Ever Sunshine Lifestyle Services Group Limited
永升生活服务集团有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1995)

CLARIFICATION ANNOUNCEMENT

This announcement is made by Ever Sunshine Lifestyle Services Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Reference is made to a report (the "**Report**") published by GMT Research Limited ("**GMT**") on 18 March 2021 and the announcement of the Company dated 18 March 2021 pursuant to which the board (the "**Board**") of directors of the Company (the "**Directors**") had vigorously denied the speculations contained in the Report.

BACKGROUND

On 18 March 2021, the Board noticed the Report published by GMT, which the Company has no knowledge of the identities of the parties associated with them. Pursuant to the Report, GMT made various allegations, speculations and comments against the Group (the "**Allegation(s)**"). The Board vigorously denies the Allegations contained in the Report and considers them to be inaccurate and misleading.

This announcement is made to refute the Allegations.

CLARIFICATIONS

The Company summarised the main Allegations in the Report and the Company's response as follows:

(i) Control by the Lin's Brothers and funnel profits to the Company

GMT's Allegation

In the Report, GMT alleged that, CIFI Holdings (Group) Co. Ltd. ("**CIFI**"), whose issued shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with stock code: 00884, disposed 70% interest of the Company in 2016. After the recent transfer of voting rights among Mr. LIN Zhong, Mr. LIN Wei and Mr. LIN Feng (collectively, the "**Lin's Brothers**") and CIFI in 2020, the Group is now re-consolidated into the financial information of CIFI. Together with the facts that both the Company and CIFI are controlled by Lin's Brothers and CIFI is the largest customer of the Company, such arrangement has created an incentive to funnel profits to the Company.

Company's response

Such Allegation as to the creation of incentive to funnel profits is completely groundless and the Company refutes such Allegation.

Reference is made to the announcement made by CIFI on 15 July 2016 in relation to the disposal of 70% interest of Shanghai Yongsheng Property Management Co., Ltd. ("**Yongsheng**"), the major operating subsidiary of the Company, by CIFI to the Lin's Brothers (the "**Disposal**"). As stated therein, taking into consideration of the then growth potential of the property management business, the Company recognized the need to further enhance its management efforts, to adopt development blueprints different from CIFI's core property development/investment business, and to expand its business coverage to third-party, non-CIFI projects. Accordingly, the Disposal represents a good opportunity for CIFI to delineate CIFI's core property development/investment business and the property management business by the Company, which enables CIFI to realize the proceeds from the Disposal and focus on the core property development/investment business.

Further, the consideration for the Disposal was determined and agreed between the parties after arm's length negotiations based on normal commercial terms, with reference to the valuation of 100% equity interest of Yongsheng at RMB122 million as at 31 May 2016 by an independent valuer using market approach with reference to comparable market transactions.

Reference is also made to the announcement made by CIFI on 29 May 2020, pursuant to which, through certain share transfers and entrusted voting arrangement as detailed therein, CIFI has since been entitled to exercise or control the exercise of approximately 50.12% voting power at general meetings of the Company (the "**Consolidation**"). As stated therein, the share acquisition and the entrusted voting arrangement were driven by strategic planning that upon the members of the Company being consolidated as subsidiaries of, and becoming members of CIFI, CIFI can strategically position itself as a group engaged in comprehensive aspects in real estate industry, covering development of property projects, investment in properties as well as offering property management services. The market position and brand image of "CIFI" is therefore expected to be strengthened.

Based on the two announcements of CIFI dated 15 July 2016 and 29 May 2020 mentioned above, the Board does not understand why incentive to funnel profits was created. The Allegation as to the creation of incentive to funnel profits is made completely without basis.

(ii) Continuing Connected Transactions with CIFI and linked entities

GMT's Allegation

In the Report, GMT alleged that it estimates that the Group's total revenue from transactions with linked entities are more than double for the financial year 2020, reversing the previous downward trend in their contribution and accounted for a quarter or more of overall revenue for the year. It further alleged that the Company had to significantly increase the annual revenue caps for both CIFI and the Lin's Brothers as a result of unplanned drop in revenue.

Furthermore, GMT estimated that the revenue of the Group generated from linked entities for the year ended 31 December 2020 would increase to approximately RMB800 million, representing around 26% of the Group's revenue. It further alleged that as revenue from value-added services provided to non-property owners are normally weighted to the second half of the year, CIFI's associates may have contributed an additional RMB100 million for the full-year, on top of the estimated RMB800 million from other linked entities.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

Although the term "transactions with linked entities" is unclear to the Board, the Company would like to emphasis, on the assumption that "linked entities" refers to continuing connected transactions of the Group, that:

(a) real estate and property management have an upstream and downstream relationship in the industrial chain and the increase in the scale of property management business is proportional to the increase in the scale of real estate development. Thus, transactions between CIFI and the Company and the increase in trend thereof is a normal phenomenon and is in accordance with the market norm;

(b) as disclosed in the prospectus of the Company dated 4 December 2018 (the "**Prospectus**") and the circulars of the Company dated 9 December 2019, 6 November 2020 and 30 November 2020, respectively, in relation to the continuing connected transactions for the provision of property management services to CIFI and Lin's Brothers and based on information available to the Board, for the year ended 31 December 2016, 2017, 2018 and 2019 and for the six months ended 30 June 2020, the approximate historical aggregate amount of service fees received by the Group amounted to approximately RMB153.6 million, RMB149.3 million, RMB214.3 million, RMB268.5 million and RMB244.7 million respectively (the "**CCT Amounts**"). During the respective periods, CIFI contracted sales amounted to RMB53.0 billion, RMB104.0 billion, RMB152.0 billion, RMB200.6 billion and RMB80.7 billion, respectively. Firstly, the scale of sale, area and number of the property projects of the CIFI in the PRC under the management of the Group has increased due to the business expansion of the CIFI. Secondly, more property management services, such as extra cleaning services in the common areas of the subject properties, additional security services for the subject properties as well as over-time services in cleaning and security services requested by and arranged for the relevant parties, have been provided to the CIFI Group as precautionary measures to safeguard the health and safety of the public since the COVID-19 outbreak;

(c) as disclosed in the Prospectus, the annual reports of the Company for the year ended 31 December 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2020, the revenue of the Group amounted to approximately RMB480.0 million, RMB725.3 million, RMB1,075.8 million, RMB1,877.8 million and RMB1,344.9 million for the year ended 31 December 2016, 2017, 2018 and 2019 and for the six months ended 30 June 2020.

Accordingly, the CCT Amounts only accounted for approximately 32.0%, 20.6%, 19.9%, 14.3% and 18.2% of the Group's total revenue. Based on the above, the Company's reliance on CIFI has in fact been maintaining at a very low level;

(d) based on industry statistics for other comparable property management companies listed on the Stock Exchange, the portion of the continuing connected transactions from their respective parent companies to their total revenue is in the range of approximately 0-62% with a midpoint of approximately 31% and an average of approximately 28%. The statistics revealed that the portion of the continuing connected transactions from CIFI is at a very low level in the market;

(e) all the continuing connected transactions of the Group have been made in compliance with the relevant requirements under Chapter 14A of the Listing Rules; and

(f) the internal control mechanism adopted by the Group is effective to ensure that the continuing connected transactions for the provision of property management services to CIFI and Lin's Brothers are and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole. The Company maintains a list of connected persons and updates it from time to time to ensure the integrity of the disclosure of continuing connected transactions. The company and independent non-executive Directors will continue to review the continuing connected transactions of the Group to ensure the pricing of the connected transactions are consistent with the principles set out in the circulars previously disclosed. The auditors of the Company will also conduct an annual review on the pricing terms and annual caps of the relevant continuing connected transactions with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA.

In relation to the estimation of revenue generated from linked entities for the year ended 31 December 2020, the Company noted that the calculation of such estimation is an obvious mistake and based on unfounded speculation:

(a) for example, the Report alleged that in 2019, the Company's income from its related parties amounted to RMB365 million which comprises RMB193 million from CIFI, RMB62 million from joint ventures of CIFI, RMB76 million from the Lin's Brothers and RMB34 million from other minority shareholders. In fact, the continuing connected transactions with the Lin's Brothers have always taken into account of the associates of the Lin's Brothers which include the joint ventures of CIFI;

(b) the calculation of the breakdown of revenue from 2015 to 2018 was inaccurate and no basis for computing the breakdown of revenue for 2020 was provided in the Report at all; and

(c) the aggregate annual cap of all the Group's continuing connected transactions for the year ended 31 December 2020 is less than RMB740 million, which comprise RMB480 million from CIFI, RMB185 million from the Lin's Brothers, RMB29.8 million from agency sales commission and RMB45 million from certain minority shareholders of Qingdao Yayuan Property Management Company Limited ("**Qingdao Yayuan**"). The respective annual caps for all the continuing connected transactions of the Group has not been exceeded as at 31 December 2020.

(iii) Pledge of the shares of the Company

GMT's Allegation

In the Report, GMT alleged that as almost all (99.99%) of the Company's shares are currently held in CCASS, there is a sign that the shares of the Company have been pledged as collateral for debt which could be an incentive to maintain the share price at a high level. In particular, GMT alleged that the shares held by the Lin's Brothers have been pledged.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

Based on the information available on the disclosure of interests online system and to the best of the knowledge, information and belief of the Directors, and upon reasonable enquiry being made, the Lin's Brothers have confirmed to the Board that have not entered into any pledge arrangement over the shares of the Company since the listing of the Company save for stock borrowing arrangement in connection with the partial exercise of the over-allotment option as disclosed in the announcement of the Company dated 7 January 2019.

(iv) Change of CFO

GMT's Allegation

In the Report, GMT referenced to the resignation of Mr. Liu Chang as the Company's chief financial officer in May 2019, just a few months later after the listing of the issued shares of the Company. It alleged that such a brief tenure would normally raise concerns.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

The Company would like to emphasis that Mr. Liu Chang resigned as the Company's chief financial officer for personal reasons and Mr. Liu has confirmed that he has no disagreement with the Company and/or any matter that was required to be drawn to the attention of the shareholders and the Stock Exchange.

(v) Adjustments in different business segments due to non-GAAP metrics and recognition of commissions and fees

GMT's Allegation

In the Report, GMT alleged that the Company does not provide any information on the allocation of administrative costs and that it suspect most of such would fall to the property management services business, giving it a lower operating margin, while the incremental operating margins on both value-added services to non-property owners and community value-added services are significantly higher. It further emphasized that gross margins for the individual businesses should be treated with caution given that they are non-GAAP metrics which are not audited. GMT also alleged that the gross margin of the Company is very high as the Group will only record commissions and fee income received rather than the full revenue and costs.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

The Company would like to emphasis that:

(a) there is no costs adjustment for each business segment of the Company. Costs is classified according to actual business nature;

(b) according to the applicable accounting standards adoped by the Group, when another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party, meanwhile the costs suffered are also be recorded; and

(c) the gross profit margin for community value-added services are normally higher than those for the other two business lines, primarily because community value-added services are less labor-intensive business than property management services and value-added services to non-property owners. For the first half of 2020, the gross profit margin of community value-added services in the same industry normally varies from 30.2% to 65.9%, while the Company's gross profit margin for community value-added services is 53.8%. The Company's gross profit margin level is at the average level of the industry and in the normal range.

(vi) Growth in GFA may not result from independent third parties of the Company

GMT's Allegation

In the Report, GMT alleged that five years ago, the properties of the Company managed were almost all developed by CIFI. However, most of the growth in recent years has been from new contracts to manage properties developed by third parties and these third parties include CIFI's joint ventures and associates, not just independent third parties.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

In relation to this Allegation, the Company would like to emphasis that:

(a) as of 30 June 2020, the Company's GFA under management was 77.178 million sq.m., which comprised 18.408 million sq.m. from CIFI and 6.932 million sq.m. from CIFI's joint ventures and associates. Accordingly, GFA from CIFI's joint ventures and associates only accounted for approximately 11.8% of the total GFA under management from independent third parties and GFA from CIFI and CIFI's joint ventures and associates only accounted for approximately 32.8% of the total GFA under management of the Group;

(b) the Company has achieved strategic cooperation and established various joint ventures with many reputable property developers or investment groups such as SND Group (蘇高新集團), Dezhou Jiaotou Development Group (德州市交通運輸投資發展集團), and most of which are independent from CIFI.

(vii) **The acquisitions of Qingdao Yayuan, Qingdao Yinshengtai Property Management Services Limited and Zhangtai Service Group Company Limited**

GMT's Allegation

In the Report, GMT alleged that the main reason for the sudden increase in the profitability of Qingdao Yayuan upon completion of its acquisition by the Company appears to have been substantial additional revenue received from the previous owners, who are now minority shareholders. It further alleged that Qingdao Yinshengtai Property Management Services Limited ("**Qingdao Yinshengtai**") recorded a big jump in profitability upon its acquisition by the Company within a relatively short period of time and most of the consideration allocated to goodwill which is not subject to amortisation. It further alleged that the acquisition of Zhangtai Service Group Company limited ("**Zhangtai**") is linked with the cooperation between CIFI and the parent company of Zhangtai.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

In relation to this Allegation, the Company would like to emphasis that:

(a) the acquisitions of Qingdao Yayuan, Qingdao Yinshengtai and Zhangtai enable the Group to expand the scale and scope of the Group's business operations, increase its market share and enhance its competitiveness in different regions of the PRC. These acquisitions have been agreed after arm's length negotiations between the Company and the respective vendor(s) with reference to comparable transactions in the industry. As such, these acquisitions are are fair and reasonable and in the interests of the Company and its Shareholders as a whole;

(b) for each acquisition, a valuation was performed by an independent valuer to determine the amount of intangible assets arising from the acquisition and the goodwill. Impairment test on goodwill is also performed at least annually;

(c) the increase in profitability of Qingdao Yayuan was mainly due to 1) official fully operation of three new commercial projects, 2)cost optimization with respect to energy consumption decline from air conditions equipment modification, parking system improvement replacing labor costs, and reduced human resources cost from outsourcing, and 3) market-oriented vacancy fees on unleased gross floor area;

(d) the increase in profitability of Qingdao Yinshengtai was mainly due to the delivery of several new projects during the first half of 2020 which also brought about revenue from community value-added services; and

(e) the acquisition of Zhangtai was arrived after arm's length negotiations and the consideration and other terms are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. The consideration will be determined based on the audited net profit of Zhangtai and a price to earnings ratio of 11. From 2019 and until now, the price to earnings ratio varies from 1.7 to 26.3 for acquisitions in property management industry, and the price to earnings ratio of 11 is at the average level.

(viii) Utilization of assets owned by the property developer to generate revenue from community value-added services

GMT's Allegation

In the Report, GMT alleged that it suspected that a significant proportion of the revenue and profits from community value-added services are from the utilisation of assets owned by the property developer. It alleged that the Company received the entire rental income collected in respect of parking spaces while such parking spaces are owned by CIFI.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

In relation to this Allegation, the Company would like to emphasis that:

(a) the Company did not recognize any revenue from rental of assets owned by CIFI. Any rental income received by the Company which belong to the relevant property developer would be settled with such property developer in due course; and

(b) as a part of the ordinary business of a property management company, the Company assists property owners in leasing common spaces and collect a portion of the rental fees in accordance with an agreed-upon percentage.

It is important for the Shareholders to be aware that GMT specifically stated in the Report that it makes no warranty or guarantee with respect to accuracy, timeliness, completeness or reliability of the information contained in the Report. Accordingly, Shareholders should treat the Report and the Allegations contained therein with caution. The Company reserves its right to take legal action against GMT and/or those responsible for the relevant allegations.

The Board considers that the Report contained certain factual errors, misleading statements and unfounded allegations which may lead to unusual price movement. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Ever Sunshine Lifestyle Services Group Limited
LIN Zhong
Chairman

PRC, 22 March 2021

As at the date of this announcement, the executive Directors are Mr. LIN Zhong, Mr. ZHOU Hongbin and Mr. ZHOU Di, the non-executive Director is Mr. LIN Feng; and the independent non-executive Directors are Mr. MA Yongyi, Mr. WANG Peng and Mr. CHEUNG Wai Chung.