400 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 any interim dividend for the six months ended 30 June 2020.

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 six months ended 30 June 2020, the Company has complied with the code provisions set out in the CG Code.

UPDATE ON DIRECTOR'S INFORMATION

According to Rule 13.51B(1) of the Listing Rules, since the publication of the Company's 2019 annual report, the changes in directors' information are set out as follows:

- (1) Mr. Liu Jie has served as an independent director of Daya Shengxiang Home Furnishing Co., Ltd. (a company listed on the Shenzhen Stock Exchange; stock code: 000910) since 20 May 2020, and ceased to serve as an independent director of Zhongchang Bigdata Corporation Limited (a company listed on the Shanghai Stock Exchange; stock code: 600242) since 21 July 2020.
- (2) A renewed service contract has been entered into between Mr. Wu Tak Lam and Ms. Chiu Man as executive Directors and Mr. Liu Jie as an independent non-executive Director and the Company, respectively, for a term of three years with effect from 15 May 2020.

According to the renewed service contracts, the three Directors are entitled to an annual fee as follows:

- Mr. Wu Tak Lam is entitled to a director's fee of RMB1,500,000 per annum
- Ms. Chiu Man is entitled to a director's fee of RMB800,000 per annum
- Mr. Liu Jie is entitled to a director's fee of HK\$220,000 per annum

- (3) A renewed service contract has been entered into between Dr. Liu Xiaofeng and Mr. Song Tao as independent non-executive Directors and the Company, respectively, for a term of three years with effect from 24 May 2020.

According to the renewed service contracts, the two Directors are entitled to an annual fee as follows:

- Dr. Liu Xiaofeng is entitled to a director's fee of HK\$250,000 per annum
- Mr. Song Tao is entitled to a director's fee of HK\$220,000 per annum

CORPORATE GOVERNANCE AND OTHER INFORMATION



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020, 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 2020, 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 2020 that need to be disclosed.

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 2020 interim report, announcement of interim results and unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

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 2020.

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 during the six months ended 30 June 2020.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



	Notes	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Revenue	4(a)	4,440,933	4,529,272
Cost of sales and services	5(b)	(4,126,671)	(4,203,454)
Gross profit		314,262	325,818
Other income and gains, net	4(b)	80,048	91,736
Selling and distribution expenses		(170,573)	(174,610)
Administrative expenses		(101,697)	(99,347)
Profit from operations		122,040	143,597
Finance costs	6	(51,424)	(53,574)
Profit before tax	5	70,616	90,023
Income tax expense	7	(24,144)	(15,203)
Profit for the period		46,472	74,820
Attributable to:			
Owners of the parent		46,472	74,820
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic and diluted (RMB)		0.08	0.12

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
PROFIT FOR THE PERIOD	46,472	74,820
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(3,030)	35
Total comprehensive income for the period, net of tax	43,442	74,855
Attributable to: Owners of the parent	43,442	74,855

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2020



	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,236,587	1,234,623
Right-of-use assets		656,760	671,431
Intangible assets		10,738	11,232
Prepayments		27,061	27,782
Goodwill		10,284	10,284
Deferred tax assets		37,812	36,500
Total non-current assets		1,979,242	1,991,852
CURRENT ASSETS			
Inventories	10	1,176,712	1,169,308
Trade receivables	11	50,837	47,251
Prepayments, deposits and other receivables	12	784,988	800,154
Amounts due from a related party	20(b)	8,970	11,869
Pledged bank deposits		490,437	383,205
Cash in transit		26,803	17,284
Short-term deposits		34,565	86,189
Cash and cash at banks		818,456	803,417
Total current assets		3,391,768	3,318,677
CURRENT LIABILITIES			
Bank loans and other borrowings	13	1,878,389	2,018,896
Trade and bills payables	14	828,213	682,341
Other payables and accruals		286,356	329,087
Lease liabilities		13,706	12,280
Income tax payable		24,968	12,653
Total current liabilities		3,031,632	3,055,257
NET CURRENT ASSETS		360,136	263,420
TOTAL ASSETS LESS CURRENT LIABILITIES		2,339,378	2,255,272

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2020

	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	13	255,481	189,507
Lease liabilities		15,730	20,308
Deferred tax liabilities		10,414	10,265
Total non-current liabilities		281,625	220,080
NET ASSETS		2,057,753	2,035,192
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	377	377
Reserves	17	2,057,376	2,034,815
Total equity		2,057,753	2,035,192

Director
Wu Tak Lam

Director
Chiu Man

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020



	Attributable to owners of the parent								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020	377	250,962	118,045	100,703	157,947	10,773	33,872	1,362,513	2,035,192
Profit for the period	-	-	-	-	-	-	-	46,472	46,472
Other comprehensive loss for the period: Exchange differences on translation of foreign operations	-	-	-	-	-	-	(3,030)	-	(3,030)
Total comprehensive income for the period	-	-	-	-	-	-	(3,030)	46,472	43,442
Final 2019 dividend declared	-	(21,120)	-	-	-	-	-	-	(21,120)
Equity-settled share award expense (note 16)	-	-	-	-	-	239	-	-	239
At 30 June 2020 (Unaudited)	377	229,842	118,045	100,703	157,947	11,012	30,842	1,408,985	2,057,753

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 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 2018 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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Operating activities			
Profit before tax		70,616	90,023
Adjustments for:			
Depreciation and impairment of property, plant and equipment	5(c)	67,085	62,402
Depreciation of right-of-use assets	5(c)	11,852	8,118
Amortisation of intangible assets	5(c)	494	482
Interest income	4(b)	(3,412)	(4,962)
Net gain on disposal of items of property, plant and equipment	4(b)	(1,417)	(1,487)
Equity-settled share award expense	5(a)	239	698
Accrual/(Reversal) of impairment of inventories		2,753	(10,087)
Finance costs	6	51,424	53,574
		199,634	198,761
Increase in pledged bank deposits		(107,232)	(765)
Increase in cash in transit		(9,519)	(20,491)
Increase in trade receivables		(3,586)	(3,735)
Decrease/(Increase) in prepayments, deposits and other receivables		15,166	(16,481)
Increase in inventories		(10,157)	(27,798)
Increase in trade and bills payables		145,872	61,840
Decrease in other payables and accruals		(41,321)	(17,618)
Decrease/(Increase) in amounts due from a related party		2,899	(1,570)
		191,756	172,143
Cash generated from operations		191,756	172,143
Tax paid		(12,992)	(27,336)
		178,764	144,807
Net cash generated from operating activities		178,764	144,807

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(101,171)	(139,339)
Proceeds from disposal of items of property, plant and equipment	37,504	40,684
Purchase of land use rights	–	(12,600)
Interest received	3,412	4,962
Increase of time deposits of maturity over three months	(120)	–
Net cash used in investing activities	(60,375)	(106,293)
Financing activities		
Proceeds from bank loans and other borrowings	3,215,294	3,578,638
Repayment of bank loans and other borrowings	(3,294,509)	(3,477,863)
Principal portion of lease payments	(4,031)	(6,134)
Interest paid for bank loan and other borrowings	(52,381)	(52,761)
Dividends paid	(21,120)	(36,960)
Net cash (used in)/generated from financing activities	(156,747)	4,920
Net (decrease)/increase in cash and cash equivalents	(38,358)	43,434
Cash and cash equivalents at the beginning of each period	887,019	890,624
Effect of foreign exchange rate changes, net	1,653	686
Cash and cash equivalent at the end of each period	850,314	934,744
Analysis of balances of cash and cash equivalents		
Cash and bank balances	818,456	844,176
Short-term deposits with maturity less than 3 months	31,858	90,568
	850,314	934,744

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



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 2020 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 2019, 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.



2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

The Group has adopted the following new standards, interpretations and amendments for the first time for the financial year beginning on 1 January 2020.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.



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

The nature and impact of the revised HKFRSs are described below: *(continued)*

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. The amendments did not have significant impact on the Group's interim condensed consolidation financial information.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.



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 2020



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 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Revenue from contracts with customers Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	3,950,241	3,989,958
Others	490,692	539,314
Total revenue from contracts with customers	4,440,933	4,529,272
Timing of revenue recognition		
At a point in time	4,440,933	4,529,272

(b) Other income and gains, net:

	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Commission income	57,106	66,632
Logistics and storage income	12,399	18,164
Government grants	4,859	–
Interest income	3,412	4,962
Net gain on disposal of items of property, plant and equipment	1,417	1,487
Others	855	491
	80,048	91,736

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



5. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
(a) Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	88,121	89,847
Equity-settled share award expense	239	698
Other welfare	11,945	19,845
	100,305	110,390
(b) Cost of sales and services:		
Cost of sales of motor vehicles	3,852,758	3,906,663
Others*	273,913	296,791
	4,126,671	4,203,454
(c) Other items		
Depreciation and impairment of property, plant and equipment	67,085	62,402
Depreciation of right-of-use assets	11,852	8,118
Amortisation of intangible assets	494	482
Advertisement and business promotion expenses	25,847	29,179
Lease expenses	1,151	1,296
Bank charges	2,523	2,699
Office expenses	13,937	13,397
Logistics expenses	4,925	5,908
Net gain on disposal of items of property, plant and equipment	(1,417)	(1,487)

* There were employee benefit expenses of RMB23,842,000 (six months ended 30 June 2019: RMB 25,022,000) included in the cost of sales and services.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

6. FINANCE COSTS

	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Interest on bank borrowings and other borrowings	50,545	52,761
Interest expense on lease liabilities	879	813
	51,424	53,574

7. INCOME TAX

	For the six months ended 30 June 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Current Mainland China corporate income tax	25,307	34,268
Deferred tax	(1,163)	(19,065)
	24,144	15,203

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 for the Mainland China subsidiaries is 25%. According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, Shaanxi Sunfonda Jinda Industrial Development Co., Ltd. was entitled to a preferential income tax rate of 15% during the period. (For the six months ended 30 June 2019: 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%.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



8. DIVIDENDS

The Board of the Company has resolved not to declare any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 2020 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 2020 Unaudited RMB'000	For the six months ended 30 June 2019 Unaudited RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	46,472	74,820
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)	0.08	0.12

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



10. INVENTORIES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Motor vehicles (at cost or at net realizable value)	1,102,623	1,092,947
Spare parts (at cost)	74,089	76,361
	1,176,712	1,169,308

As at 30 June 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB569,257,000 (31 December 2019: RMB606,527,000) were pledged as security for the Group's bank loans and other borrowings (note 13(a)).

As at 30 June 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB326,813,000 (31 December 2019: RMB290,458,000) were pledged as security for the Group's bills payables (note 14).

11. TRADE RECEIVABLES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade receivables	50,837	47,251

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 2020



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 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 3 months	45,810	44,093
More than 3 months but less than 1 year	3,712	2,193
Over 1 year	1,315	965
Total	50,837	47,251

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Prepayments and deposits to suppliers	465,553	479,425
Vendor rebate receivables	183,689	195,055
VAT receivables ⁽ⁱ⁾	51,204	52,184
Others	84,542	73,490
Total	784,988	880,154

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 2020



13. BANK LOANS AND OTHER BORROWINGS

	30 June 2020 Unaudited		31 December 2019 Audited	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	3.6-6.0	1,439,956	3.3-6.7	1,691,680
Other borrowings	3.0-8.6	372,244	3.9-8.5	327,216
Current portion of long term bank loans	3.5-6.7	44,689		–
Current portion of long term other borrowings	4.5	21,500		–
		1,878,389		2,018,896
NON-CURRENT:				
Bank loans (b)	3.5-6.7	244,731	3.3-6.7	189,507
Other borrowings	4.5	10,750		–
		255,481		189,507
		2,133,870		2,208,403
Bank loans and other borrowings represent:				
– secured loans (a)		1,751,428		1,866,543
– unsecured loans		382,442		341,860
		2,133,870		2,208,403

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



13. BANK LOANS AND OTHER BORROWINGS (continued)

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Analysed into:		
Bank loans repayable		
Within one year	1,484,645	1,691,680
In the second year	77,466	29,146
In the third to fifth years, inclusive	126,525	80,457
Over fifth years	40,740	79,904
	1,729,376	1,881,187
Other borrowings repayable		
Within one year	393,744	327,216
In the second year	10,750	–
	404,494	327,216
Total	2,133,870	2,208,403

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



13. BANK LOANS AND OTHER BORROWINGS (continued)

- (a) As at 30 June 2020, 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 RMB231,782,000 (31 December 2019: RMB235,284,000);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB428,114,000 (31 December 2019: RMB435,512,000);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB569,257,000 (31 December 2019: RMB606,527,000) (note 10);
 - (iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately HK\$4,800,000 (equivalent to RMB4,385,000) (31 December 2019: HK\$27,900,000 (equivalent to RMB24,992,000)), US\$8,630,000 (equivalent to RMB61,099,000) (31 December 2019: US\$8,630,000 (equivalent to RMB60,207,000)) and RMB2,258,000 (31 December 2019: Nil).
- (b) As at 30 June 2020, the Company had a long-term bank loan of HK\$223,000,000 (31 December 2019: HK\$223,000,000) with an annual interest rate at 1.8% below HKD Prime 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\$8,630,000 (31 December 2019: US\$8,630,000) mentioned in (a)(iv) above.

As at 30 June 2020, the Company had a long-term bank loan of RMB14,224,000 (31 December 2019: RMB18,224,000) with a fixed annual interest rate at 6.7% 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\$247,000,000 (equivalent to RMB225,620,000) (31 December 2019: HK\$280,000,000 (equivalent to RMB250,818,000)) 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 2020



14. TRADE AND BILLS PAYABLES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade payables	111,145	105,930
Bills payable	717,068	576,411
Trade and bills payables	828,213	682,341

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

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 3 months	776,822	667,788
3 to 6 months	15,309	10,102
6 to 12 months	31,716	2,418
Over 12 months	4,366	2,033
Total	828,213	682,341

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 2020, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB326,813,000 (31 December 2019: RMB290,458,000) (note 10).

As at 30 June 2020, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB424,954,000 (31 December 2019: RMB298,006,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020



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:

	2020 Number of awarded shares '000	2019 Number of awarded shares '000
At 1 January	2,299	3,574
Vested during the period	(517)	(886)
At 30 June	1,782	2,688

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.



16. SHARE-BASED PAYMENTS (continued)

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

Particulars of awarded shares as at 30 June 2020 and 31 December 2019 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at	
			30 June 2020 '000	31 December 2019 '000
5 years	2 Jul 2015	2.95	71	71
5 years	6 Feb 2016	2.54	96	188
5 years	23 Jan 2017	2.19	560	834
5 years	28 Feb 2018	1.23	455	606
5 years	28 Dec 2018	1.00	600	600
			1,782	2,299

No share awards were granted for the period ended 30 June 2020 and 30 June 2019.

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 RMB239,000 (six months ended 30 June 2019: RMB698,000) during the six months ended 30 June 2020.

At the end of the period, the Company had 1,782,000 awarded shares (31 December 2019: 2,299,000) outstanding under the Pre-IPO Share Award Scheme.



16. SHARE-BASED PAYMENTS *(continued)*

(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 2020 (30 June 2019: Nil).

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 is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(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.

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18. CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

19. COMMITMENTS

Capital commitments

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

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Contracted, but not provided for buildings	189,701	159,261

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:

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20. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties

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

	30 June 2020 Unaudited RMB'000	30 June 2019 Unaudited RMB'000
(i) Sales of motor vehicles and spare parts Yangzhou Sunfonda Automobile Co., Ltd.*	1,868	–
(ii) Purchase of motor vehicles and spare parts Yangzhou Sunfonda Automobile Co., Ltd.*	–	2,349

* 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.

(b) Balances with related parties

Due from a related party:

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	8,970	11,869

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20. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	30 June 2020 Unaudited RMB'000	30 June 2019 Unaudited RMB'000
Short term employee benefits	2,427	2,684
Equity-settled share award expense	27	49
Post-employee benefits	26	100
Total compensation paid to key management personnel	2,480	2,833

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 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade receivables	50,837	47,251
Financial assets included in prepayments, deposits and other receivables	268,231	284,432
Amounts due from a related party	8,970	11,869
Pledged bank deposits	490,437	383,205
Cash in transit	26,803	17,284
Cash and cash at banks and short-term deposits	853,021	889,606
Total	1,698,299	1,633,647

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21. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade and bills payables	828,213	682,341
Financial liabilities included in other payables and accruals	98,610	100,061
Lease liabilities	29,436	32,588
Bank loans and other borrowings	2,133,870	2,208,403
	3,090,129	3,023,393

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash at 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 2020 was assessed to be insignificant.

23. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 30 June 2020.

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 2020.