



Directors' Report and Auditors' Report

Note	Reference	Explanatory note
1	<i>S201(6A)</i>	<p>A directors' report, approved by the board and signed by not less than two of the directors, must be attached to every consolidated account laid before a company at its general meeting.</p> <p>The directors' report illustrates the requirements of S201(6A) and other provisions, and is applicable to a holding company preparing consolidated financial statements. For companies that do not present consolidated financial statements, the requirements are set out in S201(5), S201(6) and other provisions.</p>
2	<i>S201(6A)(a)</i>	<p>Disclose the names of the directors of the company as at the date of the directors' report.</p> <p>This usually coincides with the date when the financial statements were authorised for issue.</p> <p>Where the directors are appointed subsequent to the end of the previous financial year/period, the dates of appointment are usually provided. This disclosure is, however, not mandatory.</p>
3	<i>S201(6A)(h)</i>	<p>Directors' interests in shares/debentures include:</p> <ul style="list-style-type: none"> ■ each director's personal holdings and beneficial interests of his immediate family. Immediate family includes the spouse and infant children (under 21 years), including step-children and adopted children, provided none of them are directors. ■ other deemed interests as defined under Section 7 of the Companies Act (for example, interests under trust, and interests through associated persons or corporations). <p>It is recommended that interests registered in the name of directors or their immediate families be disclosed separately from other deemed interests as defined under Section 7 of the Companies Act.</p> <p>It should be noted that a director is required to notify a company of the particulars of his interests in shares, debentures, participatory rights, options and contracts, and any change in such notifiable interests, within two days (S165(2)).</p>
4		<p>The phrase and related references to related corporations can be deleted if directors' interests are only in the company and there are none in related corporation(s).</p>
5		<p>If special circumstances exist, the directors' interests should be worded carefully. For example, the phrase "other than wholly-owned subsidiaries" could be used where certain/all directors are deemed to have interests in the shares of the wholly-owned subsidiaries by virtue of their interests in the shares of the holding company, and these deemed interests are not disclosed in the table or paragraph following. Where a separate paragraph is included disclosing that certain/all directors are deemed to have interests in the shares of the wholly-owned subsidiaries by virtue of their interests in the shares of the holding company, then this phrase need not be included. Where not applicable, this phrase should also be deleted.</p>
6	<i>S201(6A)(h)</i>	<p>The phrase "date of appointment" should be added if directors who are holding interests are appointed during the financial year/period under review.</p> <p>If the director resigned after the financial year/period end but before the directors' report is issued, his interest at the end of the financial year/period together with the date of resignation should also be disclosed. The disclosure of the director's interest is mandatory although the disclosure of the date of his resignation is not.</p>

Appendix 4

S201(6A) Directors' Report¹

S201(6A) We are pleased to submit this annual report to the members of the Company, together with the audited financial statements for the financial year ended 31 December 2005.

Directors²

S201(6A)(a) The directors in office at the date of this report are as follows:

Lee Sim Tang	
Tan Chin Fong	
Peter Smith	
Tan Yang Shang	(Alternate to Lee Sim Tang)
Yeo Kuan Yee	
Ang Kim Wah	
Edward Graves	
Catherine Sim	
Chua Jin Wang	(Appointed on 18 June 2005)
Alistair Clark	(Appointed on 7 March 2006)

Directors' Interests³

S201(6A)(h) According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations⁴ (other than wholly-owned subsidiaries)⁵ are as follows:

Name of director and corporation in which interests are held	Holdings at beginning of the year/date of appointment ⁶	Holdings at end of the year ⁶
Lee Sim Tang		
Model Electronics Company Limited		
- ordinary shares of \$0.25 each		
- interests held	400,000	900,000
- deemed interests	52,410,000	52,410,000
- options to subscribe for ordinary shares of \$0.25 ⁷ each at:		
- \$0.48 between 22/03/2004 and 21/03/2012	20,000	20,000
- \$0.52 between 02/08/2001 and 01/08/2010	160,000	160,000
Model Holdings Limited		
- ordinary shares of \$0.50 each	420,000	420,000
P.J. Enterprise Inc.		
- ordinary shares of US\$1.00 each	5,000	5,000

Note	Reference	Explanatory note
7	<i>S201(6A)(h)</i>	<p>Under the Act, the number and amount of shares as recorded in the register of directors' shareholdings are required to be included in the directors' report. In the case of share options, the number and amount of share options must be included in the directors' report.</p> <p>We encourage companies to disclose sufficient details (e.g. by reference to information disclosed in previous directors' reports) to enable readers to identify "which" option plan the directors are referring to. Full details need not be repeated if it is possible to identify the option plan, for example, reference to the year in which the options were first granted or the exercise period of the options.</p>
8		This paragraph is only included where applicable.
9	<i>SGX-ST 1207(7)</i>	<p>For listed companies, directors' interests as at the 21st day after the end of the financial year should be disclosed. This disclosure can be made in any part of the annual report.</p> <p>This is required for listed companies only and need only be given for interests in the company and there is no necessity to refer to interests in related corporations. Interest refers to holdings of the company's shares and convertible securities.</p>
10	<i>S201(6A)(g)</i>	<p>If there is such an arrangement, provide details of:</p> <ul style="list-style-type: none"> ■ effect of the arrangement; and ■ names of persons who are or were directors and who held shares or debentures acquired under the arrangements.

Name of director and corporation in which interests are held	Holdings at beginning of the year/date of appointment ⁶	Holdings at end of the year ⁶
Peter Smith		
Model Electronics Company Limited		
- ordinary shares of \$0.25 each		
- interests held	300,000	800,000
- deemed interests	52,410,000	52,410,000
- options to subscribe for ordinary shares of \$0.25 ⁷ each at:		
- \$0.48 between 22/03/2004 and 21/03/2012	20,000	20,000
- \$0.52 between 02/08/2001 and 01/08/2010	160,000	160,000
Model Holdings Limited		
- ordinary shares of \$0.50 each	380,000	380,000
P.J. Enterprise Inc.		
- ordinary shares of US\$1.00 each	3,000	3,000
Chua Jin Wang		
Model Electronics Company Limited		
- ordinary shares of \$0.25 each	300,000	300,000
BB Trading Pte Ltd		
- ordinary shares of \$0.25 each	380,000	380,000
Tan Yang Shang		
Model Electronics Company Limited		
- ordinary shares of \$0.25 each	200,000	200,000

By virtue of Section 7 of the Act, Lee Sim Tang and Peter Smith are deemed to have interests in the other subsidiaries of Model Holdings Limited, all of which are wholly-owned, at the beginning and at the end of the financial year.⁸

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

SGX-ST 1207(7)

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2006.⁹

S201(6.A)(g)

Except as disclosed under the "Share Options" section of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.¹⁰

Note	Reference	Explanatory note
11	<i>S201(8)</i>	<p>Disclose interests of directors in contracts with:</p> <ul style="list-style-type: none"> ■ the company; ■ its related corporation; ■ a firm of which the director is a member; or ■ a company in which he has a substantial interest. <p>The following are usually disclosed:</p> <ul style="list-style-type: none"> ■ that the contract exists or is subsisting; ■ the names of the parties involved (other than the company); ■ the name of the director; ■ the nature of the contract; and ■ the nature of the director's interest. <p>A director's service contract for full-time services as an employee with the company or related corporations need not be disclosed, provided the benefits/fixed salary as an employee are already included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements.</p> <p>Disclose fees paid to firms and companies where directors have an interest.</p>
12	<i>S201(11)</i> <i>S201(11B)</i> <i>S201(11A)</i> <i>S201(12)(a)</i> <i>S201(12)(b)</i> <i>S201(11)(e)</i>	<p>Particulars of share options issued by the company and its subsidiaries to be disclosed include:</p> <ol style="list-style-type: none"> 1. Options granted during the financial year: <ul style="list-style-type: none"> ■ number of shares; ■ the related class of shares; ■ date of expiration; ■ exercise price or basis upon which the option may be exercised and any participation rights; and ■ details of amendments made to share option schemes disclosed in any previous report. 2. Options exercised during the financial year: <ul style="list-style-type: none"> ■ provide details of shares issued by virtue of the exercise of any options (Reference may be made if particulars have been stated in a previous report). 3. Unissued shares under option as at end of the financial year: <ul style="list-style-type: none"> ■ number of shares; ■ the related class of shares; ■ date of expiration; and ■ exercise price or basis upon which the option may be exercised and any participation rights. <p>The date of grant of options and the number of option holders are not mandatory disclosure under the Companies Act. Reference may be made if details of the option scheme have been set out in the directors' report for the previous financial year.</p> <p>To state whether the person to whom the option has been granted has any right to participate by virtue of the option in any share issue of any other company.</p>

S201(8) Except as disclosed in this report and in notes 23 and 31 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.¹¹

Share Options¹²

SGX-ST 852 The Model Employee Share Option Scheme (the Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 8 April 2000. The Scheme is administered by the Company's Remuneration Committee, comprising three directors, Yeo Kuan Yee, Tan Chin Fong and Ms Catherine Sim.

Other information regarding the Scheme is set out below:

- S201(12)(b)* ■ The exercise price of the options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.
- S201(11)(d)* ■ The options can be exercised 1 year after the grant for market price options and 2 years for discounted options. Further vesting period for the exercise of the options may be set.
- All options are settled by physical delivery of shares.
- S201(11)(c)* ■ The options granted expire after 5 years for non-executive directors and associates' employees; and 10 years for the employees of the Company and its subsidiaries.

At the end of the financial year, details of the options granted, under the Scheme on the unissued ordinary shares of \$0.25 each of the Company, are as follows:

Date of grant of options	Exercise price per share \$	Options outstanding at 1 January 2005	Options granted	Options exercised	Options forfeited/expired	Options outstanding at 31 December 2005	Number of option holders at 31 December 2005	Exercise period
01/08/2000	0.52	1,900,000	-	(800,000)	(200,000)	900,000	25	02/08/2001 to 01/08/2010
12/10/2000	0.50	100,000	-	-	(100,000)	-	-	13/10/2001 to 12/10/2005
21/03/2002	0.48	1,800,000	-	(400,000)	(200,000)	1,200,000	268	22/03/2004 to 21/03/2012
16/05/2003	0.53	2,000,000	-	-	-	2,000,000	88	17/05/2005 to 16/05/2013
20/03/2004	0.54	1,200,000	-	-	(50,000)	1,150,000	35	21/03/2005 to 20/03/2014
01/09/2005	0.62	-	1,500,000	-	-	1,500,000	43	02/09/2006 to 01/09/2015
		<u>7,000,000</u>	<u>1,500,000</u>	<u>(1,200,000)</u>	<u>(550,000)</u>	<u>6,750,000</u>		

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Note Reference Explanatory note

<p>¹³ <i>SGX-ST 852</i></p>	<p>The following additional disclosure requirements relating to share option schemes are applicable to listed companies and their subsidiaries.</p> <p>Listed corporations may choose to make this disclosure as part of the directors' report, along with statutory disclosures on share options, or they may choose to disclose the information in a separate section of the annual report. We recommend that the additional disclosure be included in the directors' report:</p> <ol style="list-style-type: none"> 1. Names of the members of the Committee administering the scheme; 2. The information required in the table below for the following participants: <ol style="list-style-type: none"> (i) Directors of the issuer; (ii) Participants who are controlling shareholders ("controlling shareholders" are defined using a substance test as "a shareholder exercising control over a company". Unless rebutted, it is assumed that a person controlling 15% of the company's issued share capital would be able to exercise control) of the issuer and their associates; and (iii) Participants, other than those in (i) and (ii) above, who receive 5% or more of the total number of options available under the scheme. <table border="1" style="margin-left: 40px; margin-bottom: 20px;"> <thead> <tr> <th style="padding: 5px;">Name of participant</th> <th style="padding: 5px;">Options granted during financial year under review (including terms)</th> <th style="padding: 5px;">Aggregate options granted since commencement of scheme to end of financial year under review</th> <th style="padding: 5px;">Aggregate options exercised since commencement of scheme to end of financial year under review</th> <th style="padding: 5px;">Aggregate options outstanding as at end of financial year under review</th> </tr> </thead> <tbody> <tr> <td style="height: 40px;"></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <ol style="list-style-type: none"> 3. <ol style="list-style-type: none"> (i) The names of and number and terms of options granted to each director or employee of the Company and its subsidiaries (the Group) who receives 5% or more of the total number of options available to all directors and employees of the Group under the scheme, during the financial year under review. (ii) The aggregate number of options granted to all directors and employees of the Group for the financial year under review, and since the commencement of the scheme to the end of the financial year under review. <p>A negative statement must be made if any of the disclosure details are not applicable.</p>	Name of participant	Options granted during financial year under review (including terms)	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review					
Name of participant	Options granted during financial year under review (including terms)	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review							
<p>¹⁴ <i>S201B(9)</i></p>	<p>This disclosure is only applicable to listed companies.</p>										

Details of options granted¹³ to directors of the Company under the Scheme are as follows:

Name of director	Options granted for financial year ended 31 December 2005	Aggregate options granted since commencement of Scheme to 31 December 2005	Aggregate options exercised since commencement of Scheme to 31 December 2005	Aggregate options outstanding as at 31 December 2005
Lee Sim Tang	-	200,000	(20,000)	180,000
Peter Smith	-	200,000	(20,000)	180,000

SGX-ST 852 Since the commencement of the Scheme, no options have been granted to the controlling shareholders of the Company or their associates and no participant under the Scheme has been granted 5% or more of the total options available under the Scheme.

Since the commencement of the Scheme, no options have been granted to employees of the holding company or its related companies under the Scheme, except for two employees of the holding company who are also the directors of the Company, who were granted options to subscribe for an aggregate of 200,000 ordinary shares each in the Company.

S201(11)(e) The options granted by the Company do not entitle the holders of the options, by virtue of such holding, to any rights to participate in any share issue of any other company.

S201B(2)(a) **Audit Committee¹⁴**

SGX-ST 710(2) The members of the Audit Committee during the year and at the date of this report are:

- Ang Kim Wah (Chairman), non-executive director
- Yeo Kuan Yee, non-executive director
- Edward Graves, non-executive director

The Audit Committee performs the functions specified in Section 201B of the Companies Act, the Listing Manual and the Code of Corporate Governance.

The Audit Committee has held four meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

Note	Reference	Explanatory note
15	S206(1A)	<p>In order to determine whether the independence of the auditor has been compromised, a public listed company is required to undertake a review of non-audit fees paid to auditors if the fees, expenses and emoluments paid to the auditor for non-audit services in any financial year exceeds 50% of the total amount of the fees paid to the auditors in that financial year. The results of the review should be communicated to its shareholders typically in the annual report.</p> <p>The following is an example of the disclosure that could be made in the directors' report:</p> <p>“The Audit Committee reviewed the independence of the auditors as required under Section 206(1A) of the Companies Act and determined that the auditors were independent in carrying out their audit of the financial statements.”</p>

The Audit Committee¹⁵ also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

CP The auditors, KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Lee Sim Tang
Director

Tan Chin Fong
Director

31 March 2006

Note	Reference	Explanatory note
¹	<i>S201(15)</i>	This report has to be signed by two directors of the company on behalf of the Board.
²		The company's statement of cash flows is not required when a consolidated statement of cash flows is presented.
³	<i>S201(15)(c)</i>	A declaration of solvency is required for the company only and not for the group as a whole. In the case of consolidated financial statements, depending on the state of solvency of the company, this part may need to be reworded accordingly.
⁴	<i>10.17</i>	<p>Disclose the date when the financial statements were authorised for issue and who gave that authorisation. Also, if shareholders or others have the power to amend the financial statements after issuance, this fact should be disclosed. This disclosure can be made in the statement by directors or in the financial statements.</p> <p>It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date.</p>

Appendix 5

Statement by Directors¹

In our opinion:

S201(15)(a)&(b) (a) the financial statements set out on pages AR-F2 to AR-F69 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results, changes in equity and cash flows of the Group² and of the changes in equity of the Company for the year ended on that date; and

S201(15)(c) (b) at the date of this statement, there are reasonable grounds to believe that the Company³ will be able to pay its debts as and when they fall due.

10.17 The Board of Directors has, on the date of this statement,⁴ authorised these financial statements for issue.

On behalf of the Board of Directors

Lee Sim Tang
Director

Tan Chin Fong
Director

31 March 2006

Note	Reference	Explanatory note
1	<i>SSA 700.7</i>	Address the audit report as appropriate in the circumstances.
2	<i>SSA 700.8</i>	Identify the financial statements of the entity that have been audited, including the date and period covered by the financial statements.
3	<i>SSA 700.18</i>	In Singapore, the phrase "true and fair view" is reserved for the statutory audit report opinion. In all other situations, the phrase "present fairly, in all material respects" should be used.
4	<i>PAB rules</i>	The auditors are only required to make a disclosure in the auditors' report on an annual basis if any economic interest is held by the auditor, a partner or a staff member in excess of the allowed limits. No disclosure is required otherwise.
5	<i>S201(3A)</i>	Only the balance sheet of the Company is required to be presented with the consolidated financial statements. Therefore, the statement of changes in equity of the Company is optional. If the statement of changes in equity is presented, the opinion in the audit report must also include the statement of changes in equity of the Company.
6	<i>SSA 700.23,</i> <i>SSA 700.24</i>	SSA 700 requires the auditors' report to be dated as of the completion of the audit, and no earlier than the date on which the financial statements are signed or approved by management. The auditors' report should be dated as of the date of the directors' resolution, and the audit should be completed on that date.

Appendix 6

SSA 700(6)&(7)
S207(1)

Report of the Auditors to the Members of Model Electronics Company Limited¹

SSA 700(8)

We have audited the accompanying financial statements of Model Electronics Company Limited for the year ended 31 December 2005² as set out on pages AR-F2 to AR-F69. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SSA 700(9)

SSA 700(12)

SSA 700(13)

SSA 700(14)

SSA 700(15)

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

SSA 700(4)&(27)

In our opinion:

SSA 700(17)

S207(2)(a)(i)

(a) the consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards to give a true and fair view³ of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results, changes in equity and cash flows of the Group and of the changes in equity of the Company⁴ for the year ended on that date; and

S207(2)(b)

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

SSA 700(26)

KPMG⁵
Certified Public Accountants

SSA 700(25)
SSA 700(23)&(24)

Singapore
31 March 2006⁶