

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Fantasia Holdings Group Co., Limited (Stock Code: 1777), Colour Life Services Group Co., Limited (Stock Code: 1778) and two directors

SANCTIONS AND DIRECTIONS

The Stock Exchange of Hong Kong Limited (**Exchange**)

CRITICISES:

- (1) **Fantasia Holdings Group Co., Limited** (Stock Code: 1777) (**Fantasia**);
- (2) **Colour Life Services Group Co., Limited** (Stock Code: 1778) (**Colour Life**) (together with Fantasia, **Companies**);
- (3) **Mr Pan Jun**, executive director (**ED**), Chairman and Chief Executive Officer (**CEO**) of Fantasia; ED and Chairman, and former non-executive director (**NED**) and Chairman of Colour Life (**Mr Pan**); and
- (4) **Mr Tang Xue Bin**, former ED and CEO, and former NED of Colour Life (**Mr Tang**);

AND DIRECTS:

Mr Pan to attend 17 hours of training on regulatory and legal topics including Exchange Listing Rule compliance within 90 days (**Training**). The Training must include three hours on each of (a) directors' duties; (b) the Corporate Governance Code; and (c) the Exchange Listing Rule requirements for Rule 2.13; and

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Mr Tang to attend the Training as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

SUMMARY OF FACTS

Fantasia was listed on 25 November 2009. It subsequently spun off Colour Life on 30 June 2014 and remains the controlling shareholder of Colour Life. At the time of the spin-off, it was anticipated that both Companies would be engaged in the provision of property management business. The Companies entered into a deed of non-competition (**Deed**) and a business delineation scheme (**Scheme**) to eliminate potential competition and provide a clear business delineation. The relevant terms of the Deed and the Scheme were disclosed in Colour Life's prospectus.

Under the Deed,

- (a) Fantasia undertook, *inter alia*:
- (i) not to engage in any business involving property management focusing on “*residential communities*”;
 - (ii) if the Fantasia Group identified or is offered any project or new business opportunities to engage in or acquire a company engaging in property management for “*residential communities*”, it shall provide Colour Life with all information in its possession to enable Colour Life to evaluate such merits;
 - (iii) to use, and procure Fantasia's subsidiaries to use, its best endeavours to provide all information necessary for the annual review of Colour Life's independent non-executive directors (**INEDs**) for the enforcement of the Deed; and
 - (iv) to make an annual declaration on Fantasia's compliance with the Deed in Colour Life's annual report.
- (b) Colour Life needs to disclose Fantasia's annual declaration in its annual report. Its INEDs are required to review Fantasia's compliance with the Deed and disclose their annual review on Fantasia's compliance with and the enforcement of the Deed in Colour Life's annual reports (**INED Confirmation**).

Under the Scheme, Fantasia would not acquire targets, or would dispose of such parts, if they also managed “*pure residential communities*”. Colour Life would not acquire targets, or would dispose of such parts, if they also managed “*pure commercial properties*”.

A management team was formed and was responsible for ensuring the Companies’ compliance with the Deed and/or the Scheme (**Management Team**).

Colour Life’s annual reports for each financial year ended 31 December 2015 to 31 December 2018 (**Relevant Annual Reports**) contained disclosures of (a) Fantasia’s confirmation of its full compliance with all the relevant terms of the Deed in all material respects and Fantasia had not identified or been offered any opportunities to engage in a business that was in competition with that of Colour Life (**Annual Declarations**); and (b) confirmation by Colour Life’s INEDs that effective compliance with and enforcement of undertakings of the Deed had been conducted by Fantasia (**Relevant Confirmations**).

The Relevant Annual Reports all contained a statement that the Board of Colour Life considered its internal control and risk management systems effective and adequate. The Board of Fantasia also confirmed in Fantasia’s annual reports for each financial year ended 31 December 2015 to 31 December 2018 that Fantasia’s internal control and risk management systems were effective and adequate.

After the Deed and the Scheme became effective, it came to the Listing Division’s attention that:

- (a) Fantasia participated, through its subsidiary, in the management of 30 projects categorised as “*pure residential communities / residential communities and ancillary facilities*” since January 2015, four of which related to property management of “*residential communities*” developed by the Fantasia Group since September 2017. The Fantasia Group did not refer those projects to Colour Life for its evaluation; and
- (b) Colour Life acquired equity interests in three target companies (**Target Companies**) in June 2015, February 2018 and March 2019, which managed “*pure commercial properties*” and did not dispose of, or evaluate its disposal of, such management contracts.

EXCHANGE LISTING RULE REQUIREMENTS

Rule 2.13(2) provides that the information contained in any announcement or corporate communication must be accurate and complete in all material respects and not be misleading or deceptive.

Code Provision C.2.1 of the Corporate Governance Code in Appendix 14 to the Exchange Listing Rules (**CG Code**) provides that the issuer shall establish and maintain an appropriate and effective internal control system.

Rule 3.08 provides that the Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer (Rule 3.08(f)).

Each of Mr Pan and Mr Tang has given the Director's Undertaking, which provides, *inter alia*, that he undertakes to comply with the Exchange Listing Rules to the best of his ability, and to use his best endeavours to procure Fantasia's and/or Colour Life's compliance with the Exchange Listing Rules.

ACCEPTANCE OF SANCTIONS AND DIRECTIONS

The Companies undertook to set up a specific meeting to address the INED Confirmation before the release of Colour Life's annual results each year (**Specific Meeting**) and to maintain proper records of such meetings. Colour Life undertook all the INEDs of Colour Life will attend the Specific Meeting, and Fantasia undertook an ED of Fantasia will attend the Specific Meeting.

The Companies, together with Mr Pan and Mr Tang have agreed with the Exchange not to contest their respective breaches, and accepted the sanctions and directions imposed on them by the Listing Committee, as set out below.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) Fantasia breached Code Provision C.2.1 of the CG Code by failing to maintain and implement effective and adequate internal controls for procuring its compliance with the terms of the Deed. This resulted in Fantasia's breach of the Deed:
 - (a) in its management of the "*residential communities*" projects;
 - (b) in not having procured that the INEDs of Colour Life be provided with all information necessary for their annual reviews; and
 - (c) in that the Annual Declarations were not accurate given Fantasia's involvement in the "*residential communities*" projects.
- (2) Colour Life breached Rule 2.13(2) and Code Provision C.2.1 of the CG Code:
 - (a) The Relevant Annual Reports were in breach of Rule 2.13(2) by containing the Annual Declarations and the Relevant Confirmations of the Fantasia Group's full compliance with the Deed, which were not accurate given the Fantasia Group's involvement in the "*residential communities*" projects.
 - (b) Colour Life was in breach of the Scheme as the Target Companies managed "*pure commercial properties*" at the time of their acquisition and thereafter, and Colour Life did not dispose of, or evaluate the disposal of, such management contracts. It failed to maintain and implement effective and adequate internal controls for procuring its compliance with the Scheme.
- (3) Mr Pan and Mr Tang were members of the Management Team but they failed to ensure that Fantasia and/or Colour Life maintained adequate and effective internal controls for compliance with the Deed and the Scheme. Their conduct in turn led to Colour Life's inaccurate disclosure in the Relevant Annual Reports. They were both directors of Colour Life during the relevant period and were aware of the obligation of Colour Life's INEDs to review Fantasia's compliance with the Deed. They should have taken steps to ensure the accuracy of Fantasia's Annual Declarations:

- (a) Mr Pan breached Rule 3.08(f) and his Directors' Undertaking by failing to use his best endeavours to procure Fantasia's and Colour Life's compliance with (i) the Deed and the Scheme; and (ii) Code Provision C.2.1.
- (b) Mr Tang breached Rule 3.08(f) and his Directors' Undertaking by failing to use his best endeavours to procure Colour Life's compliance with (i) Rule 2.13(2) in respect of the Relevant Annual Reports; (ii) the Scheme; and (iii) Code Provision C.2.1 of the CG Code.

CONCLUSION

The Listing Committee decided to impose the sanctions and directions set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions and directions apply only to the Companies, Mr Pan and Mr Tang, and not to any other past or present members of the board of directors of the Companies.

Hong Kong, 28 February 2022