

Colour Life Services Group Co., Ltd.

Hong Kong

Category:	Corporate rating
Rating type:	Solicited rating
Industry:	Property management
Long-term Credit Rating:	BB _g +
Rating Outlook:	Stable

Analysts:

Elle Hu	elle_hu@ccxap.com
Jillian Li	jillian_li@ccxap.com

Director of Credit Ratings:

Guo Zhang	guo_zhang@ccxap.com
-----------	---------------------

Tel.:	+852-28607111
-------	---------------

China Chengxin (Asia Pacific) Credit Ratings affirms the BB_g+ rating of **Colour Life Services Group Co., Limited with stable outlook**

Hong Kong, 29 November 2017 -- China Chengxin (Asia Pacific) Credit Ratings announces that the BB_g+

 rating of Colour Life Services Group Co., Limited (“Colour life” or the “Company”) is unaffected by its 2017H1 results, outlook stable. Colour life’s rating reflects its sound operational performance, steady revenue growth and business expansion.

Colour life was founded in 2002, and was listed on the Stock Exchange of Hong Kong in 2014 (Stock code: 1778.HK). As of 30 June 2017, Fantasia Holdings Group Co. Limited (“Fantasia”), a listed company on the Stock Exchange of Hong Kong (Stock Code: 1777.HK), directly held approximately 50.5% of the Company’s shares. The ultimate controlling shareholder of Colour Life was the same with that of Fantasia, Ms. Zeng Jie Baby.

For the first half of 2017, Colour life recorded revenue of RMB 746.6 million with a YoY increase of 29.8%. Majority of the company’s revenue came from its property management segment, which accounted for 77.2% of total in 2017H1 like in 2016. In 2017H1, revenue from property management increased to RMB 576.3 million with a YoY increase of 31.1%. The increase was mainly caused by the growth in contracted area managed under a lump sum basis, as the Company has employed strategy of expansion through acquisitions and obtaining new service engagements. As of 30 June 2016, the revenue-bearing GFA under lump sum basis was 32.0 million sqm and the amount increased to 52.6 million sqm as of 30 June 2017. As large number of the companies acquired adopt operation model charged on a lump sum basis, and therefore, there was a relative large increase in revenue sourced from contracts under lump sum basis. As at 30 June 2017, the revenue-bearing GFA under commission basis slightly increased by 3.4% to 214.7 million sqm from 207.6 million sqm as of 30 June

2016. There was no noticeable change in the unit price of property management fee, although the price range broadened because of expansion. In November 2017, Fantasia was in the process of transferring Wanxiangmei Property Management Co., Ltd. (“Wanxiangmei”, formerly known as Wanda Property Management Co., Ltd.), which was previously acquired through a jointly-owned fund in late 2016. This marked the beginning of consolidation of Wanxiangmei with Colour Life. We expect this transaction would boost the Company’s future revenue from property management and expand GFA under management.

For the first half of 2017, engineering services segment and community leasing and sales segment accounted for 22.8% of the Company’s total revenue. Revenue from community leasing segment amounted to RMB 110.8 million. It included online platform service income from Caizhiyun platform, which reached RMB 52.0 million. As of 30 June 2017, the number of registered users reached 4.1 million, marking an increase of 36.2% from that of 2016 year end. 59.1% of registered users were active users, representing an approximately 1.7 percentage points improvement and indicating that the platform was under steady growth. In the first half year of 2017, the revenue from engineering services declined YoY by 7.3% to RMB 59.6 million, and it was mainly caused by influence from E-repair of Caizhiyun platform. With further development and promotion of Caizhiyun platform, we expect revenue from community leasing will undergo a steady growth in the future.

The Company’s strategy is to develop Caizhiyun platform to form a community O2O model. It expands platform service by breaking into new geographic markets and growing contracted GFA and by cooperating or forming alliance. In 2017H1, it entered into 6 new cities to further increase contracted GFA of property management services. As of 30 June 2017, it had presence in 215 cities or areas across China and oversea with total contracted area of 420.2 million sqm. In terms of cooperating with third-parties, the platform included many new parties with platform service area growing by 54.3 million sqm. As the platform gradually matures, we expect growth in platform service area would be stable and steady in the future.

The overall gross margin for the six months ended 30 June 2017 was 45.5%, which showed a slight improvement from 44.3% for the same period in 2016. The improvement mainly came from property management services under lump sum basis. Caizhiyun platform has been introduced in the operation of services under lump sum basis, which helped improve operation efficiency and resulted in a general increase in gross margin of services under lump sum basis. Net profit margin of the Company was 15.4%, which increased mildly by 0.7 percentage points compared with performance of last year for the same period. In the meanwhile, return on equity for the twelve month also strengthened compared to 2016, with an enhancement from 15.2% to 16.5%.

As of 30 June 2017, the Company’s debt level mildly increased by 5.8% to RMB 1,416.0 million from RMB 1,338.0 million in 2016. Capitalization ratio increased to 47.5% from 46.6% in 2016 and net gearing ratio rose to 32.3% from 5.9% in end-2016. In terms of debt structure, short-term debt/total debt improved from 16.0% as of 2016 year end to 21.7%. Despite the fact that there was a slight increase in debt, the Company was still under good credit metrics.

CCXAP noticed growth in finance cost compared with the same period in 2016. Finance costs for the half year ended 2017 amounted to RMB 49.2 million, showing a YoY growth of 339.3%. Yet, for the last twelve month ended 30 June 2017 EBITDA/interest coverage was 6.4x, which was still at a sound

level regardless of a mild decrease compared to 10.2x at 2016 year end. In addition, cash/short-term debt ratio was 3.0x as of 30 June 2017, indicating that the Company still had a good liquidity buffer.

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ AAg AAg-	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ Ag Ag-	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ BBBg BBBg-	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ BBg BBg-	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ Bg Bg-	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

Copyright ©2017.China Chengxin (Asia Pacific) Credit Ratings Company Limited. All rights reserved.

Disclaimer

Credit ratings assigned by China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) are based on CCXAP’s rating principles of independence, fairness and objectivity. A credit rating reveals and ranks specific risks, but it does not cover all risks embedded in the rated entity or the rated debt issue.

Credit ratings are not recommendations for investors to buy, sell or hold debt securities, nor measurements of market value of the rated entities or the rated debt issues. While CCXAP has obtained information from sources it believes to be reliable, CCXAP does not perform an audit and undertakes no duty of due diligence or independent verification of information it receives from the rated entity.

CCXAP’s public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means. The methodology used in this rating is Global Rating Methodology for Business and Customer Service Companies Industry dated June 2017, available at www.ccxap.com (Rating Process -> Rating Methodology).

All information published in this document belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained in this document reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee the accuracy, adequacy, completeness or timeliness of any information included in this document. None of the information may be used, including without limitation reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information, for subsequent use without CCXAP's prior written permission.

CCXAP is not liable for any in whole or part caused by, resulting from or relating to any error (neglect or otherwise) or other circumstance or contingency within or outside the control of CCXAP's or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, interpretation, analysis, editing, transcription, publication, communication or delivery of any such information, or any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation lost profits), even if CCXAP, or representatives thereof, are advised of the possibility of such damage, losses or expenses.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656