

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against China Gas Industry Investment Holdings Co. Ltd. (Stock Code: 1940)

SANCTION

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

CRITICISES:

China Gas Industry Investment Holdings Co. Ltd. (Stock Code: 1940) (**Company**).

SETTLEMENT

The Company agreed to settle this disciplinary action. It accepts its breaches and the sanction imposed upon it by the Listing Committee.

SUMMARY OF FACTS

The Company, through its initial public offering on 29 December 2020, raised net proceeds of HK\$315.9 million. According to the Company's prospectus, the Company planned to (i) pay declared dividends in a total sum of RMB267.7 million (equivalent to HK\$309.9 million) to its pre-listing shareholders using its existing funds upon listing and (ii) apply over 90 per cent of its net listing proceeds towards the development of a gas production plant.

In the forecasts submitted by the Company to the Exchange before listing, the Company expected to have negative working capital by end of December 2020 without the listing proceeds.

Shortly before listing, the Company used a significant proportion of its funds to provide three unsecured loans in the total principal amount of RMB118 million (**Loans**). The Company entered into the loan agreements on 30 November and 1 December 2020. The Loans were due on 30 December 2020.

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Mr David T Chen (then chairman and executive director of the Company) granted the Loans on the Company's behalf without seeking the approval of the Company's board of directors (**Board**) in accordance with the Company's internal control policy and without consulting the Company's sponsor and compliance adviser.

The Loans should have been disclosed in the Company's prospectus, which was published on 16 December 2020.

The size of the Loans was significant. The Loans represented more than 36 per cent of the net proceeds expected to be raised and more than 31 per cent of the cash and cash equivalents of the Company and its subsidiaries before listing.

The Company was exposed to credit risk and risk of default in respect of the unsecured Loans. In particular, although the Loans were due to be repaid shortly after listing, any default in repayment would have a significant impact on the Company's financial position and its ability to timely meet its known future cash requirements, including the Company's planned dividend payment and intended use of listing proceeds. This was material information necessary for the investors to make an informed assessment of the Company's assets, financial position and potential risks for the purpose of their investment.

During the audit for the year ended 31 December 2020, the Company's former auditor noted that the Loans were all overdue but the Company did not receive any repayment. The auditor enquired about the Loans and their related fund transfers and requested the Board to commission an independent investigation, two days before the original scheduled Board meeting date for approving the 2020 annual results, to address the outstanding audit matters, including those relating to the Loans.

As a result, the Company failed to timely publish and/or despatch the following results and reports (**Results and Reports**). The Company does not contest its breach in relation to the delay in the publication and/or despatch of these Results and Reports:

Financial results / report	Period end	Due date	Published	Delay
2020 annual results	31/12/2020	31/03/2021	01/04/2022	12 months
2020 annual report	31/12/2020	30/04/2021	28/04/2022	11 months
2021 interim results	30/06/2021	31/08/2021	01/04/2022	7 months
2021 interim report	30/06/2021	30/09/2021	28/04/2022	6 months

The Results and Reports show that the Company did not fully pay the declared dividends upon 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 misleading or deceptive. Corporate communications include a prospectus and any equivalent document in connection with an application for listing.

Under Rule 11.07, as an overriding principle, a prospectus must contain such particulars and information which is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer, among other things.

The Exchange's then Guidance Letters GL86-16 and GL98-18 provide guidance on the information the Exchange expects to be included in a listing document. Such expectations include disclosing information relating to the listing applicant's financial condition and material adverse changes to a listing applicant's financial position after the trading record period; material risks to a listing applicant; and a clear picture of a listing applicant's ability to meet known, or reasonably likely, future cash requirements. Risk factor disclosure should not be confined to risks that are considered to be reasonably likely to occur. If the occurrence of a particular risk would have a significant effect on the listing applicant, that particular risk should be disclosed even if it has a low probability of occurring.

Rules 13.46(2)(a), 13.48(1), 13.49(1) and 13.49(6) stipulate the timing for the publication and/or despatch of a listed issuer's preliminary announcement of interim and annual results and reports.

LISTING COMMITTEE'S FINDINGS OF BREACH

Late Financial Reporting

The Company was late in publishing and/or despatching the Results and Reports. The Company therefore breached Rules 13.46(2)(a), 13.48(1), 13.49(1) and 13.49(6) in respect of its delay in relation to the Results and Reports.

Inaccurate, Incomplete and Misleading Disclosure

The contents of a prospectus must provide potential investors with sufficient, true and accurate information to enable them to make a properly informed assessment of an issuer and of the securities for which the listing is sought. In this case, the Company used a substantial proportion of its funds to provide three undisclosed Loans on an unsecured basis. The Loans represented more than one third of the net proceeds expected to be raised on listing.

The Loans had a significant impact on the Company's financial position and its ability to timely meet its known future cash requirements, including its planned dividend payment and intended use of listing proceeds. The Company's provision of the Loans using a substantial proportion of its funds, the unsecured nature of the Loans and their potential risks and impact on the Company's financial position were material information necessary for the investors to make a properly informed assessment of the Company for the purpose of their potential investment.

The prospectus did not contain all information necessary to enable the investors to make an informed assessment of the Company's assets, financial position and activities, and the potential risks and impact to its future cash requirements. The information in the prospectus was not accurate and complete in all material respects and was misleading.

Accordingly, the Company breached Rules 2.13(2) and 11.07 in respect of the disclosure in its prospectus.

CONCLUSION

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

For the avoidance of doubt, the Exchange confirms that the above sanction applies only to the Company, and not to any other past or present directors of the Company.

Hong Kong, 27 February 2024