

STATEMENT OF DISCIPLINARY ACTION

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

SANCTIONS AND DIRECTIONS

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

CRITICISES:

- (1) **Mr Lam Kam Tong (Mr Lam)**, former executive director (**ED**) and former non-executive director (**NED**) of Fantasia Holdings Group Co., Limited (Stock Code: 1777) (**Fantasia**); and former NED of Colour Life Services Group Co., Limited (Stock Code: 1778) (**Colour Life**);
and
- (2) **Mr Zhou Qin Wei (Mr Zhou)**, former ED of Colour Life;

AND FURTHER DIRECTS:

As a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange, each of Mr Lam and Mr Zhou to attend 17 hours of training on regulatory and legal topics including Listing Rule compliance.

.../2

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 had identified or was offered any project or new business opportunities to engage in or acquire a company engaging in property management for "*residential communities*", to 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 would need to disclose Fantasia's annual declaration in its annual report. Its INEDs were 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.

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*".

Both Mr Zhou and Mr Lam were members of the management team which was responsible for ensuring the companies' compliance with the Deed and/or the Scheme. Mr Zhou was named in Colour Life's prospectus as the head of the team.

Mr Lam was responsible for crafting the Deed and the Scheme and for ensuring Fantasia's compliance with the Deed. Mr Zhou was primarily responsible for Colour Life's spin-off process including representing Colour Life in crafting the Deed and the Scheme, as well as for ensuring compliance with the Deed and the Scheme.

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.

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 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 Lam and Mr Zhou is subject to the obligations in the Declaration and Undertaking with regard to Directors in the form set out in Appendix 5B to the Exchange Listing Rules (**Director's Undertaking**), which includes, *inter alia*, that he will comply with the Exchange Listing Rules to the best of his ability, and use his best endeavours to procure Fantasia's and/or Colour Life's compliance with the Exchange Listing Rules.

SETTLEMENT WITH OTHER PARTIES

The Division entered into a settlement with (i) Fantasia, (ii) Colour Life, and (iii) a number of current or former directors of the companies who were also involved in the companies' compliance with the Deed and the Scheme. Details of the settlement are set out in a separate statement of disciplinary action published on the date hereof.

Mr Lam and Mr Zhou did not participate in the settlement.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) Mr Lam and Mr Zhou were, amongst others, members of the boards of Fantasia and/or Colour Life who were responsible for ensuring that both companies had adequate and effective internal control procedures in place to ensure compliance with the Deed and the Scheme.
- (2) Mr Lam and Mr Zhou 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 (save that Mr Zhou resigned on 25 July 2016) 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.
- (3) In the circumstances:
 - (a) Mr Lam 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 of the CG Code.
 - (b) Mr Zhou 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 Colour Life's annual report for the year ended 31 December 2015; (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 Mr Lam and Mr Zhou, and not to any other past or present members of the board of directors of the Companies.

Hong Kong, 28 February 2022