

## STATEMENT OF DISCIPLINARY ACTION

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

### SANCTIONS AND DIRECTIONS

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

#### **CENSURES:**

- (1) **Fantasia Holdings Group Co., Limited (Fantasia);**
- (2) **Colour Life Services Group Co., Limited (Colour Life);**

**IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT** against:

- (3) **Mr Pan Jun**, former Chairman, Chief Executive Officer (**CEO**) and executive director (**ED**) of Fantasia and Colour Life (**Mr Pan**);

#### **CENSURES:**

- (4) **Mr Chen Xinyu**, former ED of Fantasia and Colour Life (**Mr Chen**);
- (5) **Ms Zeng Jie, Baby**, non-executive director (**NED**) and former ED of Fantasia (**Ms Zeng**);
- (6) **Mr Ke Kasheng**, former ED of Fantasia (**Mr Ke**);
- (7) **Mr Zhang Huiming**, former ED of Fantasia (**Mr Zhang**);
- (8) **Mr Guo Shaomu**, independent non-executive director (**INED**) of Fantasia (**Mr Guo**);
- (9) **Mr Wu Qingbin**, former NED of Colour Life (**Mr Wu**);
- (10) **Mr Xu Xinmin**, former INED of Colour Life (**Mr Xu**); and
- (11) **Mr Zhu Wuxiang**, former INED of Colour Life (**Mr Zhu**).

(Fantasia and Colour Life are each referred to as the **Company**, and are collectively referred to as the **Companies**, and the directors identified at (3) to (11) above are collectively referred to as the **Relevant Directors**.)

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The statement made in respect of Mr Pan above is made in addition to a public censure against him. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, the occupying of the position of director or senior management of the Companies or any of their subsidiaries by Mr Pan may cause prejudice to the interests of investors.

## **AND FURTHER DIRECTS:**

Training on regulatory and legal topics including Listing Rules compliance (**Training**) for (i) Mr Xu (18 hours), (ii) Ms Zeng and Mr Guo (15 hours), and (iii) Mr Ke, Mr Chen, Mr Zhang, Mr Wu and Mr Zhu (15 hours as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange).

## **HEARINGS**

On 10 September 2024, the Listing Committee conducted a hearing into the conduct of the Company and the Relevant Directors in relation to their obligations under the Listing Rules.

On 22 January 2025, the Listing Review Committee conducted a hearing of the review application of Mr Chen in respect of the findings of breaches and sanctions imposed against him by the Listing Committee.

## **SUMMARY OF FACTS**

This case concerns Colour Life's disposal of its wholly-owned subsidiary, Link Joy Holdings Group Co., Limited (**Link Joy**), which constituted a very substantial disposal (**VSD**) for the Companies.

### ***Companies***

On 28 September 2021, Colour Life entered into an agreement to dispose of the entire issued share capital of Link Joy (**Share Transfer Agreement**) to Country Garden Property Services HK Holdings Company Limited (**Country Garden**), a wholly-owned subsidiary of Country Garden Services Holdings Company Limited (Stock Code: 6098). The consideration for the disposal was RMB 3.3 billion, to be paid by Country Garden in three tranches upon the fulfilment of certain conditions: (a) RMB 2.3 billion (which was paid by Country Garden upon the signing of the Share Transfer Agreement), (b) RMB 700 million, and (c) RMB 300 million.

Fantasia was the controlling shareholder of Colour Life at the relevant time. The VSD was subject to, amongst others, a requirement for shareholders' approval of both Companies.

On Thursday, 30 September 2021, two days after signing the Share Transfer Agreement, Colour Life entered into a loan agreement with Country Garden to borrow the sum of RMB 700 million, which was repayable on the next business day in Hong Kong (ie on or before Monday, 4 October 2021) (**Loan Agreement**).

As security for the loan, Colour Life undertook that Country Garden would have the right under the Loan Agreement to request Colour Life to transfer the entire issued share capital of Link Joy to it upon certain events of default. These were: (a) if the loan was not repaid by the due date, or (b) if Fantasia and/or Colour Life were to default on external debts in the amount of RMB 10 million or above (**Events of Default**).

On 4 October 2021, both Events of Default were triggered – Fantasia defaulted on certain senior notes of over RMB 10 million and Colour Life defaulted on the loan. As a result, Country Garden enforced its right to request Colour Life to transfer Link Joy to it.

The Companies admitted that the disposal of Link Joy constituted a VSD, and that they had breached the applicable announcement, circular, and shareholders' approval requirements.

The disposal of Link Joy was not disclosed to investors and the market by the Companies until 26 October 2021, when the Companies published a joint announcement in relation to (a) the Share Transfer Agreement, (b) the Loan Agreement, and (c) the fact that Link Joy had been transferred to Country Garden.

The Companies published a further joint announcement on 28 March 2022 to disclose that they had entered into a supplemental agreement with Country Garden (**Supplemental Agreement**). The Supplemental Agreement provided that (i) the first tranche payment of RMB 2.3 billion had been received by Colour Life, (ii) the second tranche payment of RMB 700 million would be set off against the loan, and (iii) the balance of RMB 300 million would be paid by Country Garden in two instalments upon the fulfilment of certain conditions, including obtaining shareholders' approval for the transfer of Link Joy by Fantasia and Colour Life.

The Companies did not publish a circular in relation to the disposal of Link Joy until 25 July 2023, almost two years after Link Joy had already been disposed of. An extraordinary general meeting was held on 11 September 2023, where the shareholders of both Companies ratified the Share Transfer Agreement and the Supplemental Agreement.

***Relevant Directors***

Mr Pan was the sole director involved in the discussion of the Loan Agreement with Country Garden, the signing of the Loan Agreement on behalf of Colour Life, and the decision to default on the loan by Colour Life. The remaining Relevant Directors submitted that they were not aware of the transfer of Link Joy until board meetings were convened by the Companies on 6 October 2021.

Mr Pan admitted that he did not consult the boards of directors of the Companies (**Boards**) prior to the Loan Agreement being entered into. In the days after signing the Loan Agreement, Mr Pan continued to keep the Loan Agreement to himself, despite having an opportunity to raise the issue at a Board meeting of Fantasia held on 4 October 2021. Mr Pan disregarded the internal control policies of the Companies which were applicable to the Loan Agreement.

When the other Relevant Directors became aware of the Loan Agreement, the transfer of Link Joy and Mr Pan's questionable conduct, they did not raise any enquiries or seek further information from Mr Pan, despite concerns being raised by other members of the Boards (who are not involved in this action).

**RULE REQUIREMENTS**

Under Rules 14.34, 14.38A and 14.49, a listed issuer must publish an announcement as soon as possible after the terms of a VSD have been finalised. A VSD must be made conditional on approval by shareholders in general meeting, and the issuer must send a circular to its shareholders and the Exchange and arrange for its publication.

Under Rule 14.36A, where there is expected to be delay in despatch of the circular by the date previously announced, the issuer must as soon as practicable disclose this fact by way of an announcement stating the reason for the delay and the new expected date of despatch of the circular.

Rule 3.08 provides that directors, both collectively and individually, are required 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/her knowledge and experience and holding his/her office within the issuer.

Under Rules 3.08, 3.16 and 13.04, the board is collectively responsible for the listed issuer's management and operations, and the directors are collectively and individually responsible for the listed issuer's compliance with the Listing Rules.

Pursuant to Rule 3.09B, each director is under an obligation to (a) comply with the Listing Rules to the best of his/her ability, and (b) use his/her best endeavours to procure the issuer's compliance with the Listing Rules.

## **EXCHANGE'S FINDINGS OF BREACH**

The Exchange found as follows:

- (1) The disposal of Link Joy constituted a VSD for the Companies. The Companies therefore breached the relevant requirements under Chapter 14 in relation to the disposal of Link Joy.
- (2) Mr Pan breached his duties and obligations under the Listing Rules arising from the disposal of Link Joy and the Listing Rules breaches of the Companies:
  - (a) Mr Pan's explanations regarding the Loan Agreement and the default were implausible. The evidence suggested that the whole transaction was structured by Mr Pan as a way for Colour Life to dispose of Link Joy as soon as possible, and as an attempt to circumvent the relevant Listing Rules requirements applicable to a VSD.
  - (b) Minimum standards of corporate governance reasonably expected of a listed company would require any substantial decisions and actions affecting the company to be properly discussed and considered by the board of the company. As Mr Pan was the then Chairman, CEO and ED of both Companies, it was particularly important in this case for him to bring the relevant transactions to the Boards' attention.
  - (c) Amongst other things, Mr Pan would reasonably have been expected to have raised with the Boards the need for a loan and the proposed Loan Agreement. There should have been consideration by the Boards as to whether the Loan Agreement was in the interests of the Companies, whether other financing options were available, whether Link Joy should be used as security, whether Colour Life had sufficient resources to repay the proposed loan, the consequences of default, and any matters of Listing Rules compliance. By keeping the Boards in the dark, the

directors of both Boards were unable to perform their responsibilities.

- (d) Mr Pan's conduct was serious and has resulted in prejudice to investors and the Companies' breaches of the Listing Rules.
- (3) The other Relevant Directors breached their duties and obligations under the Listing Rules arising from the disposal of Link Joy and the Listing Rules breaches of the relevant Company, of which he / she was a director at the material time:
- (a) When the other Relevant Directors found out about the disposal of Link Joy, it should have been apparent to them that Mr Pan had kept them in the dark about the Loan Agreement and the Events of Default, and had completely disregarded the Group's internal control policies and general good corporate governance practices. It should also have been apparent that the third tranche payment due from Country Garden was jeopardised, as Link Joy had already been transferred to Country Garden.
  - (b) A reasonable director would have raised questions or asked for more information from Mr Pan, including information on the commercial basis for the loan, other financing options considered, the reason for entering into a four-day loan, why the Loan Agreement was not put before the Board for discussion and approval, the Listing Rules implications of the relevant transactions, and the potential failure to reach an agreement with Country Garden for the payment of the remaining consideration for Link Joy. However, the other Relevant Directors did not question Mr Pan's behaviour, and simply ratified the Loan Agreement (in the case of Colour Life) or agreed for the Companies to keep negotiating with Country Garden for the third tranche payment.
  - (c) A reasonable director would also have procured the relevant Company to comply with the Listing Rules, including to promptly disclose the disposal of Link Joy to investors and the market.

## **CONCLUSION**

The Exchange 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 and the Relevant Directors, and not to any other past or present directors of the Companies.

Hong Kong, 6 March 2025