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## **CIFI Ever Sunshine Services Group Limited**

**旭辉永升服务集团有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1995)**

### **KEY FINDINGS OF THE INDEPENDENT REVIEW**

#### **INTRODUCTION**

References are made to (i) the announcements of the Company dated 30 March 2023 and 31 March 2023 in relation to, among other things, the delay in the publication of the audited annual results of the Group for the year ended 31 December 2022, (ii) the announcement of the Company dated 28 April 2023 in relation to the unaudited consolidated management accounts of the Group for the year ended 31 December 2022, (iii) the announcement of the Company dated 16 May 2023 in relation to the change of auditor of the Company, (iv) the announcement of the Company dated 23 June 2023 (the “**June 2023 Announcement**”) setting out the guidance prescribed for the resumption of trading in the shares of the Company on the Stock Exchange (the “**Resumption Guidance**”), and (v) the quarterly update announcement of the Company dated 30 June 2023 in relation to the Company’s resumption progress (together, the “**Announcements**”). Capitalised terms used herein shall have the same respective meanings as those defined in the Announcements unless otherwise defined.

As set out in the June 2023 Announcement, one of the conditions under the Resumption Guidance is that the Company shall conduct an appropriate independent investigation into the Audit Issues, the Anonymous Email (as defined below) and the Alleged Transactions, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions.

This announcement sets out the key findings of the Independent Review (as defined below).

## BACKGROUND

On 27 March 2023, the Audit Committee received the DTT Letter from DTT, the former auditor of the Company, stating that, among other things, DTT received an anonymous email (the “**Anonymous Email**”, extracts of which were attached to the DTT Letter). The DTT Letter further stated that the key allegations (the “**Allegations**”) relate to the following:

- (A) misappropriation of cash and bank balances amounted RMB1.8 billion under *[sic]* the Company in favour of CIFI Holdings so as to provide fundings to CIFI Holdings to support its liquidity (“**Allegation (A)**”);
- (B) out of the RMB1.8 billion, CIFI Holdings structured the fund flows by way of entering into transactions with the Company, including (i) disposal of car parking spaces in exchange of *[sic]* deposits paid by the Company; and (ii) indirectly sold its investments in private equity funds to the Company where the substance of these private equity investments is in doubt (“**Allegation (B)**”); and
- (C) no proper approval was obtained for these transactions (“**Allegation (C)**”).

DTT recommended in the DTT Letter that the Audit Committee, among other things, to investigate and to establish whether there were commercial substance and business rationale of the deposits for car parking spaces and investment in private equity funds.

## INDEPENDENT REVIEW BY SUB-COMMITTEE

The Audit Committee resolved to form a sub-committee (the “**Sub-Committee**”), consisting of (i) Mr. CHEUNG Wai Chung, an independent non-executive Director and the chairman of the Audit Committee, and (ii) Mr. MA Yongyi, an independent non-executive Director and a member of the Audit Committee, to consider matters relating to the Allegations (the “**Independent Review**”) and to report findings to the Board. As disclosed the June 2023 Announcement, the Sub-Committee has appointed independent legal advisors (the “**Independent Legal Advisors**”) to advise it in connection with the Independent Review.

The Sub-Committee reported its findings and views following the Independent Review to the Board on 26 September 2023.

## SCOPE AND KEY FINDINGS OF THE INDEPENDENT REVIEW

### *Scope of Independent Review*

In view of the Allegations, the Sub-Committee:

- (a) noted, as stated in the June 2023 Announcement, that *“Other than naming the Company and CIFI Holdings and generally referring to their respective subsidiaries, neither the Letter [i.e. the Anonymous Email] nor the DTT Letter provides any specific details of the Alleged Transactions. As far as the Company is aware and up to the date of this announcement, no evidence has ever been provided to the Company to substantiate the vague allegations made in the Letter and the DTT Letter.*

*Notwithstanding the ambiguity and imprecision of the DTT Letter and the Letter, the Company has nevertheless for prudence’s sake, with the assistance of its advisors, reviewed what the Company believes to be the relevant transactions referred to in the Letter namely, those involving sales agency services with the CIFI Group or other third party property developers and those involving private equity funds (together, the “Transactions”). Following such review, the Company continues to be of the view that these Transactions:*

- (i) have been properly recorded in the management accounts of the Group in accordance with the accounting policies and practices of the Group consistently applied;*
- (ii) were conducted with sufficient commercial substance and business rationale; and*
- (iii) are on normal commercial terms.”*
- (b) with the assistance of the Independent Legal Advisors, undertook a fact finding review, independent of the internal review that the management of the Company indicated in the June 2023 Announcement that they have undertaken, in relation to:
- (i) the Group’s transactions with the CIFI Group that involved car parking spaces and payment of deposits;
- (ii) the Group’s transactions with other developers that involved car parking spaces and/or sales agency services and the payment of deposits;

- (iii) the Group’s private equity fund acquisitions;
  - (iv) whether those transactions were recorded in writing, have requisite internal approvals and whether deposits were made on or after the date of the relevant transaction approval and agreement; and
  - (v) the business rationale for and the timing of those transactions; and
- (c) discussed with Prism Hong Kong and Shanghai Limited (the “**Auditors**”), the incumbent auditor of the Company, as to the procedures they have undertaken in relation to those transactions in the course of their audit of the Group’s consolidated financial statements for the financial year ended 31 December 2022 (“**FY2022**”) generally and in light of the Allegations in the DTT Letter and the Anonymous Email.

### ***Key Findings of the Independent Review***

The Independent Legal Advisors (a) undertook a review and analysis of documentation (including transaction agreements and their terms, internal evaluation and financial analysis of relevant projects and financial projections which the Group represented formed the basis of project approval, approval records, payment records, internal presentations for annual budgeting of the Group’s rental and sales department (“**RSD**”) provided by the Company, the Group’s investment criteria) and representations provided by the Company, and (b) conducted interviews with certain personnel of the Group who were involved in RSD operations and/or the signing or approval of the relevant transactions and (where applicable) certain counterparties of transactions for the above purposes. The Independent Legal Advisors reported in their fact finding report, subject to the fairly customary assumptions and qualifications specified in it, to the Sub-Committee in summary that:

#### *In respect of Allegations (A) and (B)*

- (a) property sales agency has been one of the Group’s focuses in its business development since 2019 as an organic growth, and to capitalise on resources (including information regarding potential customers) that can be gained from the Group’s property management arm. The RSD had a sizeable workforce by the end of 2022 covering substantially all parts of the PRC;

- (b) the Group has entered into a number of agreements by which the Group provides sales agency services to the CIFI Group in respect of unsold car parking spaces and storage facilities at residential developments of the CIFI Group (“**CIFI Sales Agency Transactions**”) in FY2022 in respect of which deposits were payable. Certain deposits were also payable during FY2022 under CIFI Sales Agency Transactions entered into prior to FY2022. The contracts for these CIFI Sales Agency Transactions are considered by the Company as individual agreements between members of the Group and the CIFI Group under the sales agency framework agreement and related supplemental agreement disclosed in the Company’s announcements dated 22 March 2019, 22 April 2021, 23 December 2021 and 26 September 2023;
- (c) in the context of car park transactions or property sales agencies with other developers during FY2022, the Group has entered into a number of exclusive sales agency agreements with companies which are subsidiaries of a non CIFI-Group developer (which the Company has confirmed are independent third parties) (“**Independent Developer Group**”) that involved the sale of commercial units for that Independent Developer Group and payment to the Independent Developer Group of aggregate refundable deposits of approximately RMB300 million (“**Independent Sales Agency Transactions**”). These Independent Sales Agency Transactions were consistent with the Group’s aim to expand its non CIFI-Group customer and sales agency inventory base and was seen as a region wide collaboration between the Group and the Independent Developer Group, focusing in regions where the Group has stronger presence than the Independent Developer Group. Based on the Company’s representations, apart from (i) the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions; (ii) two acquisitions that involved car parking spaces and neither involved CIFI Group; and (iii) the sales agency transactions with different property developers that were individually not material in the context of Allegation (A) and Allegation (B), the Group had not entered into any other transactions involving car parks or property sales agencies with another developer;
- (d) the Group had reasonably clear business objectives in relation to its property sales agency business, systematic budgeting processes that involved senior management, regional offices’ and RSD’s inputs to form the overall budget for that business of the Group and standardised project assessment protocols to support commercial terms (including the size of deposits, where relevant). It is fairly common market practice for exclusive property sales agencies with developers that deposits are paid to such developers. Individual projects for the CIFI Sales Agency Transactions and Independent Sales Agency Transactions were identified and key commercial terms were negotiated by the relevant regional office of the Group with a view to achieve the Group’s business objective, budget and performance benefits to that regional offices;

(e) the Group acquired minority interest in four funds in December 2022 (the “**Fund Acquisitions**”, together with the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions referred to as the “**Relevant Transactions**”), amongst which, (i) the sellers of two funds purchased their interest in those funds from CIFI Group shortly before the relevant acquisition by the Group; and (ii) the Group invested in a fund, the fund manager of which also managed another fund from which CIFI Group recently exited. The Company has confirmed that all the counterparties in the Fund Acquisitions were independent third parties. The Group’s aggregate investment in those three funds amounted to approximately RMB197 million. The Group had specific investment criteria for its surplus cash which the Fund Acquisitions appeared to satisfy, having shifted from seeking investments in the property management sector prior to 2022 to strategic investments through investment managers in industries that may be considered relevant to the Group’s core business; and

*In respect of Allegation (C)*

(f) the Group had a standardised approval processes for the Relevant Transactions and there was no indication of a lack of independence in the approval of those transactions nor, in the context of the Fund Acquisitions, was there any indication of prior knowledge of approvers within the Group of the CIFI Group’s previous interest in those funds.

## **THE AUDITOR’S AUDIT PROCEDURES AND OPINION**

The Auditors have also undertaken separate interviews with the management of the Group and conducted on-site visits, ledger and document reviews and property right transfer records checking on a sampling basis in respect of the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions and required professional independent valuation of Fund Acquisitions as at the date of acquisition all as part of its audit procedures, having taken into account the DTT Letter and the Anonymous Email and the fact finding report of the Independent Legal Advisors. Based on their report to the Audit Committee and the Sub-Committee (subject to finalisation of audit), the Auditors have indicated that they do not expect to qualify their audit opinion for the Group’s consolidated financial statements for FY2022.

## **THE SUB-COMMITTEE'S VIEW**

The Sub-Committee reported to the Board that as of the date of its report (the “**SC Report**” which has attached to it the reports of the Independent Legal Advisors and the Auditors referred to above) that, subject to the finalisation of audit of the consolidated financial statements of the Group for FY2022:

- (a) there was no finding of any appropriate cause to doubt the veracity of the assertion by the Company’s management that the Relevant Transactions were conducted with sufficient commercial substance and business rationale and are on normal commercial terms nor was there any recommendation that further investigation be undertaken; and
- (b) it appears to the Sub-Committee that (i) the Relevant Transactions took place in the ordinary course of the Group’s business operations, (ii) there was reasonable business rationale for the deposit/consideration payments under the Relevant Transactions; and (iii) that deposit/consideration payments were made after the Relevant Transactions were approved in a manner materially consistent with the Group’s internal approval procedures.

## **THE BOARD'S VIEW**

Having considered the SC Report (and its attachments) in addition to the internal review by the management of the Company indicated in the June 2023 Announcement that it has undertaken with the assistance of the Company’s advisors, the Board is satisfied that:

- (a) the Relevant Transactions had commercial substance and business rationale at the time they were entered into;
- (b) the Relevant Transactions have been disclosed, where applicable, in accordance with the requirements of, and do not require the approval of the shareholders of the Company under, the Listing Rules;
- (c) the Relevant Transactions were properly approved in accordance with the Group’s internal control procedures; and
- (d) the Relevant Transactions have been properly reflected in the consolidated financial statements of the Group.

Based on the above, the Board is of the view that the Allegations have no impact on the Company’s business operation and financial position and that no remedial actions are required to be undertaken in connection with the Allegations.

## **SUSPENSION OF TRADING**

At the request of the Company, trading in the ordinary shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 31 March 2023. As disclosed in the announcement of the Company dated 26 September 2023 in relation to, among other things, fulfilment of the Resumption Guidance, the Company has made an application to the Stock Exchange for the resumption of trading in the ordinary shares of the Company with effect from 9:00 a.m. on 27 September 2023.

## **WARNING**

**Holders of the ordinary shares of the Company and potential investors of the Company are advised to exercise caution when dealing in the ordinary shares of the Company. When in doubt, Shareholders, holders of the ordinary shares of the Company and other investors of the Company are advised to seek professional advice from their own professional or financial advisers.**

By order of the Board  
**CIFI Ever Sunshine Services Group Limited**  
**LIN Zhong**  
*Chairman*

Hong Kong, 26 September 2023

*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. YU Tiecheng and Mr. CHEUNG Wai Chung.*