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JY GAS LIMITED
交运燃气有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1407)

RESULTS OF INTERNAL CONTROL REVIEW

References are made to the announcements of the JY GAS LIMITED (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 8 March 2024 and 9 April 2024 (“**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

Internal Control Review

The Internal Control Review conducted by the Internal Control Consultant covered the review of documents relating to the Loans during the period from September 2023 to December 2023, as well as assessment of the internal control systems and policies of the Company during the period from 1 January 2024 to 31 March 2024 (the “**Relevant Period**”). The Internal Control Consultant has completed its review of the Company’s internal control in respect of:

- I. Compliance processes management; and
- II. Funds management.

The findings identified by the Internal Control Consultant in the Internal Control Review and its recommendations for improvement of the Company’s internal controls and ensuring compliance with Chapter 13, Chapter 14 and Chapter 14A of the Listing Rules, and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“**SFO**”) are summarised as follows:

I. Compliance processes management

(a) Compliance processes policies

Finding

The Group has adopted a number of internal control policies to govern the Group’s information disclosure procedures and connected transactions related

matters. However, it was noticed that such policies, although approved by the board of directors of the Company (the “**Board**”), have not been issued to the relevant responsible personnel or uploaded onto the Company’s internal system for review and access by the employees, such that relevant employees are not aware of the procedures.

In addition, although the Group has established an internal compliance process system, the relevant written policy does not comprehensively set out in detail the procedures to be followed for particular matters, which include (among others), transactions under Chapter 13, Chapter 14 and Chapter 14A of the Listing Rules, and Part XIVA of the SFO.

Furthermore, the Group has not maintained a record of disclosure of inside information and a register of persons with knowledge of inside information, such that it is unable to comprehensively and accurately keep records of the contents of inside information and those people or units who possess such inside information, which in turn leads to failure in prompt identification and control the procedures of inside information disclosure.

Recommendation

It is recommended that the Company should establish a compliance process system in respect of Chapter 13, Chapter 14 and Chapter 14A of the Listing Rules and Part XIVA of the SFO, so as to ensure that the procedures set out as part of such system comply with the requirements of the Listing Rules and the SFO on reporting and disclosure of continuing obligations, notifiable transactions, connected transactions and inside information. The system should be approved by the management of the Company and communicated to the relevant personnel, and be effectively implemented. In addition, the Company should appoint an officer to review and report on the implementation of the system on a regular basis and to make recommendations for improvement.

Furthermore, the Company should maintain a record of the disclosure of inside information and a register of persons with knowledge of inside information. The Company should designate a responsible person to ensure that the record is updated in a timely manner and properly filed for future follow-up.

Implementation

The Group has established and updated the compliance process system and the following Listing Rules compliance policies with all recommended suggestions:

- Continuing Obligations Management Policy;
- Notifiable Transactions Management Policy;
- Connected Transactions Management Policy (“**CTM Policy**”); and
- Disclosure of Inside Information Management Policy.

(together, the “**Compliance Policies**”)

The updated compliance process system and the Compliance Policies have been approved and adopted in writing by the Company’s legal department, finance department and an executive Director on behalf of the Board on 26 June 2024.

The Group has also maintained a record book for the disclosure of inside information and a register of persons who have been informed of inside information. The secretary to the Board is responsible for monitoring these records, and reporting to the Audit Committee and the Board on a regular basis.

(b) Size tests calculations management

Finding

It was noted that the staff of the finance department conducted size tests calculations in accordance with Chapter 14 of the Listing Rules whenever there is any potential notifiable or connected transaction, which was reviewed by the financial controller of the Company (“**Financial Controller**”). The Financial Controller and the secretary to the Board of the Company would determine whether it is a notifiable and/or connected transaction under the Listing Rules, or if the identification is not straightforward, seek legal advice from legal advisers. However, the following deficiencies in the size tests calculations process involving the Loans from September 2023 to December 2023 were found:

- (i) the staff of the finance department had not kept record of the size tests calculations for the Loans for determining whether the relevant transactions should be disclosed in accordance with the Listing Rules; and

- (ii) the staff of the finance department had not prepared a size tests calculations table in order to conduct the size tests calculations in a timely manner in the event of a potential transaction.

Recommendation

It is recommended that the Company should adopt the following procedures and guidelines for staff to act upon:

- (i) the proposals, size tests calculations records, and relevant copies reviewed by the Financial Controller should be properly filed;
- (ii) a size tests calculations table, detailing the calculation requirements, should be prepared, and the results of the size tests calculations should be kept;
- (iii) establish an upper limit on the maximum transaction amount allowed for future potential transactions, beyond which the staff of the finance department will be required to conduct the size tests calculations and consider the disclosure requirements, if any, on a case-by-case basis. The limit may be determined by reference to similar past transactions of the Group, or if there are no similar transactions carried out in the past, the limit shall be determined based on reasonable assumptions;
- (iv) ensure that size tests calculations are made on the same basis as required under the Listing Rules; and
- (v) finance personnel of all subsidiaries of the Company shall be required to report the size test calculations to the Financial Controller for determining whether the calculations were carried out in accordance with requirements of the Listing Rules, and the company secretary of the Company shall report the same to the Board.

Implementation

The Group has updated the CTM Policy, which includes the categorisation of notifiable transactions under the Listing Rules and the calculation of their percentage ratios, the preparation of size tests and the approval process.

The Group has also prepared a size tests calculations table, which sets out in detail the calculation requirements. The staff of the finance department are required to use this table to record the results of all size tests, which shall be submitted to the Financial Controller for approval. In addition, the Group has established an upper limit on the maximum transaction amount for each type of potential continuing connected transactions with reference to past transactions. Where the amount of a connected transaction is close to HK\$3 million, the

Company will consult with its legal advisers, and where a connected transaction is close to exceeding HK\$3 million or a continuing connected transaction is close to exceeding the annual cap amount, the finance department shall conduct the size tests, and the secretary to the Board shall, based on such size tests calculations, categorize and determine disclosure of the transactions in accordance with the Listing Rules.

(c) Connected transactions management

Finding

According to the CTM Policy, the finance department of the Company is responsible for preparing a list of connected persons pursuant to the Listing Rules, distributing the list to all subsidiaries of the Company, and updating the list whenever there is any change. During its preparation for listing on the Stock Exchange, the Company had prepared and arranged for a written questionnaire on connected persons information to be filled in by relevant connected persons. Such questionnaire has been filled in by its directors, senior management and substantial shareholders. However, after the Company was listed on the Stock Exchange, it failed to update those written questionnaires, and only regularly made verbal inquiries with the relevant persons for update. The Company failed to maintain a complete list of connected persons with all information contained in a single file, as such information were only recorded in separate questionnaire by each relevant person.

It was found that the finance department had only prepared a summary of connected transactions on a quarterly basis, rather than on a monthly basis as required by the CTM Policy, and had failed to confirm the details of the relevant transactions with the connected persons. In addition, rather than recording all connected transactions that occurred during the Relevant Period, these summaries had only recorded those transactions involving significant amounts.

Recommendation

It is recommended that the Company should prepare a consolidated connected persons list and procure its directors, senior management and substantial shareholders of the Company and its subsidiaries to provide and update relevant connected persons information as required under the Listing Rules. A consolidated list of connected persons, setting out all connected persons defined in Rules 14A.07 to 14A.22 of the Listing Rules, shall be periodically reviewed by the senior management of the Company to ensure the accuracy and completeness of information.

It is also recommended that a summary of connected transactions shall be prepared on a monthly basis, and all transactions with connected persons shall be accurately recorded in this summary. Senior management of the Company shall also require the finance department of each of the Company's subsidiaries to issue monthly statements to its connected persons for confirmation of the transaction amount, and such statements shall be approved in advance by the senior management of the Company. The abovementioned procedures shall be included in the relevant management policy, so as to avoid having carried out any connected transactions before complying with relevant disclosure or shareholders' approval requirements.

Implementation

The Group has updated the CTM Policy, which includes the workflow of identifying, investigating, declaring, confirming and processing the information of connected persons, as well as the process of updating the list of connected persons.

Furthermore, the Directors, chief executives and substantial shareholders of the Company and its subsidiaries have updated the connected persons questionnaire for the purpose of identifying all connected persons, associates and connected companies. The Company has prepared and updated the connected persons list and connected companies list ("**Lists**") according to these questionnaires, which has been reviewed and confirmed by one of the executive Directors in writing. The secretary to the Board is responsible for updating such Lists in a timely manner. In addition, while entering into an agreement, the relevant business department shall seek legal advice in a timely manner if it is unable to determine whether a contracting party is a connected person.

(d) Loans to connected persons

Finding

In respect of the Loans advanced by Jiaoyun Gas (a wholly-owned subsidiary of the Company) to a connected person of the Company, the Company failed to (i) prepare written records of the Board's approval before carrying out the transaction; (ii) enter into written loan agreements before advancing the loan amounts; (iii) comply with the relevant Listing Rules requirements and to obtain independent Shareholders' approval and announce the Loans when the transactions were conducted; and (iv) make proper accounting entries when the transactions were conducted.

Recommendation

It is recommended that the Company should adopt the following procedures for advancement of loans to connected persons:

- (i) finance personnel of the subsidiaries of the Company shall be required to report the size test calculations to the Financial Controller for determining whether the calculations were carried out in accordance with requirements of the Listing Rules, and the company secretary of the Company shall report the same to the Board;
- (ii) the company secretary of the Company shall prepare written records of resolutions of the Board before carrying out the transaction, prepare the draft announcement in relation to the relevant connected transactions for the Board's review prior to carrying out the transaction, and keep written records of the Board's review and approval of the same;
- (iii) the abovementioned procedures shall be included in the relevant management policy, so as to avoid having carried out any connected transactions before complying with relevant disclosure or shareholders' approval requirements;
- (iv) the Company shall arrange for the relevant connected persons to enter into written agreements before finalising and carrying out the relevant transactions;
- (v) in the event that connected transactions need to be conducted due to commercial needs, the Company should prepare documentary proof of the transaction, including but not limited to: (i) a description of the background of the connected transactions; (ii) the identification of the connected persons involved; (iii) the written agreements of the connected transactions; (iv) the basis of pricing of the connected transactions, and (v) a description of the impact of the connected transaction on the interests of the Group and independent shareholders of the Group. The relevant transactions shall be conducted in accordance with applicable accounting rules and the Listing Rules, and shall be approved by the Board and independent Shareholders (where necessary);
- (vi) the Company shall arrange training sessions for relevant personnel regarding the identification, data collection and management of connected transactions; and

(vii) the Company should request the finance department of the Company's subsidiaries to prepare financial records based on the actual timing of the relevant transactions and to keep accurate accounting records and notes. Relevant supporting documents such as the loan agreements, payment approvals, and bank receipts should be attached to the accounting voucher and submitted to the management for approval. The accounting voucher and its attachments should be filed properly for future reference.

Implementation

The Group has updated the CTM Policy, which includes the workflow for the preparation and approval of size tests calculations, approval for entering into written agreements for connected transactions, and procedures for drafting and publishing relevant announcements and circulars (if applicable). Before entering into any agreement, the Company's legal department shall determine whether the other contracting party is a connected person with reference to the Lists, and will notify the Board in a timely manner and complete the relevant approval and publication procedures before arranging for the signing of such agreements.

The Company arranged, and all Directors attended, a connected transactions compliance training by the Company's Hong Kong legal advisers on 27 June 2024. In addition, the Company plans to provide another training on loans to connected persons and disclosure of inside information to all Directors and senior management of the Company in the second half of 2024.

(e) Monitoring management

Finding

The Company and certain of its subsidiaries have not kept a contract ledger for contracts other than bank borrowings, and management approval records of such other contracts in accordance with the contract management policy adopted by the Company.

The Company did not require its directors and senior management to declare potential conflicts of interest annually.

According to its internal control policy, the Company is required to conduct reviews of the implementation of the internal control policy from time to time and at least once a year to identify any deficiencies in its internal control, so as to implement rectification measures in a timely manner. However, the Company did not maintain the written records of the internal control policy reviews conducted.

Recommendation

It is recommended that the Company shall (i) maintain a contract ledger, together with records of written approval for entering into such contracts; (ii) review its conflicts of interest management system and require all Directors and senior management to make annual declarations; and (iii) conduct reviews of the implementation of the internal control policy from time to time, and prepare relevant reports to enhance the effectiveness of its internal control.

Implementation

The Company and its subsidiaries started maintaining a contract ledger, which recorded information such as names of suppliers, contract amount, content of the contracts, date of signing and status of payment.

The Group has also established a declaration of interest system, which sets out the definition of conflict of interest, reporting procedures, and approval process. This system has been approved and adopted in writing by the Company's legal department, finance department and Directors on 28 May 2024.

In addition, the Company has formulated an internal control inspection plan for the second half of 2024. A comprehensive inspection of funds utilisation, procurement management, sales and payment management, human resources management and information system management will be conducted. Upon completion of such inspection, a report will be generated and submitted to the management of the Company for approval and properly filed.

II. Funds management

Finding

The Group's two operating subsidiaries, Jiaoyun Gas and Gaomi Jiaoyun Shihua Natural Gas Co., Ltd.* (高密市交運實華天然氣有限公司) (“**Jiaoyun Shihua**”), has each formulated and implemented a funds management policy, and has carried out reviews of such policy regularly. However, no records of review have been maintained.

During the Relevant Period, Jiaoyun Gas obtained a loan from a bank without reporting the loan to the Board in writing or maintaining a financing plan as required by the funds management policy.

In addition, during the Relevant Period, Jiaoyun Gas requested for an inter-group fund transfer from Jiaoyun Shihua due to operational funding needs, but Jiaoyun Gas did not prepare a fund transfer application in accordance with its funds management policy, where it was supposed to record the reason, date, and approval for conducting such transfer. At the time when Jiaoyun Shihua transferred such requested amount of the funds to Jiaoyun Gas, and received a bank receipt evidencing such transfer, no proper records were kept as proof of transfer approval. Moreover, records of such payment made by Jiaoyun Shihua have not been recorded in a timely manner, as the transfer was only intended to be recorded upon repayment.

In addition, the Company did not prepare a monthly cash flow forecast to estimate its cash flow and use of funds.

Recommendation

It is recommended that the Company adopts the following procedures in respect of funds management:

- (i) the Company shall review and update its funds management policy and record the dates of review to ensure consistent compliance. The Company shall notify its staff of any updates to the policy;
- (ii) the Company shall require its subsidiaries to maintain financing plans recording details such as the reason for financing needs, plans for use of funds, the amount of funds required, method of financing. Such plans shall be submitted to the Board for approval;
- (iii) the Company shall implement standardised procedures for all subsidiaries to apply for funds transfers, and to keep proper records of approvals for all fund transfers made. All amounts shall be recorded at the time when the transfer was made; and
- (iv) the Company shall regularly prepare cash flow forecasts setting out the amount of funds expected to be required for its operations, so as to assist the management in estimating funding needs and better manage financing plans to facilitate actual operations.

Implementation

The Company has updated its funds management system with respect to the internal funds transfer application process and cash flow forecast management, and added a new bank loan management system to regulate financing matters.

This system was approved and adopted in writing by the Company's legal department, finance department and an executive Director on behalf of the Board on 28 May 2024. The senior management of the Company will regularly review this system and inform its staff of any modifications of the system.

The Company's finance department has formulated a financing plan, which clearly states the reasons for the financing, the plan for the use of funds, the amount of the financing, the channels and methods of financing, the term of the financing, the cost of financing, details of the guarantees and the sources of repayment, etc.

The Company's finance department has also prepared a funds transfer request form, which shall be used by all subsidiaries of the Company.

Each of the Company, Jiaoyun Gas, and Jiaoyun Shihua prepared monthly cash flow forecasts and analysis, which set out the amount of funds expected to be required for its operations, the actual amount of funds used and an analysis of the difference.

VIEWS OF THE BOARD

After considering the Internal Control Review report, the recommendations contained therein and the results of such Internal Control Review, the Board considers that the measures recommended, and the remedial measures implemented by the Company, are adequate and sufficient to address all the major issues in the internal control systems and procedures of the Group as identified by the Internal Control Consultant. The Company will continue to implement the recommendations in the Internal Control Review report to improve the Company's internal controls and to ensure compliance with all applicable Listing Rules, in particular, Chapter 13, Chapter 14 and Chapter 14A of the Listing Rules, and Part XIVA of the SFO.

** For identification purposes only*

By Order of the Board
JY GAS LIMITED
Luan Linjiang
Chairman of the Board

Hong Kong, 12 July 2024

As at the date of this announcement: (1) the chairman and executive Director is Mr. Luan Linjiang; (2) the executive Directors are Mr. Luan Xiaolong and Mr. Luan Linxin; and (3) the independent non-executive Directors are Mr. Wei Yi, Mr. Tian Qiang and Ms. Liu Xiaoye.