Heshe Holdings Limited

Half Year Financial Statement and Dividend Announcement for the Period Ended 31/12/2005

PART 1 - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1,Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

1(a)(i) Income Statement

	The Group 6 months ended 31/12/2005 $'000	The Group 6 months ended 31/12/2004 $'000	Change %
Continuing operations			
Sales	1,051	4,834	-78.3%
Cost of sales	(351)	(3,905)	-91.0%
Gross Profit	700	929	-24.7%
Other gains	58	45	28.9%
Distribution costs	(6)	(31)	-80.6%
Administrative expenses	(1,771)	(1,732)	2.3%
Other operating expenses	(64)	(410)	-84.4%
Finance costs	(94)	-	NM
Share of loss of associated company	-	(2)	-100.0%
Loss before tax	(1,177)	(1,201)	-2.0%
Income tax credit/(expense)	20	(101)	-119.8%
Loss for the period from continuing operations	(1,157)	(1,302)	-11.1%
Attributable to:			
Equity holders of the Company	(1,072)	(1,210)	-11.4%
Minority interests	(85)	(92)	-7.6%
	(1,157)	(1,302)	-11.1%
Loss per share attributable to the equity holders of the Company during the period (expressed in cents per share)			
- basic	(0.20)	(0.38)	-47.7%
-diluted	(0.19)	(0.38)	-50.7%

NM : percentage not meaningful.

Heshe Holdings Limited

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1(a)(ii) Notes to the Income Statement

	The Group 6 months ended 31/12/2005 $'000	The Group 6 months ended 31/12/2004 $'000	Change %
Net loss for the financial year include the following (charges)/credits:			
Interest expense	(94)	-	NM
Depreciation of property, plant and equipment	(121)	(137)	-11.7%
Impairment of other financial asset	(50)	-	NM
Provision for impairment of doubtful receivables	(56)	-	NM
Write-back of impairment of non-trade receivables from a former related corporation	800	-	NM
Gain on disposal of property, plant and equipment	2	22	-90.9%
Interest income	28	1	2700.0%
Foreign currency loss - net	(32)	-	NM
Rental expense - operating leases	(391)	(376)	4.0%
Over/(under) provision in the preceding financial years for:			
-current income tax	20	(101)	NM

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	The Group As at 31/12/2005 $'000	The Group As at 30/6/2005 $'000	Change %	The Company As at 31/12/2005 $'000	The Company As at 30/6/2005 $'000	Change %
ASSETS						
Current assets						
Cash and cash equivalents	9,991	9,250	8.0%	1,374	4,415	-68.9%
Trade and other receivables	3,628	2,657	36.5%	7,052	4,991	41.3%
Inventories	25	24	4.2%	-	-	NM
Properties held for sale	911	1,093	-16.7%	-	-	NM
	14,555	13,024	11.8%	8,426	9,406	-10.4%
Non-current assets						
Club membership	50	-	NM	50	-	NM
Other financial assets	50	100	-50.0%	50	100	-50.0%
Investment in an associated company	-	341	NM	-	-	NM
Investments in subsidiaries	-	-	NM	1,429	-	NM
Property, plant and equipment	525	478	9.8%	408	342	19.3%
	625	919	-32.0%	1,937	442	338.2%
Total assets	15,180	13,943	8.9%	10,363	9,848	5.2%
LIABILITIES						
Current Liabilities						
Trade and other payables	4,165	4,447	-6.3%	1,191	1,453	-18.0%
Current income tax liabilities	461	520	-11.3%	417	476	-12.4%
Provision for other liabilities and charges	2,028	5,880	-65.5%	899	4,744	-81.0%
	6,654	10,847	-38.7%	2,507	6,673	-62.4%
Non-current liabilities						
Borrowings	3,000	-	NM	3,000	-	NM
	3,000	-	NM	3,000	-	NM
Total liabilities	9,654	10,847	-11.0%	5,507	6,673	-17.5%
NET ASSETS	5,526	3,096	78.5%	4,856	3,175	52.9%

	The Group As at 31/12/2005 $'000	The Group As at 30/6/2005 $'000	Change %	The Company As at 31/12/2005 $'000	The Company As at 30/6/2005 $'000	Change %
EQUITY						
Capital and reserves attributable to the Company's equity holders						
Share capital	17,601	15,981	10.1%	17,601	15,981	10.1%
Share premium	27,875	26,525	5.1%	27,875	26,525	5.1%
Foreign currency translation reserve	(83)	(89)	-6.7%	-	-	NM
Accumulated losses	(40,393)	(39,321)	2.7%	(40,620)	(39,331)	3.3%
	5,000	3,096	61.5%	4,856	3,175	52.9%
Minority interests	526	-	NM	-	-	NM
Total Equity	5,526	3,096	78.5%	4,856	3,175	52.9%

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

As at 31/12/2005		As at 30/06/2005	
Secured	Unsecured	Secured	Unsecured
0	0	0	0

Amount repayable after one year

As at 31/12/2005		As at 30/06/2005	
Secured	Unsecured	Secured	Unsecured
0	3,000,000	0	0

Details of collateral

Not applicable.

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	The Group 6 months ended 31/12/2005 $'000	The Group 6 months ended 31/12/2004 $'000
Cashflows from operating activities		
Loss before tax	(1,177)	(1,201)
Adjustments for:		
Write-back of provision for foreseeable losses on properties held for sale	-	(258)
Impairment of other financial asset	50	-
Provision for impairment of doubtful receivables	56	-
Depreciation of property, plant and equipment	121	137
Gain on disposal of property, plant and equipment	(2)	(22)
Interest income	(28)	(1)
Interest expense	94	-
Share of loss of associated company	-	2
Operating cash flow before working capital changes	(886)	(1,343)
Change in operating assets and liabilites		
- Properties held for sale	188	3,596
- Inventories	(1)	8
- Trade and other receivables	(981)	(942)
- Trade and other payables	(329)	(3,618)
Cash used in operations	(2,009)	(2,299)
Interest received	28	1
Interest paid	(48)	-
Income tax paid	(63)	(10)
Net cash used in operating activities	(2,092)	(2,308)

	The Group 6 months ended 31/12/2005 $'000	The Group 6 months ended 31/12/2004 $'000
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired (Note A)	582	-
Purchase of property, plant and equipment	(168)	-
Purchase of club memberships	(50)	-
Proceeds from disposal of property, plant and equipment	17	22
Proceeds from disposal of an associated company	341	-
Obligations of former subsidiaries paid	(3,894)	-
Net cash (used in)/from investing activities	(3,172)	22
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	2,970	-
Changes in amount due to directors	9	-
Withdrawal of deposits placed for banking facilities	1,364	1,203
Proceeds from borrowings	3,000	-
Net cash from financing activities	7,343	1,203
Net increase/(decrease) in cash and cash equivalents	2,079	(1,083)
Cash and cash equivalents at beginning of the financial period	6,990	3,425
Effects of exchange rate changes on cash and cash equivalents	26	(105)
Cash and cash equivalents at end of the financial period (Note B)	9,095	2,237

	The Group 6 months ended 31/12/2005	The Group 6 months ended 31/12/2004
Note A:		
Acquisition of subsidiaries, net of cash acquired	$'000	$'000
Cash and cash equivalent	1,972	-
Other receivables	37	-
Property, plant & machinery	14	-
Other payables	(20)	-
Net identifiable assets	2,003	-
Less: Minority Interest	(613)	-
Total cash consideration	1,390	-
Less: Cash and cash equivalents in subsidiaries acquired	(1,972)	-
Net cash inflow from acquisition of subsidiaries	(582)	-

Note B:

For the purpose of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	The Group 6 months ended 31/12/2005	The Group 6 months ended 31/12/2004
	$'000	$'000
Cash at bank and on hand	9,991	2,840
Less: Deposits placed with a bank as security	(896)	(603)
Cash and cash equivalents	9,095	2,237

1(d)(i) A statement (for the issuer and group) showing either (i) all the changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

The Group

	Share capital	Share premium	Foreign currency translation reserve	Accumulated losses	Minority Interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2005	15,981	26,525	(89)	(39,321)	-	3,096
Net gain recognised directly in equity -						
Currency translation differences	-	-	6	-	(2)	4
Net loss for the financial year	-	-	-	(1,072)	(85)	(1,157)
Total recognised gains and losses for the financial year	-	-	6	(1,072)	(87)	(1,153)
Issuance of share capital in subsidiary	-	-	-	-	613	613
Issuance of shares	1,620	1,350	-	-	-	2,970
Balance at 31 December 2005	17,601	27,875	(83)	(40,393)	526	5,526
Balance at 1 July 2004	79,928	23,330	138	(100,078)	1,250	4,568
Net loss recognised directly in equity -						
Currency translation differences	-	-	(313)	-	(104)	(417)
Net loss for the financial year	-	-	-	(1,210)	(92)	(1,302)
Total recognised losses for the financial year	-	-	(313)	(1,210)	(196)	(1,719)
Balance at 31 December 2004	79,928	23,330	(175)	(101,288)	1,054	2,849

The Company

	Share captial	Share premium	Accumulated losses	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2005	15,981	26,525	(39,331)	3,175
Net loss for the financial year	-	-	(1,289)	(1,289)
Total recognised losses for the financial year	-	-	(1,289)	(1,289)
Issuance of shares	1,620	1,350	-	2,970
Balance at 31 December 2005	17,601	27,875	(40,620)	4,856
Balance at 1 July 2004	79,928	23,330	(99,476)	3,782
Net loss for the financial year	-	-	(1,667)	(1,667)
Total recognised losses for the financial year	-	-	(1,667)	(1,667)
Balance at 31 December 2004	79,928	23,330	(101,143)	2,115

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

On 3 February 2005, the Group completed the investment agreements entered into with Mr Chng Weng Wah ("Mr Chng") and Mr Soh Kim Yong ("Mr Soh") on 29 December 2003 (as amended from time to time) and 18 August 2004 respectively (collectively, the "Investment Agreements"). Pursuant to the Investment Agreements Mr Chng and Mr Soh have been granted options to subscribe for 78 million and 55 million ordinary shares respectively in the share capital of the Company at the exercise price of S$0.055.

During the financial period in question, Mr Chng exercised his options to subscribe for 54 million shares in the share capital of the Company.

The proceeds from the above exercise of options by Mr Chng amount to S$2.97 million. The Company has used part of that amount for the payment of the deposit in connection with the Company's proposed investment in Citiraya Investment Ltd. The balance has been used by the Company for its general working capital, including the reduction of its liabilities to its creditors.

Following the above exercise of options, Mr Chng and Mr Soh continue to have, as at 31 December 2005, an option to subscribe for 24 million and 55 million ordinary shares respectively in the share capital of the Company pursuant to the terms of the Investment Agreement. Save for the above, there are no other outstanding options to subcribe for shares in the share capital of the Company as at 31 December 2005.

There were no other changes to the share capital during the financial period in question. Following the above exercise of options, the issued share capital of the Company, as at 31 December 2005, comprises 586,712,250 ordinary shares.

As at 31 December 2004, there were options outstanding for the subscription of 3,250,000 ordinary shares in the share capital of the Company. As at 31 December 2005, there were no options outstanding under the Heshe Executives' Share Option Scheme.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

In the current financial period, the Group and the Company adopted the Financial Reporting Standards (FRS) below. The comparative figures have been amended where as required, in accordance with the relevant transitional provisions in the respective FRS.

FRS 1 (revised 2004) Presentation of Financial Statements
FRS 2 (revised 2004) Inventories
FRS 8 (revised 2004) Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004) Events after the Balance Sheet Date
FRS 16 (revised 2004) Property, Plant and Equipment
FRS 17 (revised 2004) Leases
FRS 21 (revised 2004) The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004) Related Party Disclosures
FRS 27 (revised 2004) Consolidated and Separate Financial Statements
FRS 28 (revised 2004) Investments in Associates
FRS 32 (revised 2004) Financial Instruments: Disclosure and Presentation
FRS 33 (revised 2004) Earnings per Share
FRS 39(revised 2004) Financial Instruments: Recognition and Measurement

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The adoption of the FRS mentioned in item 4 above did not result in changes to the Group's and Company's accounting policies except as discussed below:

Description of changes

(a) FRS 16 (revised 2004) has affected:
(i) Capitalisation of costs dismantlement, removal or restoration
The Standard requires the inclusion of costs dismantlement, removal or restoration as part of the cost of the property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of using the asset for purposes other than producing inventories.

Previously, only those costs incurred as a consequence of installing the assets were required to be capitalised as part of the cost of the property, plant and equipment. Such costs were included in the income statement as and when the obligation arose.

(ii) Depreciable amount
The Standard requires the remeasurement of the residual value of an item of property, plant and equipment at least at each financial year end. Previously, the residual values were estimated only at date of acquisition.

(b) FRS 27 (revised 2004) requires the Group to present minority interests in the consolidated balance sheet within equity, separately from the shareholders' equity of the Company. The superseded FRS 27 did not require the presentation of minority interests within equity.

(c) FRS 39 (revised 2004) and FRS 32 (revised 2004) have affected:
(i) Classification and consequential accounting of financial assets and financial liabilities
FRS 39 requires all financial assets and liabilities to be classified into appropriate categories at initial recognition and re-evaluates this designation at every reporting date. The classification depends on the purpose for which the financial asset or liabilities were acquired or incurred. The categories and the respective subsequent measurement rules are applicable to the Group as follows:

- Loans and receivables
These include the Group's trade and other receivables and cash and bank balances. They are initially recognised at its fair value plus transaction costs and subsequently accounted for at amortised cost using the effective interest method, less impairment (see note (ii) below).

Previously, the Group's trade and other receivables were stated at the gross proceeds receivable less an allowance for doubtful receivable. Cash and bank balances were recognised at cost.

- Other financial liabilities
These are financial liabilities that are not held for trading nor designated as fair value through profit or loss. These include the Group's trade and other payables and bank borrowings. They are initially recognised at its fair value less transaction costs and subsequently accounted for at amortised cost using the effective interest method.

Previously, trade and other payables were stated at cost.

(ii) Impairment and uncollectibility of financial assets
FRS 39 (revised 2004) requires the Group to assess at each balance sheet date if there is any objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Impairment of trade receivables is established when there is objective that the Group will not be able to collect all amounts due according to the original terms of receivables. The impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment charge is recognised in the income statement.

Previously, the Group maintains a general provision against its trade and other receivables for risks that are not specifically identified to any customer. Equity investments of the Group were previously stated at cost less provision for diminution in value that was other than temporary, which was charged to the income statement when it arose. Any reversal of the provision was also included in the income statement.

There was no significant impact in the current financial period as well comparative figures as a result of adopting the above FRS.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group 6 months ended 31/12/2005	Group 6 months ended 31/12/2004
Loss per ordinary share (cents)		
(a) Based on weighted average number of ordinary shares in issue	(0.20)	(0.38)
- Weighted average number of shares	537,827,004	317,712,250
(b) On a fully diluted basis	(0.19)	(0.38)
- Adjusted weighted average number of shares	570,603,600	317,712,250

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group As at 31/12/2005	Group As at 30/6/2005	Company As at 31/12/2005	Company As at 30/6/2005
Net asset value per ordinary share based on issued share capital (cents)	0.85	0.58	0.83	0.60

The net asset value per ordinary share is computed based on 586,712,250 (30 June 2005: 532,712,250) ordinary shares.

Note: Net asset value herein refers to net tangible assets.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Group sales decreased from $4.8 million in preceding financial period to $1.1 million in the current financial period. Sales of Food and Beverage division dropped by S$0.2 million whereas the sales of Property division decreased by $3.6 million.

The Group continues to scale down its Property businesses. Fewer property units were sold during this financial period and as a result the turnover from Property businesses reduced drastically.

The Group results were principally affected by the following:
i) recovery of receivables from a former related corporation previously provided for amounting to $0.8 million;
ii) start-up expenses of new subsidiaries amounting to $0.3 million; and
iii) operational losses totalling S$1.6 million.

The receivables recovered mentioned in item (i) above relate to the $2.7 million due from Heshe-Kabil Industrial Developments Pte Ltd as previously announced by the Company on 2 September 2005.

The new subsidiaries mentioned in item (ii) above refer to the Company's investment in Vic Technology Limited ("Vic Tech") and its subsidiary during the financial period. The investment represents 70% of the registered share capital of Vic Tech. Vic Tech is a Hong Kong incorporated company focusing on the sales and distribution of audio, video and electronics products for the European market through its wholly-owned subsidiary, M3 Electronic GmbH.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may effect the group in the next reporting period and the next 12 months.

Existing businesses

The Property development business will scale down further in the coming financial period. We are taking measures to strengthen our food and beverage ("F&B") business and are hopeful that such measures will help to improve the F&B business margins.

New and potential businesses

i) Acquisition of interest in CH E-Recycling Pte Ltd

Per the announcement made on 29 August 2005, the Company has entered into an investment agreement to acquire 60% of the issued and paid-up share capital of CH E-Recycling Pte Ltd ("CHE"). SGX-ST has on 19 December 2005 given their approval in principle for the listing and quotation on the SGX-ST of the shares in the Company which will be issued as part of the consideration for the Company's acquisition. The Company intends to complete the acquisition in the first half of 2006 upon the satisfaction of the other condition precedents set out in the investment agreement. The approval in principle of the SGX-ST for the listing and quotation of the shares in the share capital of the Company in connection with the acquisition is not an indication of the merits of the acquisition.

ii) Acquisition of Ternary Technologies Pte Ltd

Per the announcement made on 29 August 2005, the Company has also entered into an investment agreement to acquire the entire issued and paid-up share capital of Ternary Technologies Pte Ltd ("Ternary"). The completion of this acquisition is subject to the approval of the SGX-ST and the shareholders of the Company. Accordingly an extraordinary general meeting of the Company will be convened in due course and a circular to the shareholders of the Company setting out further details of the acquisition will be issued by the Company.

iii) Investment in Citiraya Industries Ltd
Per the announcement made on 20 September 2005, the Company entered into an investment agreement dated 19 September 2005 (the "CIL Investment Agreement") with Chip Lian Investments Pte Ltd ("Chip Lian") and Citiraya Industries Ltd ("CIL"), pursuant to which the Company will subscribe for 948,724,172 ordinary shares (the "Heshe Tranche 1 Shares") in the issued and paid-up share capital of CIL at a subscription price of S$0.01054 per share. Pursuant to the CIL Investment Agreement, Chip Lian will also subscribe for the same number of ordinary shares in the share capital of CIL (the "Chip Lian Tranche 1 Shares", the Heshe Tranche 1 Shares and the Chip Lian Tranche 1 Shares shall collectively be referred to as the "Tranche 1 Shares") at the same price per share. The Heshe Tranche 1 Shares will, when issued, represent approximately 37.5% of the issued and paid-up share capital of CIL (assuming that the Chip Lian Tranche 1 Shares are issued at the same time).

Under the CIL Investment Agreement, after the subscription of the Heshe Tranche 1 Shares and the Chip Lian Tranche 1 Shares, Heshe and Chip Lian will each be given an option to subscribe for a further 948,724,172 ordinary shares in the share capital of CIL at the subscription price of S$0.01054. The option is exercisable within 1 year from the issue of the Tranche 1 Shares.

The investment in CIL is subject to the approval of the shareholders of Heshe and the satisfaction of other conditions precedent set out in the CIL Investment Agreement. A circular setting the details of the investment in CIL will be issued by the Company in due course.

11. Dividend

(a) Current financial period reported on
No dividend is declared for the financial period reported.

(b) Corresponding period of the immediately preceding financial year
No dividend was declared for the corresponding period of the immediately preceding financial year.

(c) Date payable
Not applicable.

(d) Books closure date
Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect.

No dividend has been declared/recommended.

PART 2 - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT.
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Not applicable.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable.

15. A breakdown of sales

Not applicable.

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

Not applicable

BY ORDER OF THE BOARD

CHNG WENG WAH
Chief Executive Officer
8 February 2006