

BURSA MALAYSIA SECURITIES PUBLICLY REPRIMANDS AND/OR FINES CN ASIA CORPORATION BHD AND SEVEN (7) DIRECTORS

CN ASIA CORPORATION BHD

Bursa Malaysia Securities Berhad [Registration No.: 200301033577 (635998-W)] (**Bursa Malaysia Securities**) has publicly reprimanded CN ASIA Corporation Bhd (**CNASIA**) and seven (7) of its directors for breach of Bursa Malaysia Securities Main Market Listing Requirements (Main LR). In addition, the 7 directors of CNASIA were imposed total fines of RM225,000.

CNASIA was publicly reprimanded for breach of paragraph 10.13(1)(a) read together with paragraph 8.29(1) of the Main LR for failing to obtain prior shareholders' approval in respect of the diversification of the business of CNASIA Group to include moneylending business (**Diversification**) pursuant to the share sale agreement (**SSA**) entered on 15 April 2021 to acquire 100% of the issued share capital in Southborn Capital Sdn. Bhd. (**SCSB**). CNASIA only obtained its shareholders' ratification of the Diversification on 24 June 2022.

All 7 directors of CNASIA at the material time had breached paragraph 16.13(b) of the Main LR for permitting CNASIA to commit the breach and were imposed the following penalties:-

No.	Directors	Penalties
1.	Dato' Sri Zulkifli Bin Abdullah Independent Non-Executive Chairman (resigned on 24 November 2023)	Public reprimand and fine of RM25,000
2.	Datuk Seri Tan Choon Hwa Non-Independent Non-Executive Deputy Chairman	Public reprimand and fine of RM25,000
3.	Yg. Mulia Tengku Shamsulbhari Bin Tengku Azman Shah Executive Director	Public reprimand and fine of RM50,000
4.	Chang Chee Ching Executive Director	Public reprimand and fine of RM50,000
5.	Low Yong Heng Independent Non-Executive Director Audit and Risk Management Committee Chairman (resigned on 18 January 2024)	Public reprimand and fine of RM25,000
6.	Tania Scivetti Independent Non-Executive Director Audit and Risk Management Committee member (resigned on 13 June 2023)	Public reprimand and fine of RM25,000
7.	Nadanarajah a/l Ramalingam Independent Non-Executive Director Audit and Risk Management Committee member	Public reprimand and fine of RM25,000

The finding of breach and imposition of the above penalties on CNASIA and its directors were made pursuant to paragraph 16.19 of the Main LR upon completion of due process and after taking into consideration all facts and circumstances of the matter including the materiality of the breach and the roles, responsibilities, knowledge, involvement and conduct/ action/inaction of the directors.

Bursa Malaysia Securities views the contravention seriously as the requirement to obtain shareholders' prior approval for material diversification in operations is fundamental to protect the interest of shareholders and ensure the shareholders were kept informed of all facts or information and allow them an opportunity to consider, in a timely manner, such diversification which might affect their interest.

Bursa Malaysia Securities has also reminded CNASIA and its Board of Directors of their responsibilities to maintain the appropriate standards of corporate responsibility and accountability to its shareholders and the investing public.

BACKGROUND

CNASIA is primarily an investment holding company whilst its subsidiary is involved in the manufacturing of steel-based products including structural steel, liquified petroleum gas vessels, tanks, road tankers and pressure vessels as well as the provision of metal forming services.

CNASIA had ventured/diversified into moneylending business when the company entered into the SSA on 15 April 2021 to acquire 100% of the issued share capital in SCSB, a company engaged in the business of providing moneylending services (**Acquisition**). The Diversification was undertaken to expand/diversify the Group's revenue/income stream, reduce reliance on the existing business in the manufacturing segment which was loss making, strengthen CNASIA's earnings and improve its financial performance as well as increase shareholders' value. In this regard:-

- Paragraph 10.13(1) of the Main LR states that a listed issuer must obtain its shareholder approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in a diversion of 25% or more of the NA of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer.
- Paragraph 8.29(1) of the Main LR further provides/clarifies that if a transaction or corporate proposal requires securities holder approval pursuant to the Main LR, a listed issuer must not enter into or carry into effect such transaction or corporate proposal unless the entering into the transaction or corporate proposal is made subject to the securities holder approval or the carrying into effect of the transaction or corporate proposal has been approved by the securities holders.

However, notwithstanding the materiality of the Diversification and clear requirements of the Main LR above, it was noted that: -

1. there was no deliberation, enquiry and assessment undertaken by the company and directors prior to or at the juncture of the SSA to ensure compliance with paragraph 10.13(1) of the Main LR. Further, the directors had merely authorised the company to enter into the SSA vide a directors circular resolution dated 15 April 2021;
2. the company had only conducted an assessment (which in any event, was wrong and not in accordance/compliance with paragraphs 10.03(4)(a) and (b) of the Main LR) on 26 July 2021 after being advised on 16 June 2021 to consider the diversification requirement pursuant to paragraph 10.13 of the Main LR taking into consideration the expected quantum of proceeds from the proposed private placement to fund the moneylending business; and
3. based on the estimated total loan disbursement of RM15 million from the funds raised via the proceeds of the proposed private placements undertaken in 2021, there would be a diversion of **37.7%** of the Group's net assets of RM39,745,526 in the latest audited financial statements for the financial year ended 31 December 2020 (**NA**) to the moneylending business and the Group had in fact provided a total loan amount of RM20 million as at 31 March 2022 which represented **50.32%** of the NA.

CNASIA had entered into/undertaken the SSA/Acquisition on 15 April 2021 without it being conditional upon shareholders' approval and completed the Acquisition subsequently on 15 June 2021 without obtaining shareholders' prior approval in accordance with paragraph 8.29(1) of the Main LR.

The directors were and/or should be (had reasonable enquiries been undertaken) aware that the Diversification might reasonably be expected to result and had resulted in the diversion of 25% or more of the Group's NA and as such, had triggered and breached paragraph 10.13(1)(a) of the Main LR at numerous junctures/instances. In particular, during the Board of Directors (**BOD**) meeting on 21 September 2021-

- the Board was informed that the loans extended were approximately 23% of the NA and any additional loans extended might trigger the 25% threshold. In fact, based on the draft quarterly announcement in relation to a moneylending company (as required under paragraph 8.23(2)(e) of the Main LR) which was tabled to the Board, the outstanding loans of RM10 million as at 30 September 2021 already represented a diversion of **25.1%** of the NA; and
- the Board was aware of and agreed with the need/requirement of the Company to obtain shareholders' approval on the Diversification.

However, the Independent/Non-Executive Directors had merely accepted the Executive Directors' proposal to obtain shareholders' approval together with the proposed rights issue with warrants to be undertaken, to err on the side of caution and save costs, resources and time without undertaking proper deliberation, reasonable enquiries and assessment vis-à-vis the Diversification, which was not acceptable. Further, the directors had failed to demonstrate/take reasonable steps to ensure the shareholders' ratification of the Diversification was obtained expeditiously.

CNASIA had only proceeded to obtain shareholders' ratification of the Diversification after Bursa Securities' engagement with the company on 16 March 2022 where it had appointed an adviser on 4 April 2022, announced the proposed ratification on 26 April 2022, issued the circular to shareholders on 3 June 2022 and obtained shareholders' approval/ratification of the Diversification on 24 June 2022.

A higher fine was imposed on the Executive Directors in view of their roles, responsibilities, authority and involvement in the SSA/moneylending business including authorising the disbursements of loans to customers and hence, were in a position to undertake the necessary verifications vis-à-vis the Diversification to ensure compliance with the Main LR.

As for the Independent/Non-Executive Directors, they played a crucial role in corporate governance including to protect the interest of shareholders in ensuring prior shareholders' approval of material transactions/corporate proposals that might affect their interests were obtained in accordance with the Main LR. The Independent/Non-Executive Directors had a duty, but had failed to undertake proper deliberation and reasonable assessment/enquiries including to ascertain the requirement under paragraph 10.13(1)(a) of the Main LR on the Diversification at the onset to ensure compliance with the Main LR. It was unacceptable for the Independent/Non-Executive Directors to merely/totally rely on the Executive Directors to ensure compliance with the Main LR including the Executive Directors' proposal to obtain shareholders' approval of the Diversification together with another corporate exercise as they were and/or should be aware that the Diversification had breached paragraph 10.13(1)(a) of the Main LR and this further delayed obtaining the shareholders' ratification.

Company Name	CN ASIA CORPORATION BHD
Stock Name	CNASIA
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