



Singapore Exchange Reprimands Medi-Flex Limited and Two of Its Former Directors for Breaches of Listing Rules

Public Reprimand : Breach of Listing Rules

1. Singapore Exchange (the "Exchange") reprimands Medi-Flex Limited ("Medi-Flex") and two of its former directors (the "Former Directors"):

a. Mr Tu Ah Kim - Founded the business in 1999 and was appointed Managing Director from December 2003 to March 2007. He then stepped down as Managing Director but remained as Executive Director until his resignation in August 2007; and

b. Mr Hew Yew Fook - Executive Director from September 2004 to August 2007;

for breaches of Chapter 9 of the Listing Rules and failures of corporate governance. These Former Directors and management had authorised disbursements of company's funds to entities and accounts for the benefit of Mr Tu Ah Kim.

2. Serious irregularities were highlighted in the findings of the Report by Ernst & Young Advisory Services Sdn Bhd ("EYAS Report") dated 8 July 2009. Following detailed assessments of the EYAS Report, the Exchange is of the view that the Former Directors failed to comply with Listing Rule 103(5) to act in the interests of shareholders as a whole. In addition, they have not demonstrated the qualities and standards expected of directors and the management of SGX-listed companies, as required under Listing Rules 210(5)(b) and 720.

3. Apart from the Former Directors, the Exchange also noted the possible involvement of the following former employees ("Relevant Employees") of Medi-Flex or its subsidiary, Flexitech Sdn Bhd ("Flexitech"):

a. Pang Wei Pin - Group Accountant from May 2004 to May 2007

b. Liau Lee Hoon - Accounts Assistant of Flexitech from 10 May 2003 to 13 August 2006

c. Wong Chew Yeh - Assistant Accountant of Flexitech from 24 August 2006 to 15 May 2007

d. Lim Lee Peng - Account Clerk of Flexitech from 20 October 2003 to 21 August 2006

4. Based on the findings of the EYAS Report, the Company has also failed in corporate governance practices to safeguard the interests of the Company and shareholders.

Exchange's Directions

5. The Exchange has directed Medi-Flex to lodge a report against the Former Directors with the Commercial Affairs Department ("CAD") in Singapore and the relevant authorities in Malaysia on the serious irregularities highlighted in the findings of the EYAS Report.

6. The Exchange noted that the Company has sought to improve its internal controls and corporate governance practices since the identification of the irregularities.

7. SGX-listed companies are advised to consult the Exchange before they appoint any of the Former Directors or Relevant Employees as a director or member of management.

SGX Reports Case to the Authority

8. The Exchange will be referring this case to the CAD.

Public Disclosure of Executive Summary of EYAS Report

9. On 8 July 2009, the Company announced that its subsidiary, Flexitech Sdn Bhd ("Flexitech"), had engaged Ernst & Young

Advisory Services Sdn Bhd (“EYAS”) to perform certain agreed upon procedures in connection with the purchase of factory equipment by Flexitech in 2005 (“2005 Equipment”). In connection with this exercise, Henry Butcher Malaysia Sdn Bhd (“Henry Butcher”) was appointed to conduct a valuation of the 2005 Equipment.

10. On 18 March 2011, the Company released the Executive Summary of the EYAS Report as directed by SGX. The findings in the EYAS Report revealed the failures of corporate governance and breaches of Listing Rules 720 and 906.

11. The Company has announced on 18 March 2011 that, based on findings of the EYAS Report, it has lodged a report with the Singaporean police against Mr Tu Ah Kim in connection with offences involving fraud and dishonesty.

12. For more information, refer to the “Background” attached below.

BACKGROUND

13. Medi-Flex was listed on SGX-Sesdaq in 2004. Top Glove Sdn Bhd subsequently became the new controlling shareholder of Medi-Flex on 15 March 2007 when it subscribed for 300,305,829 new shares in Medi-Flex. The subscription, for a cash consideration of about S\$12 million, represented about 60% of the enlarged share capital.

14. Following the change in control, most of the existing directors resigned and a new Board and management team were constituted.

15. On 8 July 2009, Medi-Flex announced the appointment of EYAS and Henry Butcher to perform certain agreed upon procedures and a valuation exercise in connection with certain factory equipment purchased by the Company’s former board in 2005.

16. Based on the valuation by Henry Butcher, the Company filed a claim against Mr Tu for about RM8.3 million as well as a Mareva Injunction against his assets. The quantum of claim was for the difference between the value of the 2005 Equipment as ascribed by Henry Butcher and its recorded book value of about RM16 million.

IRREGULARITIES & BREACHES OF SGX-ST LISTING RULES

17. From its investigations, EYAS noted certain serious irregularities in the conduct of the equipment purchase as follows:

- Failure to verify the existence of supplier, Hertong Machinery Trading (“HMT”)

18. Based on invoices and other documents issued to Flexitech, HMT appeared as the supplier for the 2005 Equipment.

19. However, upon further investigations by EYAS, it was discovered that HMT was a sole proprietorship that had closed its business on 2 June 2003 and its business registration expired on 13 November 2002. EYAS also confirmed that the address stated on the HMT invoices did not exist.

- Irregularities in the payments for the 2005 Equipment

20. EYAS noted that a total of 36 payments were made in relation to the 2005 Equipment via a combination of clearing cheques (21 payments), cash cheques (14 payments) and telegraphic transfer (1 payment). However, most of these payments were made to entities or persons other than HMT.

21. Furthermore, the cash cheques were found to have been en-cashed by former Flexitech staff, Liau Lee Hoon, Lim Lee Peng and Wong Chew Yeh respectively. The bulk of the cheques, amounting to at least RM5.1 million, were deposited into Mr Tu Ah Kim’s bank accounts.

22. All the payments were approved solely by Mr Tu Ah Kim or jointly with Mr Hew Yew Fook. Mr Tu Ah Kim and either Mr Hew Yew Fook or Mr Pang Wei Pin were also the co-signatories to the cheques.

- Breaches of Listing Rules 103(5) and 720

23. Based on the above EYAS findings, the Exchange is of the view that Mr Tu Ah Kim and Mr Hew Yew Fook failed in their obligation to act in the interests of shareholders as a whole. The Exchange also found that the Former Directors had not demonstrated the character and integrity expected of a director of a listed issuer.

- Breaches of Listing Rules 905 and 906

24. The disbursements of company monies to accounts owned by Mr Tu Ah Kim is a Chapter 9 transaction not authorized by the Board (except the relevant directors) and should have been approved by shareholders. The Company failed to comply with the requirements under Listing Rules 905 and 906 to disclose and seek shareholders' approval for the transfer of at least RM5.1 million to Mr Tu Ah Kim. The amount represented more than 5% of the Company's audited net tangible assets as at 31 December 2005.

- Failures of Corporate Governance

25. The EYAS Report pointed to failures of corporate governance in respect of the previous management. There was a clear absence of internal controls in the payment process including no evidence of delegation of authorities, no segregation of duties and absence of proper record keeping.