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Sunfonda Group Holdings  
**SUNFONDA GROUP HOLDINGS LIMITED**  
**新豐泰集團控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 01771)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2021**

Revenue for the year ended 31 December 2021 was RMB11,639.2 million, representing an increase of RMB1,004.8 million or 9.4% as compared with the year ended 31 December 2020, of which:

- Revenue from the sales of new vehicles increased by RMB531.8 million or 5.6% to RMB10,023.5 million as compared with the year ended 31 December 2020, and the sales volume of new vehicles reached 32,208 units;
- Revenue from the sales of used cars increased to RMB367.1 million as compared with the year ended 31 December 2020; and the transaction volume of used cars was 7,082 units, representing a year-on-year increase of 44.6%, of which 2,425 units were sold on commission; and
- Revenue from after-sales services increased by RMB105.9 million or 9.3% to RMB1,248.6 million as compared with the year ended 31 December 2020.

Gross profit for the year ended 31 December 2021 was RMB993.3 million, representing an increase of RMB244.5 million or 32.7% as compared with the year ended 31 December 2020, of which:

- Gross profit of new automobile sales business increased by RMB180.6 million or 70.3% to RMB437.5 million as compared with the year ended 31 December 2020;
- Gross profit of used car business increased to RMB16.3 million as compared with the year ended 31 December 2020; and
- Gross profit of after-sales services increased by RMB47.6 million or 9.7% to RMB539.5 million as compared with the year ended 31 December 2020.

Gross profit margin for the year ended 31 December 2021 was 8.5% (2020: 7.0%), of which gross profit margin of sales of new automobiles was 4.4% (2020: 2.7%).

Profit for the year attributable to owners of the parent for the year ended 31 December 2021 was RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with the year ended 31 December 2020.

Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2021 was RMB0.58, representing an increase of RMB0.34 or 141.7% as compared with the year ended 31 December 2020.

The Board of Directors of the Company recommends a final dividend of HK\$0.08 (equivalent to RMB0.07) per ordinary share for the year ended 31 December 2021, together with the interim dividend for the six months ended 30 June 2021, the dividends for the year ended 31 December 2021 was HK\$0.13 (equivalent to RMB0.11) per ordinary share, representing an increase of 62.5% as compared with the year ended 31 December 2020.

## ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sunfonda Group Holdings Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the “**Group**” or “**Sunfonda Group**”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>REVENUE</b>	<i>4(a)</i>	<b>11,639,221</b>	10,634,418
Cost of sales and services	<i>5(b)</i>	<u>(10,645,937)</u>	<u>(9,885,623)</u>
<b>Gross profit</b>		<b>993,284</b>	748,795
Other income and gains, net	<i>4(b)</i>	<b>360,082</b>	187,176
Selling and distribution expenses		<b>(521,868)</b>	(410,523)
Administrative expenses		<u>(271,467)</u>	<u>(218,691)</u>
<b>Profit from operations</b>		<b>560,031</b>	306,757
Finance costs		<u>(93,705)</u>	<u>(103,022)</u>
<b>Profit before tax</b>	<i>5</i>	<b>466,326</b>	203,735
Income tax expense	<i>6</i>	<u>(120,475)</u>	<u>(58,546)</u>
<b>Profit for the year</b>		<u><b>345,851</b></u>	<u>145,189</u>
<b>Attributable to:</b>			
Owners of the parent		<u><b>345,851</b></u>	<u>145,189</u>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	<i>7</i>		
Basic and diluted (RMB)		<u><b>0.58</b></u>	<u>0.24</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Profit for the year</b>	<u>345,851</u>	<u>145,189</u>
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>3,328</u>	<u>(1,596)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>3,328</u>	<u>(1,596)</u>
Total comprehensive income for the year	<u><u>349,179</u></u>	<u><u>143,593</u></u>
<b>Attributable to:</b>		
Owners of the parent	<u><u>349,179</u></u>	<u><u>143,593</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2021*

	<i>Notes</i>	<b>2021</b>	2020
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,469,011</b>	1,296,304
Right-of-use assets		<b>722,542</b>	640,537
Intangible assets		<b>10,677</b>	11,034
Prepayments		<b>28,295</b>	28,420
Goodwill		<b>10,284</b>	10,284
Deferred tax assets		<b>30,124</b>	48,654
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>2,270,933</b>	2,035,233
<b>CURRENT ASSETS</b>			
Inventories	8	<b>1,054,373</b>	900,432
Trade receivables	9	<b>30,671</b>	38,822
Prepayments, other receivables and other assets		<b>1,180,612</b>	841,069
Amount due from a related party		<b>5,810</b>	7,890
Financial assets at fair value through profit or loss		<b>3,552</b>	–
Pledged bank deposits		<b>364,623</b>	378,523
Cash in transit		<b>4,782</b>	16,390
Short-term deposits		<b>127,579</b>	100,538
Cash and cash at banks		<b>836,227</b>	717,362
		<hr/>	<hr/>
<b>Total current assets</b>		<b>3,608,229</b>	3,001,026
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings		<b>1,546,245</b>	1,662,956
Trade and bills payables	10	<b>632,264</b>	596,764
Other payables and accruals		<b>375,323</b>	353,145
Lease liabilities		<b>21,559</b>	7,277
Income tax payable		<b>31,398</b>	29,007
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>2,606,789</b>	2,649,149
<b>NET CURRENT ASSETS</b>		<b>1,001,440</b>	351,877
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,272,373</b>	2,387,110
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	<b>2021</b>	2020
<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Bank loans and other borrowings	<b>760,774</b>	197,376
Lease liabilities	<b>51,291</b>	13,572
Deferred tax liabilities	<b>21,487</b>	17,874
	<u>833,552</u>	<u>228,822</u>
<b>Total non-current liabilities</b>	<b>833,552</b>	228,822
<b>NET ASSETS</b>	<b><u>2,438,821</u></b>	<u>2,158,288</u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	<b>377</b>	377
Reserves	<b>2,438,444</b>	2,157,911
	<u>2,438,821</u>	<u>2,158,288</u>
<b>Total equity</b>	<b>2,438,821</b>	2,158,288

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

## 1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. The Group is principally engaged in the sale and service of motor vehicles in Mainland China.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### 2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate (“HIBOR”) as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group’s HIBOR-based borrowings. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

### 3. OPERATING SEGMENT INFORMATION

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

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

#### Information about geographical areas

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

#### Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information in accordance with HKFRS 8 *Operating Segments* is presented.

### 4. REVENUE, OTHER INCOME AND GAINS, NET

#### (a) Revenue:

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Revenue from contracts with customers</b>		
<i>(i) Disaggregated revenue information</i>		
<b>Types of goods or services</b>		
Revenue from sale of motor vehicles	10,390,576	9,491,699
Revenue from after-sales service	<u>1,248,645</u>	<u>1,142,719</u>
Total revenue from contracts with customers	<u><u>11,639,221</u></u>	<u><u>10,634,418</u></u>
<b>Timing of revenue recognition</b>		
At a point in time	<u><u>11,639,221</u></u>	<u><u>10,634,418</u></u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

*Sale of motor vehicles*

Each sale of motor vehicles is a single performance obligation. The transaction price for a vehicle sale is determined with the customer at the time of sale. The performance obligation is satisfied upon delivery of the motor vehicles. The Group generally receive payment directly from the customer at the time of sale or from the third-party financial institutions within 30 days following the sale.

*After-sales services*

Each after-sales service related to repairs and maintenance under manufacturer warranties or customer-paid repairs and maintenance is a single performance obligation. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardised hourly labour rates. The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion. The Group generally receives payment on the delivery date for the customer-paid repairs and maintenance services and within two to three months for repairs and maintenance services under manufacturer warranties or covered by insurance companies.

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the reporting periods and recognised from performance obligations satisfied in previous periods:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Sale of motor vehicles	<b>135,761</b>	116,002
After-sales services	<b>48,040</b>	49,993
Total contract liabilities	<b><u>183,801</u></b>	<u>165,995</u>

(b) **Other income and gains, net:**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Commission income	166,061	136,339
Logistics and storage income	25,675	26,381
Interest income	6,322	8,299
Advertisement support received from motor vehicle manufacturers	1,640	2,869
Net loss on disposal of items of property, plant and equipment	(1,226)	(5,369)
Government grants	3,470	12,471
Gain on disposal of equity investment*	145,204	–
Gain on disposal of a subsidiary	10,827	–
Fair value gains, net:		
Financial assets at fair value through profit or loss		
– Financial product	102	–
Others	2,007	6,186
	<u>360,082</u>	<u>187,176</u>

\* Gain on disposal of equity investment represents the gain from the disposal of Xi'an Qinrui Real Estate Co., Ltd.'s 25% equity interests.

**5. PROFIT BEFORE TAX**

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

(a) **Employee benefit expense (including directors' and chief executive's remuneration)**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Wages and salaries	275,892	200,628
Equity-settled share award expense	(6)	623
Other welfare	49,905	25,552
	<u>325,791</u>	<u>226,803</u>

**(b) Cost of sales and services**

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cost of sales of motor vehicles	<b>9,936,802</b>	9,234,839
Others*	<b>709,135</b>	650,784
	<b><u>10,645,937</u></b>	<u>9,885,623</u>

\* Employee benefit expenses of RMB67,670,000 (2020: RMB61,647,000) were included in the cost of sales and services.

**(c) Other items**

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Depreciation of items of property, plant and equipment	<b>159,347</b>	150,556
Depreciation of right-of-use assets	<b>29,393</b>	22,447
Amortisation of intangible assets	<b>1,111</b>	1,007
Auditors' remuneration		
– statutory audit service	<b>2,280</b>	2,200
Advertising and business promotion expenses	<b>86,657</b>	73,855
Lease expense	<b>3,329</b>	3,880
Bank charges	<b>4,817</b>	4,978
(Reversal)/Accrual of impairment of inventories	<b>(7,151)</b>	7,144
Net loss on disposal of items of property, plant and equipment	<b><u>1,226</u></b>	<u>5,369</u>

## 6. INCOME TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current Mainland China corporate income tax	98,332	63,092
Deferred tax	<u>22,143</u>	<u>(4,546)</u>
	<u><u>120,475</u></u>	<u><u>58,546</u></u>

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% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for the Mainland China subsidiaries is 25% from 1 January 2008.

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

**(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:**

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u><b>466,326</b></u>	<u>203,735</u>
Tax at the applicable tax rate (25%)	<b>116,582</b>	50,934
Preferential tax rate reduction	<b>(2,541)</b>	(2,199)
Adjustments in respect of current tax of previous periods	<b>(547)</b>	1,588
Expenses not deductible for tax	<b>5,568</b>	3,122
Tax losses utilised from previous periods	<b>(2,888)</b>	(1,373)
Tax losses recognised from previous periods	<b>(5,134)</b>	(3,878)
Tax losses not recognised	<b>5,535</b>	7,752
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	<u><b>3,900</b></u>	<u>2,600</u>
Tax charges	<u><b>120,475</b></u>	<u>58,546</u>

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2020: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2021.

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

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<u><b>345,851</b></u>	<u>145,189</u>
	<b>2021</b>	2020
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year	<u><b>600,000,000</b></u>	<u>600,000,000</u>
<b>Earnings per share</b>		
Basic and diluted (RMB)	<u><b>0.58</b></u>	<u>0.24</u>

## 8. INVENTORIES

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Motor vehicles (at cost or at net realisable value)	<b>969,210</b>	823,353
Spare parts (at cost)	<u><b>85,163</b></u>	<u>77,079</u>
	<u><b>1,054,373</b></u>	<u>900,432</u>

As at 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB555,131,000 (2020: RMB548,393,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB344,617,000 (2020: RMB248,717,000) were pledged as security for the Group's bills payable.

## 9. TRADE RECEIVABLES

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	<b><u>30,671</u></b>	<u>38,822</u>

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

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

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	<b>27,707</b>	33,987
More than 3 months but less than 1 year	<b>657</b>	3,475
Over 1 year	<b><u>2,307</u></b>	<u>1,360</u>
	<b><u>30,671</u></b>	<u>38,822</u>

As at 31 December 2021, no provision for impairment of trade receivables was accrued.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 10. TRADE AND BILLS PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	62,897	105,474
Bills payable	<u>569,367</u>	<u>491,290</u>
Trade and bills payables	<u><u>632,264</u></u>	<u><u>596,764</u></u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	620,579	508,336
3 to 6 months	7,963	72,123
6 to 12 months	718	11,986
Over 12 months	<u>3,004</u>	<u>4,319</u>
	<u><u>632,264</u></u>	<u><u>596,764</u></u>

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

## 11. DIVIDENDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interim – HK5.0 cents (2020: Nil) per ordinary share	26,400	–
Proposed final – HK8.0 cents (2020: HK8.0 cents) per ordinary share	<u>39,245</u>	<u>40,399</u>
	<u><u>65,645</u></u>	<u><u>40,399</u></u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

In 2021, in the face of various challenges such as the complex and severe international environment and the sporadic outbreak of the domestic pandemic, China continued to maintain steady economic recovery, and stood out from the rest of the world in economic development and pandemic prevention and control, ensuring that the main indicators achieved the expected objectives. The basic living consumption maintained a good growth trend, and the consumer demand for upgraded categories continued to release. Particularly, the contribution of automobile consumption to China's economic development became increasingly prominent. In 2021, the places where the Group's main business is located, showed a good momentum of continuous economic recovery, optimised structure, accumulated impetus and improved quality and efficiency throughout the year.

Despite the global shortage of automobile chips and the high prices of upstream raw materials, automobile production and sales increased steadily, and luxury cars served as a main growth driver of automobile market in 2021. According to the statistics and analysis of the China Association of Automobile Manufacturers ("CAAM"), the production and sales volume of passenger vehicles was 21.408 million units and 21.482 million units, respectively, representing a year-on-year increase of 7.1% and 6.5%, ending the three consecutive years of decline since 2018. Among them, new energy vehicles have become the biggest bright spot, of which the annual sales volume exceeded 3.5 million units, and the market share increased to 13.4%. In 2021, the sales volume of high-end brand passenger vehicles was 3.472 million units, representing a year-on-year increase of 20.7%, which is analysed by brand as follows:

- The Porsche brand globally sold a total of 301,915 new automobiles in 2021, representing a year-on-year increase of 11%, of which a total of 95,671 automobiles were delivered in the Chinese market in 2021, representing a year-on-year increase of 8%. The Chinese market has been the largest single market for Porsche brand around the world for seven consecutive years. In terms of new energy vehicles, a total of 41,296 Taycan models were delivered globally, more than double that of last year.
- In 2021, affected by the global semiconductor supply shortage, Mercedes-Benz delivered more than 2.4 million new passenger vehicles and light commercial vehicles worldwide, and delivered 758,863 new branded vehicles to customers in the Chinese market. In 2022, Mercedes-Benz will continue to speed up the implementation of electric transformation in the Chinese market, and will launch 21 new products, including eight new energy vehicles.

- The BMW group (including BMW, MINI and Rolls-Royce) globally sold 2,521,525 automobiles in 2021, representing a year-on-year increase of 8.4%; of which BMW's sales volume was 2,213,795 units, hitting a record high, and representing a year-on-year increase of 9.1%; the sales volume of battery electric vehicles was 103,855 units, representing a year-on-year increase of 133.2%. In China, the BMW group achieved another record high in 2021, and continued to lead the high-end segment with a total of 846,237 BMW and MINI delivered, representing a year-on-year increase of 8.9%. In terms of new energy vehicles, the sales volume of new energy vehicles exceeded 48,000 units in 2021, representing a year-on-year increase of 69.6%.
- The Audi brand globally sold 1,680,512 vehicles in 2021, representing a decrease of approximately 0.7% from that of 2020. Audi sold a total of 81,894 battery electric models in 2021, representing a year-on-year increase of 57.5%. Audi delivered 701,289 automobiles in China, down 3.6% year-on-year. Audi plans to possess more than 20 battery electric models in its product portfolio by 2025. Starting in 2026, the brand will introduce certain new battery electric models to the market.
- The Lexus brand globally sold 760,012 vehicles in 2021, representing a year-on-year increase of 6%, and the sales volume of electrically energized models was about 260,000 units, representing a year-on-year increase of 10% and hitting a record high. The Mainland China and Hong Kong are Lexus' second largest regional market, with sales volume reaching a record high of 227,000 units, representing a year-on-year increase of 1%.

In 2021, China's used car market benefited from a series of favourable policies. The "inter-provincial government services" for used car transfer and registration was fully implemented, which systematically solved the problems of inconvenient used car trading and long ownership transfer period. Since the government report proposed to activate the used car market in 2016, policies related to used cars were frequently issued, such as lifting of restrictions on transfer, tax reduction, export promotion and simplification of trading process. A series of favorable policies have been introduced to promote free circulation of used cars in accordance with market rules, transform the strong potential energy stored in the used car market into a huge momentum for used car circulation, and fully unleash the potential of the used car market, thereby stimulating the sales of new vehicles and driving the development of maintenance, insurance and other related service sectors.

According to the statistics of the Ministry of Public Security of China, China's motor vehicle ownership volume reached 395 million units in 2021, of which the car ownership volume was 302 million units; and the number of newly registered motor vehicles in China amounted to 36.74 million units in 2021, representing an increase of 3.46 million units or 10.38% as compared with that of 2020. There are 79 cities with car ownership volume of more than 1 million units in China, representing a year-on-year increase of 9 cities. There are 35 cities with a car ownership volume of more than 2 million units and 20 cities with more than 3 million units. Specifically, Beijing, Chengdu and Chongqing have a car ownership volume of more than 5 million units, Xi'an, Suzhou, Shanghai and Zhengzhou have more than 4 million units, and 13 cities including Wuhan, Shenzhen and Dongguan have more than 3 million units. There is a huge market space for after-sales services of automobiles. In addition, in the past five years, the ratio of the number of used car transfer and registration over the number of new car registration has risen from 0.67 to 1.11, indicating that the number of new car registration was surpassed. Thanks to the supportive policies such as the lifting of the restriction on used car transfer and the registration of used car trading in different regions, the used car market has become increasingly active.

## **Business Review**

In 2021, under the guide of the annual targets, the Group improved various operating indicators and data, conducted benchmarking management by applying key monthly/quarterly KPI indicators, implemented whole process management and actively adjusted operating strategies in complex environments such as the pandemic and chip shortages, fully leveraged on the Group's brand and scale advantages, maintained close communication and cooperation with automobile manufacturers, employed digital management tools and new media sales methods, seized marketing opportunities, actively developed market resources, and strengthened the quality of operation and management, thereby achieving record high results in 2021.

### **New Auto Sales Business – the Operation Quality was improved and the Revenue Reached a New High**

In 2021, the Group's revenue from sales of new automobiles was RMB10,023.5 million (2020: RMB9,491.7 million), representing an increase of 5.6% as compared with the same period of the previous year, the sales volume of new automobiles was 32,208 units (2020: 32,175 units), the gross profit of sales of new automobiles was RMB437.5 million (2020: RMB256.9 million), representing an increase of 70.3% as compared with the same period of the previous year, and the gross profit margin of sales of new automobiles was 4.4% (2020: 2.7%). In 2021, due to new vehicle supply shortage caused by certain factors such as automobile chip shortage and the impact of the pandemic, the Group took prior order execution measures by preparing sufficient inventories in advance and adjusting the sales schedule according to the demand. The increase in the average selling prices resulted in a significant increase in gross profit. In 2022, the Group will continue to improve service quality and customer experience through refined management based on the existing customer group and network layout, in order to further consolidate the regional advantages of core brands. By deeply cultivating the distribution network in the major regions in China, the Group will strive to climb to another new peak of profits.

As at 31 December 2021, the Group had 30 luxury brand stores in operation, accounting for 71.4%. The sales volume of luxury brands was 22,825 units, accounted for 70.9% of the sales volume of new vehicles of the Group. As the main source of sales revenue of the Group, the revenue of luxury brands was RMB8,594.5 million, accounting for 85.7% of the total revenue from sales of new automobiles.

As at 31 December 2021, the Group had 42 sale points in operation and three authorised sale points pending operation; of which the number and proportion of luxury brands are as follows:

	<b>Northwestern China</b>	<b>Jiangsu</b>	<b>Other regions</b>	<b>Total</b>
Number of sale points in operation	<u>29</u>	<u>7</u>	<u>6</u>	<u>42</u>
Of which: Number of luxury brands	<u>20</u>	<u>4</u>	<u>6</u>	<u>30</u>
Proportion of luxury brands	69.0%	57.1%	100%	71.4%
Number of authorised sale points pending operation	<u>3</u>	<u>–</u>	<u>–</u>	<u>3</u>

In 2021, the sales volume of new energy vehicles of the Group increased by 18.7% year-on-year, accounting for 3.5% of the sales volume of new vehicles of the Group.

Looking back at the automobile industry in 2021, it is also foreseeable that new energy vehicles have broad development prospects and market potential. Looking forward to 2022, the challenges from China's automobile circulation field will be accompanied with opportunities. The transformation of the automobile industry has generally trended towards electrification and intelligence, and battery electric vehicles will be highly intelligent. The Group will stick to market orientation, and make full use of its platform advantages and economies of scale, to tap into the new energy vehicle sector that has huge development potential.

### **Used Car Business – the Scale Increased Significantly, Which will be the Core Growth Driver in the Future**

In 2021, the used car segment was one of the principal businesses and will also be the core impetus for the Group's future growth. Based on the development of sales and after-sales replacement business, the used car business structure has continued to be optimised. In 2021, the Group's transaction size of used cars increased by 44.6% as compared with the same period last year; and the replacement ratio increased by 3.1 percentage points as compared with the same period last year. The Group's brand network layout appeared in a stair-stepping shape, through mid-end, high-end and ultra-luxury comprehensive deployment, to provide all-round upgrading and replacement conditions for the basic customer group. In 2022, the Group will further promote the rapid growth of value-added services, derivative business and after-market business related to used cars, to provide customers with high-quality service experience, thereby improving the revenue from used car business. In 2021, new breakthroughs were achieved in the field of automobile circulation in China, which could be evidenced by the fact that the consumption potential of used cars has been gradually released as a result of the successive implementation of relevant policies such as the removal of restrictions on used car registration, inter-

provincial government services for used car transfer and registration, and tax incentives. The Group will also further promote the nationwide sharing of used car resources, continue to carry out precision marketing and expand trading volume. It is expected that a provisional system for registration of property rights of used cars will be established in the near future. Benefiting from such policies, the used car business will witness explosive growth.

### **After-sales Services Business – the Profitability Continued to Improve Steadily**

Adhering to the dual-brand operation strategy, the Group endeavors to build a new service brand named “Sunfonda” based on the brand image it operates. In respect of after-sales services, the Group build the service philosophy of “specialising in repairing cars that others can’t do” through prior diagnosis, which emphasises the leading technical edge of 4S stores, thereby continuously improving the profitability of the after-sales services business. In 2021, the Group’s revenue from after-sales services amounted to RMB1,248.6 million, representing an increase of 9.3% as compared with RMB1,142.7 million for the same period in 2020, and the gross profit of after-sales services was RMB539.5 million, representing an increase of 9.7% as compared with RMB491.9 million for the same period in 2020.

The fundamental customer group is the cornerstone of the business operations of stores, and the Group regards the expansion of the customer group within the service radius as an important strategy. The Group explores customer contact opportunities in an all-round and multi-channel way by strengthening customer retention to accurately attract customers back to stores; and actively carries out customer retention marketing by creating the 4S stores atmosphere to provide “warmer” service in luxury consumption. Thanks to the joint efforts of the Group’s employees, the number of active customers of the Group increased by 18% from the same period last year, and the Group’s customer retention rate increased from 73.2% in 2020 to 77.7% in 2021, retaining a large customer base, which laid a foundation for the future growth of after-sales business.

In terms of decoration business, the Group continued to meet the individual needs of customers by continuously introducing intelligent products. Through fully exploiting the sales potential of store-installed products for new vehicles, strengthening the interior modification of commercial vehicles, and effectively grasping the sales opportunities of front-end decoration. In the future, the Group will also continue to improve the professional competence in boutique businesses by strengthening the quality and frequency of training for front-line teams. At the same time, regarding the expected development trend and coverage of new energy vehicles in the future, the Group will focus on enhancing the development of automobile decoration projects in the after-sales segment.

## **Financing and Insurance Agency Businesses Continued to Grow Steadily**

In 2021, the commission income from the Group's financing and insurance agency businesses increased by 31.8% as compared with the same period in 2020. Of which, in terms of insurance agency business, through strategic cooperation with large-scale insurance companies such as PICC and Ping An Insurance, the Group expanded multi-insurance cooperation, and further enhanced consolidated premium scale, achieving a year-on-year of 17% in premiums in 2021. The Group also established close cooperation with insurers for mutual benefits and win-win results, on the one hand, which was helpful to increase the commission income of the insurance agency business, and on the other hand, also promoted the growth of revenue from after-sales accident maintenance. Financing agency services provide customers with diversified purchasing options and more flexible payment methods to effectively promote new automobile sales. In 2021, the increase in the penetration rate of financial business was helpful to boost the growth of revenue from new automobile sales. In 2021, the Group established strategic partnerships with manufacturers, financial institutions and banks through its financial business. In 2022, the Group will continue to increase the financial penetration and deeply cultivate the structure of financial income, in a bid to further acquire income from the whole value chain brought by financial business during the customer lifetime cycle.

## **Expanded the Network Layout of Luxury Brands**

The Group continued to strengthen the network layout of superior luxury brands to capture the development dividend of luxury brand market, and adapted to the adjustment of the national strategy for regional development by actively developing the network of luxury brands in new regional central cities and also expanding the number of sale points of luxury brands in major superior regions. The Group actively adapted to the market direction, development and changes, continued to cooperate with major automobile suppliers of popular brands in China, and continued to expand the number of sale points of the Group's key luxury brands, to build the Group's top brand series with good profitability.

In the second half of 2021, in accordance with the brand network development plan, the Group completed the construction of all new stores authorised in the first half of the year. In the second half of 2021, the Group successively obtained the authorisation to operate the sale points of three premium luxury car brands, namely Xi'an Porsche, Yinchuan BMW and Xining BMW, further consolidating its position as a leading luxury automobile dealer in Northwestern China. The Linxia GAC Toyota store, the Wuhan BMW store, the Wuxi GAC Toyota store, etc. were fully completed and opened for business. This will further improve the coverage of the Group's brand sale points, and enhance the Group's influence in key regions and markets, so as to provide strong support for its future development. In particular, the Wuhan BMW store will lay a solid foundation for the Group's deployment in Central China, connection with Eastern China and extension in Southern China.

## FINANCIAL REVIEW

### Revenue

Revenue for the year ended 31 December 2021 was RMB11,639.2 million, representing an increase of RMB1,004.8 million or 9.4% as compared to that for the corresponding period in 2020. Revenue from the sales of new automobiles was RMB10,023.5 million, representing an increase of RMB531.8 million or 5.6% as compared to that for the corresponding period in 2020; revenue from after-sales services business was RMB1,248.6 million, representing an increase of RMB105.9 million or 9.3% as compared to that for the corresponding period in 2020; and revenue from the sales of used cars was RMB367.1 million (2020: Nil).

A substantial portion of the revenue of the Group was generated from sales of new vehicles, accounting for 86.1% of its revenue for the year ended 31 December 2021 (2020: 89.3%). In addition, revenue generated from after-sales services business accounted for 10.7% of the revenue for the year ended 31 December 2021 (2020: 10.7%), and revenue from the sales of used cars accounted for 3.2% of the revenue for the year ended 31 December 2021 (2020: Nil). Revenue of the Group was mainly derived from our operations in the PRC.

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

	For the year ended 31 December					
	2021			2020		
	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)
Sales of new vehicles						
Luxury and ultra-luxury brands	8,594,522	22,825	376.5	8,221,868	23,147	355.2
Mid-end market brands	<u>1,428,954</u>	<u>9,383</u>	<u>152.3</u>	<u>1,269,831</u>	<u>9,028</u>	<u>140.7</u>
Sub-total/Average	10,023,476	32,208	311.2	9,491,699	32,175	295.0
Sales of used cars	367,100	2,425	151.4	—	—	—
After-sales services	<u>1,248,645</u>			<u>1,142,719</u>		
Total	<u><u>11,639,221</u></u>			<u><u>10,634,418</u></u>		

## **Cost of Sales and Services**

Cost of sales and services for the year ended 31 December 2021 was RMB10,645.9 million, representing an increase of RMB760.3 million or 7.7% as compared to that for the corresponding period in 2020. Among which, cost of sales of new automobiles for the year ended 31 December 2021 was RMB9,586.0 million, representing an increase of RMB351.2 million or 3.8% as compared to that for the corresponding period in 2020. Cost of after-sales services business for the year ended 31 December 2021 was RMB709.1 million, representing an increase of RMB58.3 million or 9.0% as compared to that for the corresponding period in 2020. Cost of sales of used cars for the year ended 31 December 2021 was RMB350.8 million (2020: Nil).

## **Gross Profit**

Gross profit for the year ended 31 December 2021 was RMB993.3 million, representing an increase of RMB244.5 million or 32.7% as compared to that for the corresponding period in 2020. Of which, gross profit of sales of new automobiles was RMB437.5 million, representing an increase of RMB180.6 million or 70.3% as compared to that for the corresponding period in 2020. Gross profit of after-sales services business was RMB539.5 million, representing an increase of RMB47.6 million or 9.7% as compared to that for the corresponding period in 2020. For the year ended 31 December 2021, gross profit of after-sales services accounted for 54.3% of the total gross profit (2020: 65.7%). Gross profit of sales of used cars was RMB16.3 million (2020: Nil).

Gross profit margin for the year ended 31 December 2021 was 8.5% (2020: 7.0%).

## **Other Income and Gains, Net**

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

Other income and gains, net for the year ended 31 December 2021 amounted to RMB360.1 million, representing an increase of 92.4% as compared with RMB187.2 million for the year ended 31 December 2020. The increase was mainly due to: (1) the proceeds from disposal of equity investment (please refer to the announcement of the Company dated 17 May 2021 for details); and (2) the increase in commission income from automobile financing agency business as compared with the same period in 2020.

## **Selling and Distribution Expenses**

Selling and distribution expenses for the year ended 31 December 2021 amounted to RMB521.9 million, representing an increase of RMB111.4 million or 27.1% as compared with RMB410.5 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in payroll of sales staff and advertising and promotion expenses. As a percentage of revenue, the selling and distribution expenses increased as compared with the corresponding period last year, increased from 3.9% for the year ended 31 December 2020 to 4.5% for the year ended 31 December 2021, up by 0.6 percentage point.

## **Administrative Expenses**

Administrative expenses for the year ended 31 December 2021 amounted to RMB271.5 million, representing an increase of RMB52.8 million or 24.1% as compared with RMB218.7 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in compensation of non-sales personnel and the increase in administrative expenses for newly opened stores as compared with the corresponding period last year. As a percentage of revenue, the administrative expenses increased as compared with the corresponding period last year, increased from 2.1% for the year ended 31 December 2020 to 2.3% for the year ended 31 December 2021, up by 0.2 percentage point.

## **Finance Costs**

Finance costs for the year ended 31 December 2021 amounted to RMB93.7 million, representing a decrease of 9.0% as compared with RMB103.0 million for the year ended 31 December 2020. The decrease was mainly due to the adherence to digital demand analysis by the Group and effective fund management, resulting in the improvement in the efficiency of fund use.

## **Profit Before Tax**

As a result of the foregoing, profit before tax for the year ended 31 December 2021 amounted to RMB466.3 million, representing an increase of RMB262.6 million or 128.9% as compared with RMB203.7 million for the year ended 31 December 2020. Of which, profit before tax of the main business accounted for 66.5%.

## **Income Tax Expense**

Income tax expense for the year ended 31 December 2021 amounted to RMB120.5 million, representing an increase of RMB62.0 million or 106.0% as compared with RMB58.5 million for the year ended 31 December 2020. The effective income tax rate of the Group for the year ended 31 December 2021 was approximately 25.8% (2020: 28.7%).

## **Profit for the Year**

As a result of the foregoing, profit for the year ended 31 December 2021 amounted to RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with RMB145.2 million for the year ended 31 December 2020.

## **Profit for the Year Attributable to Owners of the Parent**

For the year ended 31 December 2021, profit for the year attributable to owners of the parent amounted to RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with RMB145.2 million for the year ended 31 December 2020.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flow**

For the year ended 31 December 2021, the Group's net cash inflow generated from operating activities was RMB136.0 million, as compared with RMB617.9 million of its net cash inflow generated from operating activities for the year ended 31 December 2020. The decrease in net cash inflow of operating activities was mainly attributable to the increase in cash paid for the purchase of inventories and the increase in prepayments related to the purchase of inventories.

For the year ended 31 December 2021, the Group's net cash outflow of investing activities was RMB216.5 million, as compared with RMB274.3 million of its net cash outflow of investing activities for the year ended 31 December 2020. The decrease in net cash outflow of investing activities was mainly attributable to the increase in cash proceeds from investment during the year ended 31 December 2021.

For the year ended 31 December 2021, the Group's net cash inflow of financing activities was RMB271.3 million, as compared with RMB480.4 million of its net cash outflow of financing activities for the year ended 31 December 2020. The increase in the net cash inflow of financing activities was mainly attributable to the expansion of its sales network during the year ended 31 December 2021.

### **Net Current Assets**

As at 31 December 2021, the Group's net current assets amounted to RMB1,001.4 million, as compared to its net current assets of RMB351.9 million as at 31 December 2020.

### **Inventories**

The Group's inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2021, the Group's inventories amounted to RMB1,054.4 million, representing an increase of 17.1% as compared with RMB900.4 million as at 31 December 2020, mainly attributable to the increase in inventories of newly opened stores and the concentration of vehicles in some stores towards the end of the year.

In 2021, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 33.7 days, representing a relatively notable decrease as compared with 38.4 days in 2020, mainly attributable to the accelerated sales progress and the continuous improvement of refined inventory management during the year ended 31 December 2021.

### **Bank Loans and Other Borrowings**

As at 31 December 2021, the Group's bank loans and other borrowings were RMB2,307.0 million, representing an increase of 24.0% as compared with RMB1,860.3 million as at 31 December 2020.

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

	As at 31 December			
	2021		2020	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
<b>CURRENT</b>				
Bank loans	3.6-5.8	1,152,576	3.3-6.7	1,256,945
Other borrowings	1.7-8.6	<u>393,669</u>	3.0-8.6	<u>406,011</u>
Sub-total		<u>1,546,245</u>		<u>1,662,956</u>
<b>NON-CURRENT</b>				
Bank loans	3.5-5.9	760,774	3.5-6.7	192,626
Other borrowings	4.5	<u>—</u>	4.5	<u>4,750</u>
Sub-total		<u>760,774</u>		<u>197,376</u>
Total		<u><u>2,307,019</u></u>		<u><u>1,860,332</u></u>
Among which:				
Secured loans		1,798,885		1,662,610
Unsecured loans		<u>508,134</u>		<u>197,722</u>
Total		<u><u>2,307,019</u></u>		<u><u>1,860,332</u></u>

As at 31 December 2021, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 46.4% (2020: 42.5%). 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 31 December 2021, certain of the Group's bank loans were secured by charges or pledges over its assets. The Group's assets subject to these charges or pledges as at 31 December 2021 consisted of: (i) inventories amounting to RMB555.1 million; (ii) property, plant and equipment amounting to RMB369.1 million; (iii) land use rights amounting to RMB192.3 million; (iv) construction in progress amounting to RMB221.4 million; and (v) pledged bank deposits amounting to US\$8.6 million (equivalent to RMB55.0 million) and RMB2.3 million.

As at 31 December 2021, certain of the Group's inventories amounting to RMB344.6 million and pledged bank deposits amounting to RMB226.0 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 year ended 31 December 2021, the Group's total capital expenditures were RMB467.7 million, representing an increase of RMB162.8 million as compared with RMB304.9 million for the year ended 31 December 2020.

### **Contingent Liabilities**

As at 31 December 2021, the Group did not have any material contingent liabilities or guarantees.

### **Staff Cost and Employee Remuneration Policy**

As at 31 December 2021, the Group had 3,553 employees (as at 31 December 2020: 3,217). Staff cost of the Group increased by 36.4% from RMB288.5 million for the year ended 31 December 2020 to RMB393.5 million for the year ended 31 December 2021, mainly attributable to the increase in the number of employees as well as the increase in performance-based bonus paid to employees as a result of the increased sales volume and gross profit. The Group offers attractive remuneration packages according to market conditions, including competitive fixed salaries and performance-based bonuses, etc. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution 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 keep up with the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manages its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and team building. Regular training in respect of business skills, expertise and professional qualifications 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.

## MATERIAL ACQUISITIONS AND DISPOSALS

On 19 January 2021, Shaanxi Sunfonda Automobile Technology Development Co., Ltd.\* (陝西新豐泰汽車技術開發有限責任公司) (“**Shaanxi Sunfonda ATD**”), an indirect wholly-owned subsidiary of the Company, entered into an equity acquisition agreement with Mr. YAN Yaping (閆亞平) and Ms. HUI Juan (惠娟) (“**Mr. YAN and Ms. HUI**”), pursuant to which, Shaanxi Sunfonda ATD agreed to acquire, and Mr. YAN and Ms. HUI agreed to dispose of 100% equity interests in Weinan Haizhong Car Sales Services Co., Ltd.\* (渭南海眾汽車銷售服務有限公司) (“**Weinan Haizhong**”), with the aggregate consideration of RMB24.70 million (the “**Weinan Acquisition**”). The industrial and commercial registration of changes in respect of the Weinan Acquisition was completed on 29 January 2021, and Weinan Haizhong has become an indirect wholly-owned subsidiary of the Company. For details of the Weinan Acquisition, please refer to the voluntary announcement of the Company dated 19 January 2021.

On 10 May 2021, Shaanxi Sunfonda ATD entered into an equity transfer agreement with Xi’an Longbing Real Estate Co., Ltd.\* (西安龍秉置業有限公司) (“**Xi’an Longbing**”), pursuant to which, Shaanxi Sunfonda ATD has agreed to purchase, and Xi’an Longbing agreed to dispose of 75% equity interest in Lanzhou Fengtai Rongjia Trading Co. Ltd.\* (蘭州豐泰榮嘉商貿有限責任公司) (“**Lanzhou Fengtai**”) held by Xi’an Longbing at a consideration of RMB22.50 million (the “**Lanzhou Acquisition**”). The industrial and commercial registration of changes in respect of the Lanzhou Acquisition was completed on 19 May 2021, and Lanzhou Fengtai has become an indirect wholly-owned subsidiary of the Company. For details of the Lanzhou Acquisition, please refer to the announcement of the Company dated 10 May 2021.

On 17 May 2021, each of the transferors, i.e Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.\* (陝西新豐泰尚眾汽車銷售服務有限公司), Shaanxi Sunfonda ATD, Shaanxi Sunfonda Huixiang Automobile Sales Service Co., Ltd.\* (陝西新豐泰匯翔汽車銷售服務有限公司), Suzhou Sunfonda Automobile Sales Services Co., Ltd.\* (蘇州新豐泰汽車銷售服務有限公司), Suzhou Sunfonda Toyota Automobile Sales Services Co., Ltd.\* (蘇州新豐泰豐田汽車銷售服務有限公司) and Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.\* (銀川順馳路捷汽車銷售服務有限公司) (collectively called the “**Transferors**”), all being indirect wholly-owned subsidiaries of the Company, entered into the equity transfer agreements with Xi’an Longbing and Xi’an Qinrui Real Estate Co., Ltd.\* (西安秦睿置業有限公司) (“**Xi’an Qinrui**”), pursuant to which, the Transferors agreed to dispose of, and Xi’an Longbing agreed to purchase an aggregate of 25% equity interests in Xi’an Qinrui held by the Transferors at a total consideration of RMB152,704,450 (the “**Disposal**”). The industrial and commercial registration of changes in respect of the Disposal was completed on 25 May 2021, and the Transferors no longer hold any equity interest in Xi’an Qinrui. For details of the Disposal, please refer to the announcement of the Company dated 17 May 2021.

Save as the above, there was no material acquisitions and disposals of subsidiaries, associates and joint ventures for the Group during the year ended 31 December 2021.

\* denotes English translation of the name of a Chinese company, and is provided for identification purposes only

## **FUTURE PROSPECTS AND STRATEGY**

According to the analysis report of the Center for Forecasting Science, Chinese Academy of Sciences, China's economy will maintain steady growth in 2022, and the annual GDP growth rate is expected to be approximately 5.5%, showing a trend of eventual growth following its initial decline. With the gradual economic recovery, the enhancement of domestic emergency prevention capabilities, the continuous improvement of enterprises' business operation, and the gradual opening up of offline consumption scenarios, the domestic consumer market will be significantly improved. Accordingly, it is expected that China's final consumption will maintain continuous growth in 2022, which will be the main driving force for economic growth.

The CAAM predicts that the demand of the automobile market will remain stable in 2022, and the problems on supply side such as insufficient chip supply and raw material prices will be gradually alleviated. It is expected that the automobile market will continue to show a steadily improving trend in 2022 and the annual production and sales volume will be better than that of 2021. According to the forecast of CAAM, the total automobile sales volume in 2022 are expected to be 27.5 million units, representing an increase of 5.4%, of which the sales volume of passenger vehicles is expected to be 23 million units, representing an increase of 8%; and the sales volume of new energy vehicles is expected to be 5 million units, representing an increase of 47%. According to the analysis of the China Automobile Dealers Association, the automobile market will enter the peak period of additional purchase and replacement in 2022, and revitalising the stocking used cars will be the key to energise the entire automobile market. On the one hand, the replacement of used cars will boost the upgrading of automobile consumption, especially luxury cars and new energy vehicles are the main driving force for the growth of automobile market in 2021. On the other hand, the replacement and circulation of used cars will promote the transfer of vehicles from first- and second-tier cities to third-, fourth- and fifth-tier cities in economically underdeveloped areas, which can promote the penetration of automobile consumption into the rural market, and can also enhance the overall vitality of local economy. Therefore, revitalising the stocking used cars can really drive the incremental automobile market.

In the future, the Group will continue to seize market opportunities, maintain the rapid development of the luxury car business, continue to expand the brand layout by strengthening the layout of new energy vehicles and promoting the operation of key projects, and apply online tools to empower the sales of new vehicles and facilitate the growth of the used car business, so as to improve customer experience with a focus on innovative brand marketing projects.

### **To Constantly Optimise and Expand the Brand Layout and Strengthen the Development Plan for New Energy Vehicle Business**

In 2022, the Group will continue to enhance exchanges with major branded automobile manufacturers to seek the dealership authorisation of more superior brands, thereby further optimising and improving the brand layout. While further consolidating the leading position in Northwestern China, the Group will improve its market share in key regions of Jiangsu Province, accelerate its development in Central China, and continue to expand its business footprint across China. Meanwhile, the Group will further increase the focus on new energy vehicles, and continue to strengthen the development and deployment of new energy vehicle business.

## **Key Projects under Construction are being Carried Out in an Orderly Manner, and the “FUN TIME LANE” in Xi’an is Expected to be put into Operation in 2022**

For the innovative “FUN TIME LANE” automobile fashion street zone project created by the Group that integrates automobile consumption with multiple leisure and entertainment business patterns, the Group is actively soliciting branded automobile business for the “FUN TIME LANE” project in Xi’an, for which the business management team has begun to conduct project format planning and preparation for investment promotion. The Group has been accelerating the construction of the project, which is expected to be completed and put into operation in the fourth quarter of 2022. At that time, the project will produce echoing harmony with the Sunfonda Chanba Automobile Park which is located at the south side of Ouya No. 1 Road, and create automobile business concentration by contiguously developing the street zone adjacent to Ouya Avenue and the northeast side of Beichen Avenue, so as to provide customers with diversified services integrating automobile purchase, shopping and fashionable lifestyle to enhance and enrich customer experience. The construction of the “FUN TIME LANE” project in Lanzhou is also actively being carried out as scheduled.

## **To Enhance Customer Experience in Smart Digit-based and Innovative Marketing Approaches to Boost Business Growth**

In order to adapt to market changes and meet customer needs, the Group has continuously strengthened refined management, and adhered to digital empowerment by introducing intelligent management. In 2021, the Group successfully achieved the systematic management of inbound customers, online clues, etc. At the same time, the visualised and systematic management of offline activities and marketing costs are also being constantly improved. The Group’s self-developed “Sunfonda Group Membership Center” (the “**Membership Center**”) mini program, featured with intelligent access, online model introduction, work hours-based appointment and automatic reminders, have recorded an accumulative push services of one million users. In order to explore opportunities for used car sales and replacement business, the Group officially launched a used car zone and a new car replacement zone in the Membership Center, which collects the car sources of the Group across the country, and assists customers in online inquiries and sales of used car and replacement businesses based on more than 200,000 customers in the Membership Center, thereby realising integrated online and offline development of used car and replacement businesses. With the official launch of channels such as Sunfonda’s used car market and new car replacement, the Group has actively explored the cross-brand and cross-store sharing of customer data to improve the number of online clues for the main business of stores. The Group’s data center has achieved preliminary effect, as evidenced by the fact that products such as customer churn warning and customer retention plan based on data analysis are assisting stores in accurate marketing and efficient operation. In addition, the Group actively expanded external cooperation, and products such as intelligent renewal of insurance and car manager have been launched one after another.

In addition, the Group continued to further develop customer interview column, through leveraging on the influence of star car owners in their respective industry, the Group achieved a word-of-mouth effect in relevant industry, which have gained unanimous praise from the brands and customers, expanded the influence and reputation of the Group, and conveyed the brand concept and culture of Sunfonda. In 2022, the Group will increase its efforts in the implementation and planning of innovative brand marketing activities, and place targeted advertisements in online media such as Douyin and Xiaohongshu. Furthermore, the Group will create experiential scenarios in the exhibition hall with a focus on the development of consumption patterns such as brand-based consumption, experiential consumption and co-creation consumption, so as to gain high popularity for Sunfonda Group in an all-round and three-dimensional manner.

## **CORPORATE GOVERNANCE PRACTICE OF THE COMPANY**

The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders of the Company. The Company has adopted the principles 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 Company regularly reviews its corporate governance practice to ensure the compliance with the CG Code.

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the period from 1 January 2021 to 31 December 2021.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2021.

## **MATERIAL LITIGATION**

During the year ended 31 December 2021, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

## **SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE**

There were no significant subsequent events that had occurred from 1 January 2022 up to the date of this announcement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries to all Directors, all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2021.

## **AUDIT COMMITTEE**

The Board has established the audit committee of the Company (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Mr. Liu Jie (chairman), Mr. Song Tao and Dr. Liu Xiaofeng.

The Audit Committee has, together with the Board and external auditor of the Company, reviewed the accounting standards and practices adopted by the Group and the consolidated financial results of the Group for the year ended 31 December 2021. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Group, and considers the risk management and internal control systems to be effective and adequate.

## **SCOPE OF WORK OF ERNST & YOUNG**

The figures above in respect of this annual results announcement for the year ended 31 December 2021 have been agreed with the Company’s auditor, Ernst & Young (“**Ernst & Young**”), certified public accountants, to be consistent with the amounts set out in the Group’s consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

## **FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board resolved to propose the distribution of a final dividend of HK\$0.08 (equivalent to approximately RMB0.07) per ordinary share for the year ended 31 December 2021 in an aggregate amount of RMB39.2 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders of the Company at the 2022 annual general meeting of the Company (the “**2022 AGM**”).

Where the proposed distribution of final dividend is approved at the 2022 AGM, the dividend will be paid on Wednesday, 20 July 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 30 June 2022. Therefore, the register of members of the Company will be closed from Tuesday, 28 June 2022 to Thursday, 30 June 2022 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 27 June 2022.

## **ANNUAL GENERAL MEETING**

The 2022 AGM will be held on Tuesday, 21 June 2022 and the notice thereof will be published and dispatched to the shareholders of the Company in a manner as required by the Listing Rules. In order to determine shareholders' entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Thursday, 16 June 2022 to Tuesday, 21 June 2022 (both days inclusive). In order to be entitled to attend and vote at the 2022 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Wednesday, 15 June 2022.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

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

The Company's 2021 annual report will be dispatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

## **APPRECIATION**

The Board would like to take this opportunity to express its sincere gratitude to all of the management team and all staff for their contributions to the Group. At the same time, we would like to thank every customer, business partner and shareholders of the Company for their continuous support over the years!. In the future, the Group will strive to be the first to energetically promote business growth and bring greater and long-term return to the shareholders of the Company.

By order of the Board  
**Sunfonda Group Holdings Limited**  
**Mr. Wu Tak Lam**  
*Chairman*

Hong Kong, 23 March 2022

*As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng and Ms. Chen Wei; and three independent non-executive Directors, namely, Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.*

*This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and development strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited by the Group's auditor. Shareholders and potential investors of the Company should therefore not place undue reliance on such statements.*