

HESHE HOLDINGS LIMITED
(Company Registration No. 197501110N)

CLARIFICATION OF FULL YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30/06/2005

1. The Company refers to the Full Year Financial Statement and Dividend Announcement for the period ended 30 June 2005 (the “**Announcement**”), which was announced on 29 August 2005, in particular to paragraph 8 thereof.
2. The Singapore Exchange Securities Trading Limited (the “**SGX**”) has sought the Company’s clarification on the above. We set out the contents of their queries:

“It is stated in paragraph 8 (of the Announcement) that ‘the Group’s results were principally affected by’, inter alia, ‘allowance for doubtful debts for receivables from a related corporation and a former subsidiary amounting to \$4.8 million’ and ‘allowance for diminution in value of a long-term investment amounting to \$1.1 million.’

We would require the Company to reply to our following queries by 2 September 2005:-

- (a) *What is the allowance for bad debt from a related corporation arising from? Also, provide details, including name of related corporation and status of debt.*
 - (b) *Provide details of the ‘long-term investment’.*”
3. The Company has since replied to the SGX and the contents of the reply are set out below.
4. In relation to query (a) above, the Company wishes to clarify that the allowance for doubtful debts amounting to \$4.8 million is made up of the following:
 - (a) **\$2.7 million due from Heshe-Kabil Industrial Developments Pte Ltd (“Heshe-Kabil”)**

Heshe-Kabil was previously a related corporation and was disposed on 26 July 2005. As part of the terms of the sale and purchase agreement, the amount due from Heshe-Kabil has been structured to be repaid over 14 monthly installments commencing on 26 July 2005. As a matter of prudence, the \$2.7 million debt has been provided as doubtful since there is uncertainty over the ability of Heshe-Kabil to meet the remaining obligations. \$300,000 out of the \$2.7 million has since been written off in July 2005.

Despite the fact that provisions have been made, the management will pursue the recovery of the debt aggressively as and when it falls due.

(b) **\$2.1 million due from PT Heshe Indonesia (“PT Heshe”)**

The remaining \$2.1 million is due from PT Heshe, a former subsidiary. This sum has been due since the financial year ended 2003. PT Heshe owns some properties in Indonesia which are available for sale upon satisfying certain conditions stipulated by the creditor bank of PT Heshe, including the repayment of the bank borrowings owing by PT Heshe.

To date, PT Heshe has yet to procure purchasers for the properties and therefore there is significant uncertainty over the collectibility of the debt and whether the proceeds of the sale of the properties will be made available to the Company. As such, the Company made such an allowance for doubtful debts on grounds of prudence.

Notwithstanding the provisions, the Company will pursue the recovery of the debt aggressively.

5. In relation to query (b) above, the Company wishes to clarify that the allowance for diminution in value of a long-term investment amounting to \$1.1 million is made in relation to Xiamen Xiangyu Presto Trading Ltd (“**Xiamen Xiangyu**”). The Company has a 75% stake in Xiamen Xiangyu.

The financial statements of Xiamen Xiangyu were previously included in the consolidated financial statements of the Group. However, in the preparation of the Group's financial statements for the financial year ended 30 June 2005, the Company was unable to obtain access to the financial statements and the management of Xiamen Xiangyu. Accordingly, the financial statements of Xiamen Xiangyu were not consolidated into the Group's financial statements for the financial year ended 30 June 2005.

Due to the current uncertainty of our exercise of our rights as shareholders and the recoverability of our investment in Xiamen Xiangyu, the Company has decided to adopt the prudent approach by making an allowance for the diminution in value of the investment in Xiamen Xiangyu in the Group's financial statements for the financial year ended 30 June 2005.

The Company will continue with its efforts to exercise its rights in Xiamen Xiangyu meaningfully and appropriately, including the continued efforts to engage the management and other shareholders of Xiamen Xiangyu and to resolve its shareholders rights issue.

By Order of the Board

Chng Weng Wah
Director

2 September 2005