



(Formerly known as Heshe Holdings Limited)
Co.Reg.No. 197501110N

Corporate Information

BOARD OF DIRECTORS

Chng Weng Wah
Soh Kim Yong
Lee Bon Leong
Heng Lee Seng
Hoon Tai Meng
Loh Eu Tse Derek

AUDIT COMMITTEE

Heng Lee Seng, Committee Chairman
Lee Bon Leong
Hoon Tai Meng

NOMINATING COMMITTEE

Lee Bon Leong, Committee Chairman
Heng Lee Seng
Hoon Tai Meng

REMUNERATION COMMITTEE

Hoon Tai Meng, Committee Chairman
Heng Lee Seng
Lee Bon Leong

DATE OF INCORPORATION

26 June 1975

DATE OF CONVERSION TO A PUBLIC COMPANY

24 March 1992

REGISTERED OFFICE

8 Cross Street #11-00 PWC Building
Singapore 048424
Tel : 62363333
Fax : 62364399

STOCK EXCHANGE LISTING

Singapore Exchange Dealing and
Automated Quotation System
(SGX SESDAQ)

COMPANY SECRETARIES

Joanna Lim Lan Sim (appointed with effect from
24 August 2006)
Lathika Devi Amma d/o K R Pillay

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
8 Cross Street #17-00 PWC Building
Singapore 048424
Tel : 62363388
Fax : 62363300
Audit Partner-In-Charge: Soh Kok Leong
Year of appointment: 2005

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
8 Cross Street #11-00 PWC Building
Singapore 048424
Tel : 62363333
Fax : 62363405

PRINCIPAL LEGAL ADVISER

TSMP Law Corporation, Singapore

PRINCIPAL BANKERS

The Development Bank of Singapore
United Overseas Bank Limited, Singapore
Commerzbank Aktiengesellschaft,
Frankfurt Germany
China Merchants Bank Beijing, People's Republic
of China

All figures in this annual report are in Singapore dollars unless otherwise indicated.

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Message from Executive Chairman



Dear Shareholders,

We are pleased to present our annual report for the financial year ended 30 June 2006 ("FY 2006").

HIGHLIGHTS OF THE YEAR

The Group delivered better revenue of \$6.3 million in FY 2006 from \$5.8 million for the financial year ended 30 June 2005 ("FY 2005"), representing an 8.6% increase. The net loss attributable to equity holders decreased from \$9.6 million in FY 2005 to \$0.6 million in FY 2006, improving significantly by 93.8%. Loss per share has improved from 2.35 cents in FY 2005 to 0.10 cents in FY 2006. Please refer to the section on "Group Financial Review" in the annual report for further analysis.

Since the new management team took office in February 2005, the focus has always been on rationalising the existing businesses and assets of the Company and exploring additional business opportunities for the Company to pursue. FY 2006 has been a tremendously eventful and fulfilling year. In addition to the sale of Heshu-Kabil Industrial Developments Pte Ltd, a former associated company, on 26 July 2005, FY 2006 also saw the Group accomplishing the following milestones:-

- 1) Completion of acquisition of Vic Technology Limited and its subsidiary (M3 Electronic GmbH) which is involved in the distribution of consumer electronic products on 26 September 2005;
- 2) Completion of acquisition of CH E-Recycling Pte. Ltd. ("CHE") which is involved in the electronic recycling business on 9 March 2006; and
- 3) Signing of the investment agreement ("CIL Agreement") entered into between the Company, Oei Hong Leong Foundation Pte Ltd ("OHL") and Citiraya Industries Limited ("CIL") on 19 September 2005 in relation to the investment by the Company and OHL in CIL. The CIL Investment Agreement has since been amended by the Amended and Restated Agreement dated 27 March 2006 and the CIL Agreement has been terminated in its entirety with effect from the date of the Amended and Restated Agreement.

Message from Executive Chairman

KEY DEVELOPMENTS SINCE FY 2006

The new financial year has already started with the following events that will lay the key stones for building the Group's success for the future.

(a) Purchase of a new leasehold property in Tuas Avenue 10

CHE entered into an agreement to lease new factory premises at 11 Tuas Avenue 10 for a consideration of \$2.5 million. The lease term of 30 years commenced on 16 July 2006. CHE intends to use the new building to expand its operations and facilities.

(b) Renounceable and partially underwritten Rights Issue

On 17 July 2006, the Company released an Offer Information Statement relating to the renounceable and partially underwritten Rights Issue of 276,047,322 new ordinary shares at an issue price of \$0.05 for each Rights Share on the basis of two Rights Shares for every five existing shares in the issued and paid-up share capital of the Company held by shareholders as at 14 July 2006, the Books Closure Date (fractional entitlements disregarded). The final day for application and acceptance of the Rights Issue was 2 August 2006. Due to the overwhelming support, the Company successfully allotted all the 276,047,322 new shares in the Company pursuant to the Rights Issue. The net proceeds raised from the Rights issue is approximately \$13.2 million. To date, \$6.05 million of the net Rights proceeds have been utilised to partially finance the Company's investment in Citiraya Industries Ltd [please refer to (c) below]. The Company has also disbursed a sum of approximately \$2.7 million from the proceeds of the Rights Issue to its subsidiaries, M3 and CHE, by way of shareholders' loan for the subsidiaries' working capital purposes.

(c) Investment in CIL

In the Company's attempts in the last year to rationalise the business and assets of the company and to seek profitable business areas, we have identified the recycling and recovery business as one which exhibits long-term potential which the Company should not ignore.

Our optimism in the potential of this industry is premised on the continued growth and fast paced developments in the electronics industry which is likely to see the life-cycle of electronic products becoming shorter and result in an increase in the rate of replacement of used electronic products. Further, with an increase in awareness of environmental issues and the possible introduction of more stringent environmental standards, many products will have to be processed before disposal. As the business of CHE is similar to that of CIL, we felt that the investment in CIL and CHE may generate a synergy for both companies. Further, the investment in CIL will give the Company's expansion into this business area a tremendous boost and provide a more efficient route for the Company to grow and develop this business segment.

During the Extraordinary General Meeting ("EGM") held on 26 September 2006, our shareholders approved the investment by the Company in the issued and paid-up share capital of CIL through the subscription of up to 1,897,448,344 ordinary shares in the issued and paid-up share capital of CIL for an aggregate consideration of \$16.1 million. The proposed investment has been completed on 29 September 2006 with the issue to the Company of 948,724,172 ordinary shares (the "Tranche 1 Shares") in the issued and paid-up share capital of CIL at the aggregate subscription price of \$8.05 million, and the issue to the Company of an option to

Message from Executive Chairman

subscribe for a further 948,724,172 ordinary shares in the issued and paid-up share of CIL at the aggregate subscription price of \$8.05 million (or \$0.008485 per share). Further details on the investment in CIL have been set out in the Company's circular to its shareholders dated 4 September 2006. With the issue of the Tranche 1 Shares, the Company has an interest in 37.5% of the issued and paid-up share capital of CIL and CIL is considered an associated company of the Company. CIL will be changing its name to Centillion Environment & Recycling Limited and will be managed by a separate and independent professional team. The Company has appointed a nominee (who will play a non-executive role) to sit on the Board of Directors of CIL.

(d) Change of name to "Equation Corp Limited"

The change of the Company's name to "Equation Corp Limited" reflects the evolution of the Company and its guiding management philosophy. We believe that while the Company is engaged in business and trading activities for gain, financial profits should not be pursued at the expense of the Company's responsibility as a corporate citizen. As the management team seeks to enhance shareholders' value, values of good corporate governance, responsible business practices, employee welfare and social and environmental awareness, will guide the Company. We also believe that the Company should treat its customers, suppliers and business associates as equals and accord them with the respect deserving of a mutually beneficial relationship. An equation symbolizes equality and hence the choice of the name "Equation Corp Limited".

During the EGM on 26 September 2006, our shareholders have also approved the change of name from "Heshe Holdings Limited" to "Equation Corp Limited".

FUTURE OUTLOOK

The years ahead will be challenging. The Group will continue to monitor its property development business while pursuing growth and profitability by focusing on its current core businesses - namely electronic waste recycling business and distribution of consumer electronic products in the European Union. At the same time, we will remain on the lookout for other potential business opportunities.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors of the Company, I would like to extend our deepest appreciation to the management, staff and other professional parties for their hardwork, dedication and immense contributions for realising the many milestones in this hectic year.

We would also like to thank our shareholders, customers, suppliers and business partners for their valuable support during the past financial year and we look forward to your continued support in the coming financial year and beyond.

Yours faithfully,

CHNG WENG WAH

29 September 2006

Financial Review

Group Turnover

The Group's sales increased from \$5.8 million for the financial year ended 30 June 2005 ("FY 2005") to \$6.3 million for the financial year ended 30 June 2006 ("FY 2006") representing an 8.6% increase.

Sales of the Food and Beverage division dropped by \$0.2 million whereas sales of the Property division decreased by \$2.9 million. The Group continues to scale down the businesses of the Property division. In the current financial year, fewer property units were sold resulting in a drastic reduction in the revenue contributed by Property division.

The Company acquired Vic Technology Limited ("Vic Tech") in September 2005 and CH E-Recycling Pte. Ltd. ("CHE") in March 2006.

Vic Tech is a Hong Kong incorporated company focusing on the sales and distribution of audio, video and electronics products in the European Union market, primarily in Germany, through its wholly-owned subsidiary, M3 Electronic GmbH ("M3") which is incorporated in Germany. Since its acquisition, M3 has been actively establishing its network in the European Union while sourcing for appropriate vendors to manufacture and supply the consumer electronic products procured by customers. The relevant products are manufactured in or sourced from other parts of the world where prices are more competitive. M3 started generating revenue from April 2006 onwards, contributing \$0.9 million (or 14.3%) to the Group's sales.

CHE, incorporated in Singapore, is principally engaged in the recycling and trading of scrap metals (such as copper and aluminium) and electronic waste products and carries on its operations in Singapore. Through CHE's recycling process and recovery process, scrap metals are extracted and separated from electronics components such as printed circuit boards, integrated circuit boards and laminated sheets. CHE is also engaged in the trading of copper laminate and printed circuit boards. CHE generated sales of \$2.7 million for the 4 month period subsequent to its acquisition in March 2006 which were consolidated into the Group, representing 42.9% of the Group's sales for the financial year.

Collectively, the newly acquired subsidiaries - Vic Tech and CHE - contributed \$3.6 million to the Group's revenue, representing 57.2% of the Group's sales.

Group's Net Loss After Tax

During FY 2006, the Group's loss attributable to equity holders of the Company improved significantly by 93.8% to \$0.6 million compared with \$9.6 million in FY 2005.

In FY 2005, the Group results were principally affected by the following impairment losses which were made in order to address the uncertainty of recoverability of certain assets and receivables:

- (i) impairment loss for receivables from a former associated company, Heshe-Kabil Industrial Developments Pte Ltd ("Heshe-Kabil"), amounting to \$2.7 million;
- (ii) impairment loss for receivables from a former subsidiary, PT Heshe Indonesia, amounting to \$2.1 million; and
- (iii) impairment loss in the value of the Company's investment in an available-for-sale financial asset amounting to \$1.1 million.

The background and rationale for the above impairment losses were explained in the Company's annual report for FY 2005.

Financial Review

The Group results for FY 2006 were affected by the following:

(a) Write-back of provision for impairment of receivables from Heshe-Kabil of \$2.4 million

During the financial year, the Group recovered \$2.0 million of receivables from Heshe-Kabil and \$0.4 million of impairment losses provided for in the preceding financial year in relation to the receivables from Heshe-Kabil were written back. This resulted in a miscellaneous gain of \$2.4 million during the financial year.

(b) Start-up expenses incurred by newly acquired subsidiaries, Vic Tech and M3, of \$0.4 million

As explained above, Vic Tech (through M3) started generating revenue in April 2006. Prior to that, the Germany subsidiary had been marketing itself to major retailers in the European Union as well as sourcing for manufacturers to produce the orders obtained from customers. During the period from October 2005 (post-acquisition) to March 2006, the start-up expenses for Vic Tech and M3 amounted to \$0.4 million.

(c) Impairment loss on goodwill arising from consolidation of \$0.3 million

Such goodwill on consolidation arose as the Group's share of the net fair values of CHE's identifiable assets, liabilities and contingent liabilities as at the date of acquisition during the financial year differed from the purchase prices determined and fixed as at the date of investment agreement.

(d) Operational losses of \$2.3 million

This mainly resulted from corporate expenses incurred during the financial year which included corporate office personnel expenses, legal and professional expenses incurred in relation to new and proposed investments and other administrative expenses.

Balance Sheet

Total assets increased \$10.0 million from \$13.9 million in FY 2005 to \$23.9 million in FY 2006 primarily due to the contribution from newly acquired subsidiaries during the financial year which amounted to \$9.5 million.

CHE contributed a total of \$7.8 million of assets, including property, plant and machinery of \$5.9 million (predominantly plant and machinery used for the recycling and extraction of copper), inventories of \$0.6 million, trade and other receivables and other assets amounting to \$1.3 million.

Vic Tech and M3 contributed \$1.7 million of assets, including property, plant and machinery of \$0.1 million, cash and cash equivalents amounting to \$0.5 million, inventories of \$0.4 million, trade and other receivables and other assets amounting to \$0.7 million.

Total liabilities decreased by \$2.5 million from \$10.8 million in FY 2005 to \$8.3 million in FY 2006, mainly due to:

- (i) Payment of obligations of former subsidiaries guaranteed by the Company amounting to \$1.5 million;
- (ii) Write-back of interest expense on obligations of former subsidiary guaranteed by the Company amounting to \$0.2 million;
- (iii) Payment of legal claims by the Beijing subsidiary dealing with property development, Beijing-Haiteng Real Estate Development Business Co., Ltd ("BJHT"), amounting to \$0.2 million. During the financial year, BJHT also wrote-back \$0.4 million provision for legal claims no longer required;
- (iv) Reduction of \$0.8 million as compared to FY 2005 in advance receipts from customers of BJHT arising from property sales which is consistent with the scaling down of the business of the Property division; and
- (v) Offset by contributions from new subsidiaries acquired during the financial year amounting to \$0.9 million.

Shareholders' equity increased from \$3.1 million in FY 2005 to \$12.2 million in FY 2006 mainly due to the issuance of shares amounting to \$9.8 million during the financial year which was offset by current year loss after taxation of \$0.6 million.

The net asset per share increased from 0.58 cents in FY 2005 to 1.78 cents in FY 2006 and no dividend was declared for FY 2006.

Board of Directors

CHNG WENG WAH (*Executive Chairman, Executive Director and Chief Executive Officer, Non-Independent*)

Last re-elected on 27 October 2005

An established entrepreneur and visionary leader, Mr Chng was previously named Asia Europe Young Entrepreneurs Award of the Asia-Europe Young Entrepreneurs Forum ("AEYEF") in Berlin in 1999. Possessing remarkable business acumen, he is responsible for the strategic direction and development of our group of companies so as to maximise value for the Group's business as well as shareholders' value. He is also instrumental in seeking and identifying new investment opportunities such as the recent investment in Citiraya Industries Ltd.

SOH KIM YONG (*Non-Executive Director, Non-Independent*)

Last re-elected on 27 October 2005

Mr Soh has held key engineering and marketing positions in multi-national corporations in the semi-conductor industry such as Siemens Components, Texas Instruments and National Semiconductor before he ventured out to start his own business in 1995. With his vast experience and knowledge of the electronics-related business, his appointment as Director of the Company will be an asset to the Group. Mr Soh holds a Master of Science (Industrial Engineering) degree from National University of Singapore.

LEE BON LEONG (*Non-Executive and Independent Director*)

Chairman, Nominating Committee

Member, Audit Committee and Remuneration Committee

Last re-elected on 27 October 2005

Mr Lee is a Senior Partner in Lee Bon Leong & Co. He serves as a member of the Singapore Law Society's Conveyancing Practice Committee. He was appointed as an Assistant Registrar of the Small Claims Tribunal on 2 November 1998 and he also served as a Referee for the period 11 October 1999 to 10 October 2000. Mr Lee is active in public service activities and is currently a member of the Volunteers and Social Services Committee of the Chinese Development Assistance Council. Mr Lee has been appointed as a Justice of the Peace by the President of Singapore since November 1998 and serves as a Member of the Board of Visiting Justices and Board of Inspection. He has been a member of the Panel for the Disciplinary Committee of Enquiry, Public Service Commission since August 2000. He also sits on the Boards of several listed companies as an Independent Director.

HENG LEE SENG (*Non-Executive and Independent Director*)

Chairman, Audit Committee

Member, Nominating Committee and Remuneration Committee

Last re-elected on 27 October 2005

Mr Heng is presently a partner of Heng Lee Seng & Co and a director of HLS Corporate Services Pte Ltd. Mr Heng is a Certified Public Accountant and has been a practising CPA for more than 30 years. Mr Heng is also a member of CPA Australia, The Association of Chartered Certified Accountants, The Chartered Institute of Management Accountants, The Institute of Chartered Secretaries and Administrators and Singapore Institute of Directors. He also sits on the Boards of two other listed companies as an Independent Director.

Board of Directors

HOON TAI MENG *(Non-Executive and Independent Director)*

Chairman, Remuneration Committee

Member, Audit Committee and Nominating Committee

Last re-elected on 30 November 2004

Mr Hoon is a Fellow of The Chartered Institute of Management Accountants (United Kingdom), a Fellow Certified Public Accountant (Singapore) ("FCPA") and a Barrister-at-Law (Middle Temple). He is an Advocate and Solicitor and is currently the Managing Partner in M/s T M Hoon & Co. Besides having more than 10 years of experience in law practice, Mr Hoon also has around 20 years of experience in financial planning and management, audit, tax and corporate secretarial function. Mr Hoon holds a Bachelor of Commerce degree in Accountancy and LLB (Honours). He also sits on the Boards of several listed companies as an Independent Director.

LOH EU TSE DEREK *(Non-Executive and Independent Director)*

Last re-elected on 27 October 2005

Mr Loh has been practicing law for the past 14 years and is presently an Executive Director in TSMP Law Corporation. He is an Advocate and Solicitor of the Supreme Court. Mr Loh graduated with honours from Cambridge University. He also sits on the Boards of two other listed companies as an Independent Director.

Information on the Directors' chairmanships and directorships both present and those held over the preceding three years in other listed companies are summarised below:

Director	Directorships/Chairmanships in other listed companies (present & held over preceding 3 years)	
	Over preceding 3 years	Present
Chng Weng Wah	As an Independent Director in - <i>ASTI Holdings Limited</i>	-
Heng Lee Seng	-	As an Independent Director in - <i>Sinwa Limited</i> - <i>Federal International (2000) Ltd</i>
Hoon Tai Meng	As an Independent Director in - <i>Mentor Media Ltd</i>	As an Independent Director in - <i>Automated Touchstone Machines Limited</i> - <i>Chip Eng Seng Corporation Ltd</i> - <i>Federal International (2000) Ltd</i> - <i>Wee Poh Holdings Limited</i> As a Non-Executive and Non-Independent Director in - <i>Intraco Limited</i>
Lee Bon Leong	-	As an Independent Director in - <i>Advance SCT Limited</i> - <i>AnnAik Limited</i> - <i>Freight Link Express Holdings Limited</i> - <i>HG Metal Manufacturing Limited</i> - <i>Megachem Limited</i>
Loh Eu Tse Derek	-	As an Independent Director in - <i>Freight Links Express Holdings Limited</i> - <i>Flextech Holdings Limited</i>

Group Key Executives

Ms Goh Poh Kee

Chief Financial Officer

Ms Goh is responsible for the overall financial management and strategic planning for the business of the Group. She has more than 17 years of work experience in financial and corporate management functions and is a Fellow Certified Public Accountant (Singapore) (“FCPA”). She holds a Bachelor of Accountancy degree from the National University of Singapore.

Mr Lim Chuan Heng

Managing Director of CH E-Recycling Pte. Ltd. (“CHE”)

Mr Lim is a veteran in the waste recycling and related industries. Accumulating more than 25 years of relevant experience, he has established an extensive network of customers and suppliers in the region especially in China. Mr Lim possesses a strong technical knowledge in the copper recovery process and is responsible for overseeing the overall profitability and strategic business development of CHE.

Mr Peh Hai Chin

General Manager and Director of CH E-Recycling Pte. Ltd. (“CHE”)

Mr Peh has been in the waste recycling and related business since 2001. Prior to that, he was involved in automobile-related businesses. Mr Peh is responsible for the overall day-to-day operations of CHE. Over the years, he has established good relationships with many electronic manufacturers based in Singapore and Malaysia.

Mr Matthias Claus

Managing Director of M3 Electronic GmbH (“M3”)

Mr Claus brings with him more than 25 years of extensive experience in the sales, distribution and marketing of consumer electronics products in European markets and possesses a wide network of contact with distributors of consumer electronics products in European Union, mainly Germany and Poland. Prior to joining M3, he worked for several major distributors and importers of consumer electronics products in Germany such as Elta GmbH and Markant. Mr. Claus is responsible for overseeing the overall profitability of M3 and plays a key role in the strategic business development and operations of M3.

Corporate Governance Report

The Company endorses the Code of Corporate Governance (“the Code”) issued by the Committee of Corporate Governance and has adopted wherever feasible, its recommendations. This Report describes the Company’s corporate governance processes and activities with specific reference to the Code, including explanations for any deviations from the Code.

BOARD OF DIRECTORS

Principal 1 : Board’s Conduct of its Affairs

The Board held eight meetings during the financial year ended 30 June 2006 (“FY 2006”). The Company’s Article of Association allows Directors of the Board to participate in meeting by means of telephone, electronic or other communication facilities through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously. The attendance of the Directors at meetings of the Board and Board Committees during FY 2006 are disclosed as follows:

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Chng Weng Wah	8	8	-	-	-	-	-	-
Soh Kim Yong	8	7	-	-	-	-	-	-
Heng Lee Seng	8	8	3	3	1	1	1	1
Hoon Tai Meng	8	8	3	3	1	1	1	1
Lee Bon Leong	8	8	3	3	1	1	1	1
Loh Eu Tse Derek*	7	7	-	-	-	-	-	-

* Mr Loh Eu Tse Derek was appointed as Director on 9 September 2005.

The Board is responsible for:

- (1) reviewing and adopting a strategic plan for the Group;
- (2) overseeing the conduct of the Group’s business to evaluate whether the business is being properly managed;
- (3) reviewing the financial performance of the Group; and
- (4) establishing a framework for proper internal controls and risk management framework within the Group.

Matters that are specifically reserved for decision by the full Board are those involving material acquisitions and disposals of assets, corporate or financial restructuring and share issuances and dividends.

To facilitate effective management, certain functions have been delegated by the Board to various Board Committees. The Board Committees operate under clearly defined terms of reference. The Chairman of the respective Committees will report to the Board the outcome of the committee meetings.

Corporate Governance Report

Principal 2 : Board Composition and Balance

The Board comprises one executive Director, one non-executive Director and four non-executive and independent Directors as follows:

- (1) Chng Weng Wah (*Executive Chairman, Executive Director and Chief Executive Officer*)
- (2) Soh Kim Yong (*Non-Executive Director*)
- (3) Heng Lee Seng (*Non-Executive and Independent Director*)
- (4) Hoon Tai Meng (*Non-Executive and Independent Director*)
- (5) Lee Bon Leong (*Non-Executive and Independent Director*)
- (6) Loh Eu Tse Derek (*Non-Executive and Independent Director*)

The Board has a strong and independent element as four out of six board members are considered independent.

The Board is of the view that the current board size of six directors is appropriate, taking into account the nature and scope of the Group's operations. The Board comprises Directors who as a group provide core competencies, such as business and management experience, industry knowledge, financial and strategic planning experience and knowledge that are necessary and critical to meet the Group's objectives. Details on the Directors' background are set out on pages 6 to 7 of the annual report.

Principal 3 : Role of Chairman and Chief Executive Officer ("CEO")

Mr Chng Weng Wah is both the Executive Chairman and CEO of the Company. Mr Chng manages the overall business of the Group and is responsible for setting the strategic direction and vision of the Group. The Board fully supports his role as Executive Chairman and CEO. The Board is of the view that there is a sufficiently strong independent element on the Board to enable independent exercise of objective judgment on corporate affairs of the Group by members of the Board.

BOARD COMMITTEES

Nominating Committee

Principal 4 : Board Membership

Principal 5 : Board Performance

The Nominating Committee ("NC") comprises the following three non-executive and independent Directors:-

Lee Bon Leong (*Chairman*)
Hoon Tai Meng
Heng Lee Seng

The NC is regulated by its terms of reference. The NC's role is to establish a formal and transparent process for the appointment or re-appointment of directors, evaluating and assessing the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board and determining the independence of directors.

In accordance with Article 92 of the Company's Articles of Association, all Directors (except a Managing Director) shall retire from office once at least in each three years by rotation and all newly appointed directors will have to retire at the next Annual General Meeting ("AGM") following their appointments. The retiring directors are eligible to offer themselves for re-election.

The independence of each director is reviewed annually by the NC. The NC adopts the Code's definition of what constitutes an independent director in its review.

The NC assessed the Board's performance as a whole for FY 2006. The objective of the performance evaluation exercise is to uncover strengths and challenges so that the Board is in a better position to provide the required expertise and oversight.

Corporate Governance Report

The NC considers it more appropriate to focus on the collective Board's performance and critically evaluate the Board's performance by means of a questionnaire that deals with matters on board composition, information to the board, board procedures, board accountability, chief executive officer/top management and the standards of conduct.

The NC has nominated the director retiring by rotation for re-election at the forthcoming AGM. In considering the nomination, the NC took into account the contribution of the directors with reference to their attendance and participation at Board and other Board committee meetings as well as the proficiency with which they have discharged their responsibilities.

The NC was satisfied with the effectiveness of the Board as a whole and also the contribution by each director to the effectiveness of the Board.

Audit Committee

Principle 11 : Audit Committee

Principle 12 : Internal Controls

Principle 13 : Internal Audit

The Audit Committee ("AC") comprises the following three non-executive and independent directors:-

Heng Lee Seng (*Chairman*)
Hoon Tai Meng
Lee Bon Leong

The AC is regulated by its terms of reference. The AC meets at least two times a year and as warranted by circumstances, to perform the following functions:-

- (1) reviews the audit plan of the external auditors;
- (2) reviews with the external auditors their evaluation of the Group's system of internal accounting controls;
- (3) reviews with the external auditors the scope and results of the audit and its cost effectiveness;
- (4) reviews the co-operation given by management to the external auditors;
- (5) reviews and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Company or the Group's results or financial position;
- (6) reviews the Group's financial results and the announcements before submission to the Board for approval;
- (7) monitors the extent of the Group's compliance with the Listing Manual and the Best Practices Guide issued by Singapore Exchange Securities Trading Limited ("SGX-ST");
- (8) nominates external auditors for re-appointment and reviews their independence; and
- (9) reviews interested person transactions, if any.

The profile of the AC members is set out on pages 6 and 7 of the annual report. The Board considers that the members of the AC are qualified to discharge the responsibilities of the AC.

The external auditors have full access to the AC and the AC has full access to the management. The AC has express power to commission investigations into any matters, which has or is likely to have material impact on the Group's operating results and/or financial position.

For FY 2006, the AC met with the external auditors without the presence of the management for the purpose of facilitating discussion of the responses by management on audit matters. The AC reviewed the findings of the external auditors and the assistance given to them by management.

The AC is satisfied with the independence of the external auditors, PricewaterhouseCoopers, and there are no non-audit services provided to the Group by PricewaterhouseCoopers during the financial year.

In view of the current level of business activities of the Company and the Group, and the system of internal controls in place, the AC is satisfied that there is no necessity for a further internal audit function during the financial year. The AC has reviewed and is satisfied with the effectiveness of the Group's material internal controls.

Corporate Governance Report

Remuneration Matters

Principle 7 : Procedures for Developing Remuneration Policies

Principle 8 : Level and Mix of Remuneration

Principle 9 : Disclosure on Remuneration

The Remuneration Committee (“RC”) comprises the following three non-executive and independent directors:-

Hoon Tai Meng (*Chairman*)

Heng Lee Seng

Lee Bon Leong

The RC is regulated by its terms of reference. The RC has access to independent professional advice, if required. The duties of the RC include the following:-

- (a) recommending the Board a framework of remuneration for the Board, the key executives of the Group and those employees related to the executive directors and controlling shareholders of the Group, covering all aspects of remuneration such as directors’ fees, salaries, allowances, bonuses, options and benefits-in-kind; and
- (b) overseeing the administration of the Company’s Executives’ Share Option Scheme or any other share option scheme as may from time to time be established by the Group.

The non-executive and independent Directors do not have any service contracts. They are paid a basic fee. The Board recommends payment of such fees to be approved by shareholders as a lump sum payment at the AGM of the Company.

The Company had entered into a service agreement (“Service Agreement”) with the CEO, Mr Chng Weng Wah for an initial period of 3 years commencing from 3 February 2005. The Service Agreement may be terminated by not less than 6 months’ notice in writing served by either party.

A breakdown, showing the level and mix of each individual director’s remuneration paid/payable for FY 2006 is as follows:

Directors’ Remuneration

	Remuneration Band \$	Salary & Fees %	Performance Related Income/ Bonuses %	Other Benefits %	Total Remuneration %
Executive Directors					
Chng Weng Wah	>500,000	88	9	3	100
Non-Executive Directors					
Heng Lee Seng	<250,000	100	-	-	100
Hoon Tai Meng	<250,000	100	-	-	100
Lee Bon Leong	<250,000	100	-	-	100
Soh Kim Yong	<250,000	100	-	-	100
Loh Eu Tse Derek*	<250,000	100	-	-	100

* Mr. Loh Eu Tse Derek was appointed as Director on 9 September 2005.

Corporate Governance Report

Top 5 Key Executives

For FY 2006, the Group has four key executives. The remuneration of these four key executives (who are not directors of the Company) are set out below in bands of \$250,000. The names of the executives are not disclosed to maintain the confidentiality of the remuneration packages of these key executives.

	No of Executives:
Below \$250,000	3
Between \$250,000 to \$500,000	1

One employee of the Group is an immediate family member of our CEO, Mr Chng Weng Wah and the remuneration of this employee did not exceed \$150,000 for the year ended 30 June 2006.

The Company has an executives' share option scheme (the "Scheme"). Shareholders have approved the Scheme on 23 December 1999. Details of the Scheme were set out in the Directors' Report on pages 17 and 18 of the annual report. The Scheme is administered by the Scheme Committee comprising Messrs Hoon Tai Meng (Chairman), Chng Weng Wah and Loh Eu Tse Derek.

On 17 April 2006, options on 2,750,000 shares with an exercise price of \$0.08 per ordinary share were granted pursuant to the Scheme. The options granted under the Scheme include the options granted to the Directors of the Company, details of which are disclosed in the Directors' Report on pages 17 to 18 of the annual report.

Principle 6 : Access to Information

The Board is provided with management reports, and papers containing relevant background or explanatory information required to support the decision making process.

Board papers are circulated to the Directors before the scheduled meetings so as to allow for a better understanding of the issues and to achieve a more effective discussion time for questions that the Directors may have.

The Directors have separate and independent access to senior management and the Company Secretary. The Company Secretary administers and prepares minutes of Board Committees' meetings and Board meetings attended. Such minutes of meetings are circulated. The Company Secretary also assists the Board to ensure that Board procedures are followed and that applicable rules and regulations (in particular the SGX-ST Listing Manual) are complied with.

In carrying out their duties, the Directors, whether individually or as a group, have direct access to the independent professional advisors to obtain advice. Any cost of obtaining such professional advice will be borne by the Company.

COMMUNICATION WITH SHAREHOLDERS

Principle 10 : Accountability

Principle 14 : Communication with Shareholders

Principle 15 : Greater Shareholder Participation

The Board is mindful of the obligation to keep shareholders informed of all major developments that affect the Group in accordance with the SGX-ST's Listing Manual.

Information is communicated to shareholders on a timely basis through:

- annual reports that are prepared and issued to all shareholders within the mandatory period;
- public announcements via SGXNET system; and
- notices of shareholders' meetings advertised in a newspaper in Singapore.

Corporate Governance Report

Participation of shareholders is encouraged at the Company's general meetings. The Board (including the Chairman of the respective Board Committees), management, as well as the external auditors attend the Company's AGM to address any questions that shareholders may have.

DEALINGS IN SECURITIES

The Company has adopted the Best Practices Guide issued by the SGX-ST on dealings in the Company's securities by its directors and employees. They have been informed not to deal in the Company's securities whilst in possession of unpublished material price sensitive information and during the period commencing one month before the announcement of the Company's annual and half-yearly results and ending on the date of the announcement of the results.

MATERIAL CONTRACTS (Listing Manual Rule 1207(8))

Save for the service agreement entered into between the CEO and the Company, there were no other material contracts entered into by the Company and subsidiaries involving the interest of the CEO, Director or controlling shareholder which were either subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that transactions are conducted on at arm's length and not prejudicial to the interests of the shareholders.

The aggregate value of interested person transactions for FY 2006 are as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 30 June 2006 (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Qisheng International Limited - Purchases of portable Digital Versatile Disc ("DVD")	\$146,000	Not applicable

The Group confirms that there were no other disclosable interested person transactions during FY 2006 pursuant to Listing Manual Rule 907.

RISK MANAGEMENT (Listing Manual Rule 1207(4)(d))

The Group does not have a Risk Management Committee. However, the management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and will highlight all significant matters to the Directors and the AC.

Directors' Report

For the financial year ended 30 June 2006

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 30 June 2006 and the balance sheet of the Company at 30 June 2006.

Directors

The directors of the Company in office at the date of this report are:

Chng Weng Wah
Soh Kim Yong
Heng Lee Seng
Lee Bon Leong
Hoon Tai Meng
Loh Eu Tse Derek

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object 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, other than as disclosed under "Share options" on pages 17 to 20.

Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share capital or debentures of the Company or related corporations, except as follows:

	<u>Holdings registered in name of director or nominee</u>		<u>Holdings in which a director is deemed to have an interest</u>	
	<u>At 30.6.2006</u>	<u>At 1.7.2005</u>	<u>At 30.6.2006</u>	<u>At 1.7.2005</u>
The Company <u>(Ordinary shares of \$0.03 each)</u>				
Chng Weng Wah	18,000,000	153,000,000	189,000,000	10,000,000
Soh Kim Yong	-	50,000,000	108,115,000	28,115,000
Lee Bon Leong	-	-	10,000,000	-
<u>(Options to subscribe for ordinary shares of \$0.03 each)</u>				
Chng Weng Wah	3,000,000	78,000,000	-	-
Soh Kim Yong	-	55,000,000	-	-

Directors' Report

For the financial year ended 30 June 2006

Directors' interests in shares or debentures (continued)

- (b) According to the register of directors' shareholdings, certain of the directors holding office at the end of the financial year had interests in the options to subscribe for ordinary shares of the Company granted pursuant to the Heshe Executives' Share Option Scheme as set out below and in the paragraphs on "Share Options".

	Number of unissued ordinary shares of \$0.03 each under options held by director	
	At	At
	<u>30.6.2006</u>	<u>1.7.2005</u>
Heng Lee Seng	250,000	-
Lee Bon Leong	250,000	-
Hoon Tai Meng	250,000	-
Loh Eu Tse Derek	250,000	-

- (c) Mr Chng Weng Wah, who by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly-owned subsidiaries and in the shares held by the Company and its subsidiaries in the following subsidiaries that are not wholly-owned by the Group:

	At	At
	<u>30.6.2006</u>	<u>1.7.2005</u>
<u>Held by the Company</u>		
Hinterland Property Development Pte Ltd		
- Ordinary shares of \$1 each	4,500,000	4,500,000
Vic Technology Limited		
- Ordinary shares of HK\$1 each	6,671,007	-
CH E-Recycling Pte. Ltd.		
- Ordinary shares of \$1 each	3,000	-
<u>Held by Hinterland Property Development Pte Ltd</u>		
Heighten Land Pte Ltd		
- Ordinary shares of \$1 each	2	2
<u>Held by Heighten Land Pte Ltd</u>		
Beijing-Haiteng Real Estate Development Business Co., Ltd		
- Capital contribution	RMB43,046,357	RMB43,046,357
<u>Held by Vic Technology Limited</u>		
M3 Electronic GmbH		
- Capital contribution	€1,000,000	-

Directors' Report

For the financial year ended 30 June 2006

Directors' interests in shares or debentures (continued)

- (d) The directors' interests in the shares and convertible securities of the Company at 21 July 2006 were the same at 30 June 2006 except as follows:

	<u>Holdings registered in name of director or nominee</u>		<u>Holdings in which a director is deemed to have an interest</u>	
	At	At	At	At
	<u>21.7.2006</u>	<u>30.6.2006</u>	<u>21.7.2006</u>	<u>30.6.2006</u>
The Company <u>(Ordinary shares of \$0.03 each)</u>				
Chng Weng Wah	21,000,000	18,000,000	189,000,000	189,000,000
<u>(Options to subscribe for ordinary shares of \$0.03)</u>				
Chng Weng Wah	-	3,000,000	-	-

Directors' contractual benefits

Since the end of the previous 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, except as disclosed in the financial statements and in this report.

Share options

(a) Heshe Executives' Share Option Scheme

The Heshe Executives' Share Option Scheme (the "Scheme") of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 23 December 1999. Details of the Scheme were set out in the Directors' Report for the financial year ended 30 June 2000. The Scheme is administered by the Scheme Committee comprising Messrs Hoon Tai Meng (Chairman), Chng Weng Wah and Loh Eu Tse Derek.

On 17 April 2006, options on 2,750,000 shares with an exercise price of \$0.08 per ordinary share were granted pursuant to the Scheme ("2006 Options"). Under the Scheme, the exercise price of the granted options is set at a discount of 20% to the average of the last dealt prices of the Company's ordinary shares on the Singapore Exchange for the three consecutive trading days immediately preceding the date of grant.

Directors' Report

For the financial year ended 30 June 2006

Share options (continued)

(a) Heshe Executives' Share Option Scheme (continued)

The options granted under the Scheme include the following options granted to the directors of the Company for the number of shares set out below:

<u>Name of directors</u>	<u>Options granted for financial year ended 30.6.2006</u>	<u>Aggregate options granted since commencement of Scheme to 30.6.2006</u>	<u>Aggregate options lapsed since commencement of Scheme to 30.6.2006</u>	<u>Aggregate options outstanding as at 30.6.2006</u>
Heng Lee Seng	250,000	1,000,000	750,000	250,000
Lee Bon Leong	250,000	1,000,000	750,000	250,000
Hoon Tai Meng	250,000	1,000,000	750,000	250,000
Loh Eu Tse Derek	250,000	250,000	-	250,000

No option has been granted to controlling shareholders of the Company or their associates.

No key management or employee has received options on 5% or more of the total number of shares available under the Scheme during the financial year. No director or employee of the Company and its subsidiaries has received options on 5% or more of the total number of shares available to all directors and employees of the Company and its subsidiaries under the Scheme during the financial year.

The number of unissued ordinary shares of the Company under options, relating to the Heshe Executives' Share Option Scheme, outstanding at the end of the financial year are as follows:

	<u>Number outstanding at 30.6.2006</u>	<u>Exercise price</u>	<u>Exercise period</u>
2006 Options	1,000,000	\$0.08	17 April 2008 - 16 April 2011
2006 Options	1,750,000	\$0.08	17 April 2008 - 16 April 2016

Directors' Report

For the financial year ended 30 June 2006

Share options (continued)

(b) Other share options

On 29 December 2003, the Company entered into an investment agreement with Mr Chng Weng Wah (the "Chng Investment Agreement") whereby Mr Chng could subscribe for 213,000,000 new ordinary shares (the "Chng New Shares") of \$0.03 each for cash at \$0.045 per Chng New Share. Pursuant to the Chng Investment Agreement, Mr Chng has the right to subscribe for a further 133,000,000 new ordinary shares (the "Chng Option Shares") of \$0.03, at the option exercise price of \$0.055 per Chng Option Share.

On 18 August 2004, the Company entered into an investment agreement with Mr Soh Kim Yong (the "Soh Investment Agreement") whereby Mr Soh could subscribe for 50,000,000 new ordinary shares (the "Soh New Shares") of \$0.03 each for cash at \$0.045 per Soh New Share, on the basis that he is granted an option to subscribe for 55,000,000 new ordinary shares (the "Soh Option Shares") at an exercise price of \$0.055 per Soh Option Share. In conjunction with the Soh Investment Agreement, the Company entered into a supplemental agreement with Mr Chng to amend the Chng Investment Agreement such that the number of Chng New Shares and Chng Option Shares would be reduced by 50,000,000 and 55,000,000 respectively (accordingly, under the Chng Investment Agreement as so amended, Mr Chng will be entitled to subscribe for 163,000,000 Chng New Shares and the option granted to him will be in respect of 78,000,000 Chng Option Shares).

At the Extraordinary General Meeting of the Company held on 26 January 2005, the shareholders approved the proposed placement of 213,000,000 new ordinary shares at \$0.045 for each new share and the grant of options to subscribe for up to 133,000,000 new ordinary shares to Mr Chng Weng Wah and Mr Soh Kim Yong collectively.

On 3 February 2005, the Investment Agreements pertaining to the aforesaid placement of 163,000,000 and 50,000,000 new shares to Mr Chng and Mr Soh respectively were completed.

Details of the shares issued during the financial year by virtue of the exercise of options granted to Mr Chng Weng Wah and Mr Soh Kim Yong and the number of unissued ordinary shares of the Company under options outstanding at the end of the financial year under the Investment Agreements are as follows:

Number of unissued ordinary shares under option as at <u>1.7.2005</u>	Number of shares issued by virtue of exercise of options during <u>the financial year</u>	Number of unissued ordinary shares under option as at <u>30.6.2006</u>	Exercise price	Exercise period
133,000,000	130,000,000	3,000,000	\$0.055	3 February 2005 - 2 February 2007

Directors' Report

For the financial year ended 30 June 2006

Share options (continued)

(c) Other than as disclosed above:

- There were no options granted, including any to controlling shareholders or their associates, directors and employees of the Company and its subsidiaries, during the financial year to subscribe for unissued shares of the Company or its subsidiaries;
- No share of the Company was allocated and issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or any subsidiary;
- There were no unissued shares of the Company under option at the end of the financial year.

Audit committee

The Company's Audit Committee comprises the following non-executive and independent directors:

Heng Lee Seng (Chairman)
Hoon Tai Meng
Lee Bon Leong

The Audit Committee carries out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50. The Audit Committee meets at least two times each financial year and at such other number of times as the members deem necessary.

The Audit Committee has been given full access to, and received the co-operation of, management. In the performance of its functions, the Audit Committee has met with the external auditors to review their audit plan and to discuss the results of their examination, including their evaluation of the system of internal accounting controls, and the assistance given by the Company's officers. The Audit Committee has reviewed the Group's interim and annual announcements before they were submitted to the Board for approval and has monitored the extent of the Group's compliance with the Listing Manual and the Best Practices Guide of the SGX. The Audit Committee has also reviewed the financial statements of the Company and the consolidated financial statements of the Group for the financial year, together with the auditors' report thereon. Interested person transactions of the Group during the financial year have also been reviewed by the Audit Committee.

The Audit Committee has nominated PricewaterhouseCoopers for re-appointment as auditors of the Company at the forthcoming Annual General Meeting.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

On behalf of the directors

CHNG WENG WAH
Director

HENG LEE SENG
Director

1 September 2006

Statement by Directors

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 23 to 72 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group at 30 June 2006 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

CHNG WENG WAH
Director

HENG LEE SENG
Director

1 September 2006

Auditors' Report

TO THE MEMBERS OF HESHE HOLDINGS LIMITED

We have audited the accompanying financial statements of Heshu Holdings Limited set out on pages 23 to 72 for the financial year ended 30 June 2006, comprising the balance sheet of the Company and the consolidated financial statements of the Group. 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.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance 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.

In our opinion,

- (a) the accompanying balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (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.

PricewaterhouseCoopers
Certified Public Accountants

Singapore, 1 September 2006

Consolidated Income Statement

For the financial year ended 30 June 2006

		<u>The Group</u>	
	Note	2006 \$'000	2005 \$'000
Sales	4	6,314	5,807
Cost of sales		(2,846)	(5,440)
Gross profit		3,468	367
Other miscellaneous gains (net)	4	3,120	102
Expenses			
- Distribution		(2,637)	(1,687)
- Administrative		(3,918)	(2,374)
- Finance	7	(109)	(314)
- Other		(508)	(5,912)
Share of loss of associated company	17	-	(7)
Loss before income tax		(584)	(9,825)
Income tax credit/(expense)	8	193	(492)
Net loss		(391)	(10,317)
Attributable to:			
Equity holders of the Company		(566)	(9,580)
Minority interest		175	(737)
		(391)	(10,317)
Loss per share attributable to equity holders of the Company	9		
- Basic		(0.10) cents	(2.35) cents
- Diluted		(0.10) cents	(2.07) cents

*The accompanying notes form an integral part of these financial statements.
Auditors' Report – Page 22.*

Balance Sheets

As at 30 June 2006

	Note	<u>The Group</u>		<u>The Company</u>	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	10	9,684	9,250	1,441	4,415
Trade and other receivables	11	1,984	1,056	5,699	4,960
Inventories	12	917	24	-	-
Properties held for sale	13	846	1,093	-	-
Other current assets	14(a)	3,951	1,601	2,135	31
		<u>17,382</u>	<u>13,024</u>	<u>9,275</u>	<u>9,406</u>
Non-current assets					
Other receivables	15	-	-	-	-
Available-for-sale financial assets	16	27	100	27	100
Investment in an associated company	17	-	341	-	-
Investments in subsidiaries	18	-	-	5,590	-
Property, plant and equipment	19	6,439	478	355	342
Intangible assets	20	-	-	-	-
Other non-current assets	14(b)	50	-	50	-
		<u>6,516</u>	<u>919</u>	<u>6,022</u>	<u>442</u>
Total assets		<u>23,898</u>	<u>13,943</u>	<u>15,297</u>	<u>9,848</u>
LIABILITIES					
Current liabilities					
Trade and other payables	21	4,527	4,447	1,712	1,453
Current income tax liabilities	8	44	520	-	476
Borrowings	22	40	-	-	-
Provisions for other liabilities and charges	24	541	5,880	-	4,744
		<u>5,152</u>	<u>10,847</u>	<u>1,712</u>	<u>6,673</u>
Non-current liabilities					
Borrowings	22	3,074	-	3,000	-
Deferred income tax liabilities	25	116	-	-	-
		<u>3,190</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
Total liabilities		<u>8,342</u>	<u>10,847</u>	<u>4,712</u>	<u>6,673</u>
NET ASSETS		<u>15,556</u>	<u>3,096</u>	<u>10,585</u>	<u>3,175</u>
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	26	52,317	15,981	52,317	15,981
Share premium	26	-	26,525	-	26,525
Other reserves	27	(221)	(89)	9	-
Accumulated losses	28	(39,887)	(39,321)	(41,741)	(39,331)
		<u>12,209</u>	<u>3,096</u>	<u>10,585</u>	<u>3,175</u>
Minority interest		3,347	-	-	-
Total equity		<u>15,556</u>	<u>3,096</u>	<u>10,585</u>	<u>3,175</u>

The accompanying notes form an integral part of these financial statements.

Auditors' Report – Page 22.

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2006

Note	Attributable to equity holders of the Company				Minority interest	Total equity	
	Share capital	Share premium	Other reserves	Accumulated losses			
	\$'000	\$'000	\$'000	\$'000			
Balance at 1 July 2005	15,981	26,525	(89)	(39,321)	-	3,096	
Net loss recognised directly in equity - Currency translation differences	27	-	-	(141)	-	(18)	(159)
Net (loss)/gain	-	-	-	(566)	175	(391)	
Total recognised (losses)/gains	-	-	(141)	(566)	157	(550)	
Employee share option scheme - Value of employee services	27	-	-	9	-	-	9
Issue of shares	26	8,461	1,350	-	-	-	9,811
Effect of Companies (Amendment) Act 2005	26	27,875	(27,875)	-	-	-	-
Acquisition of subsidiaries	10	-	-	-	-	2,602	2,602
Issue of share capital to minority shareholder by a subsidiary	-	-	-	-	-	588	588
Balance at 30 June 2006		52,317	-	(221)	(39,887)	3,347	15,556
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	27	-	-	(68)	-	(25)	(93)
Net loss	-	-	-	(9,580)	(737)	(10,317)	
Total recognised losses	-	-	(68)	(9,580)	(762)	(10,410)	
Capital reduction	26	(70,337)	-	-	70,337	-	-
Issue of shares	26	6,390	3,195	-	-	-	9,585
Deconsolidation of a subsidiary	10	-	-	(159)	-	(488)	(647)
Balance at 30 June 2005		15,981	26,525	(89)	(39,321)	-	3,096

An analysis of the movements in each category within "other reserves" is presented in Note 27.

*The accompanying notes form an integral part of these financial statements.
Auditors' Report – Page 22.*

Consolidated Cash Flow Statement

For the financial year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
Cash flows from operating activities			
Net loss		(391)	(10,317)
Adjustments for:			
- Tax		(193)	492
- Depreciation of property, plant and equipment		592	191
- (Gain)/loss on disposals of property, plant and equipment		(2)	32
- Interest expense		109	314
- Interest income		(77)	(37)
- Impairment loss on goodwill		284	-
- Provision for diminution in value of properties held for sale (written back)/made		(106)	62
- Impairment loss on available-for-sale financial assets		73	1,118
- Provision for impairment of receivables from former associated company written back		(2,400)	-
- Provision for impairment of trade and other receivables		130	4,822
- Provision for other liabilities and charges (written back)/made		(579)	539
- Share of loss of associated company		-	7
Operating cash flow before working capital changes		(2,560)	(2,777)
Change in operating assets and liabilities, net of effects from purchase and deconsolidation of subsidiaries			
- Properties held for sale		353	4,059
- Inventories		(433)	13
- Trade and other receivables		1,435	639
- Other assets		(2,288)	235
- Trade and other payables		(537)	(1,064)
- Provision for other liabilities and charges		(198)	(766)
Cash (used in)/generated from operations		(4,228)	339
Interest paid		(109)	(314)
Interest received		64	37
Income tax paid		(167)	(32)
Net cash (used in)/provided by operating activities		(4,440)	30
Cash flows from investing activities			
Purchases of property, plant and equipment		(193)	(369)
Proceeds from disposal of property, plant and equipment		16	31
Proceeds from disposal of an associated company	17	341	-
Obligations of former subsidiaries paid		(1,510)	(542)
Cash disposed on deconsolidation of former subsidiary	10	-	(170)
Acquisition of subsidiaries, net of cash acquired	10	(1,476)	-
Net cash used in investing activities		(2,822)	(1,050)

*The accompanying notes form an integral part of these financial statements.
Auditors' Report – Page 22.*

Consolidated Cash Flow Statement

For the financial year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		7,151	9,585
Withdrawal/(placement) of deposits for banking facilities		1,509	(1,657)
Changes in amount due to directors		(75)	(1,631)
Repayments of lease liabilities		(15)	-
Changes in amount due to minority shareholders of subsidiaries		188	(226)
Changes in amount due to a potential investor		-	(1,998)
Proceeds from issuance of share capital to minority shareholder of a subsidiary		588	-
Net cash provided by financing activities		9,346	4,073
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the financial year		6,990	4,026
Effects of exchange rate changes on cash and cash equivalents		(141)	(89)
Cash and cash equivalents at end of the financial year	10	8,933	6,990

*The accompanying notes form an integral part of these financial statements.
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Notes to the Financial Statements

For the financial year ended 30 June 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

Heshe Holdings Limited (the “Company”) is incorporated and domiciled in Singapore and is publicly traded on the Singapore Exchange. The address of its principal place of business is 8 Shenton Way #37-01 Temasek Tower, Singapore 068811. The address of its registered office is 8 Cross Street, #11-00 PWC Building, Singapore 048424.

The principal activities of the Company consist of investment holding and property investment. The principal activities of the subsidiaries are set out in Note 18 to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, are areas involving a higher degree of judgement or complexity, are disclosed in Note 3.

In 2006, the Group and the Company adopted the new or revised FRS that are applicable in the current financial year. The 2005 financial statements have been amended as required, in accordance with the relevant transitional provisions in the respective FRS. The following are the FRS that are relevant to the Group:

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 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
FRS 102	Share-based Payments
FRS 103	Business Combinations

The adoption of the above FRS did not result in substantial changes to the Group’s accounting policies.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.2 Revenue recognition

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Rendering of services

Revenue from the rendering of services is recognised during the financial year in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be performed.

(b) Sale of properties held for sale

Revenue from sales of properties held for sale is recognised when a Group entity has finalised the sales agreements, and collectibility of the related receivables is reasonably assured.

(c) Sale of other goods

Revenue from the sale of other goods is recognised when the Group has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(d) Royalty fees

Royalty fees are recognised in accordance with the substance of the relevant agreements.

(e) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.3 Group accounting

(a) Subsidiaries

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. Please refer to Note 2.5 for the accounting policy on goodwill on acquisition of subsidiaries.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(a) Subsidiaries (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Company, unless the minority has a binding obligation to, and is able to, to make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Company until the minority's share of losses previously absorbed by the equity holders of the Company has been recovered.

Please refer to Note 2.6 for the Company's accounting policy on investments in subsidiaries.

(b) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting.

Equity accounting involves recording investments in associated companies initially at cost, and recognising the Group's share of its associated companies' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

In applying the equity method of accounting, unrealised gains on transactions between the group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with those of the Group.

Please refer to Note 2.6 for the Company's accounting policy on investments in associated companies.

(c) Transactions costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.4 Property, plant and equipment

(a) *Measurement*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (Note 2.7).

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(b) *Depreciation*

Depreciation on property, plant and machinery is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

Useful lives

Leasehold properties	20 years
Plant and machinery	5 - 7 years
Furniture and fittings	3 - 6 years
Office equipment	3 - 6 years
Motor vehicles	5 - 6 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date.

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries over the fair value at the date of acquisition of the Group's share of their identifiable net assets and contingent liabilities. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill recognised as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses (Note 2.7).

Gains or losses on disposal of the subsidiaries include the carrying amount of goodwill relating to the entity sold.

2.6 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are stated at cost less accumulated impairment losses (Note 2.7) in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between net disposal proceeds and the carrying amount of the investment is taken to the income statement.

2.7 Impairment of assets

(a) *Goodwill*

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units (CGU) expected to benefit from synergies of the business combinations.

An impairment loss is recognised in the income statement when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use.

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Impairment loss on goodwill is not reversed in a subsequent period.

(b) *Property, plant and equipment*

Investment in subsidiaries and associated companies

Property, plant and equipment and investments in subsidiaries and associated companies are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.7 Impairment of assets (continued)

(b) *Property, plant and equipment* *Investment in subsidiaries and associated companies (continued)*

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognised in the income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement.

2.8 Investment in financial assets

(a) *Classification*

The Group classifies its investments in financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting period.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those maturing more than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables on the balance sheet (Note 2.9).

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.8 Investment in financial assets (continued)

(b) *Recognition and derecognition*

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

(d) *Subsequent measurement*

Available-for-sale financial assets are subsequently carried at fair value. Loan and receivables investments are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the fair value reserve within equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

(e) *Determination of fair value*

If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques.

(f) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments 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 current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from the fair value reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of.

2.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Borrowings due to be settled more than twelve months after the balance sheet date are included in non-current borrowings in the balance sheet.

2.11 Trade payables

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

2.12 Leases

Finance leases

Leases of assets in which the Company assumes substantially the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is taken to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. The cost of finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal capacity) but exclude borrowing costs. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.14 Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development costs for the properties, including finance costs capitalised. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.15 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Provisions for other liabilities and charges

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

2.17 Employee benefits

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as Central Provident Fund, and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised in the financial year to which they relate.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets), on the date of grant. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.18 Currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Singapore Dollars, which is the Company’s functional and presentation currency.

(b) *Transactions and balances*

Transaction in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for currency translation differences on net investment in foreign entities and borrowings in the consolidated financial statements [see Note 2.18 (d)].

(c) *Translation of Group entities’ financial statements*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates; and
- (iii) All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) *Consolidation adjustments*

On consolidation, currency translation differences arising from the net investment in foreign entities and borrowings are taken to the foreign currency translation reserve. When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

Notes to the Financial Statements

For the financial year ended 30 June 2006

2. Significant accounting policies (continued)

2.19 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.20 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with financial institutions.

2.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction, net of tax, from the proceeds.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Notes to the Financial Statements

For the financial year ended 30 June 2006

4. Revenue and other miscellaneous gains (net)

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Sale of goods	5,055	1,627
Rendering of services	138	168
Revenue from properties held for sale	1,020	3,962
Royalty fees	39	50
Rental income	62	-
Total sales	6,314	5,807
Other miscellaneous gains/(losses):		
- Gain/(loss) on disposal of property, plant and machinery	2	(32)
- Gain on disposal of other investments	-	2
- Interest income	77	37
- Currency exchange gain - net	-	63
- Provision for impairment of receivables from former associated company written back	2,400	-
- Provision for other liabilities and charges written back (Note 24)	579	-
- Others	62	32
Other miscellaneous gains - net	3,120	102
	9,434	5,909

5. Expenses by nature

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Depreciation of property, plant and equipment (Note 19)	592	191
Employee benefits expense (Note 6)	2,849	1,631
Impairment loss on goodwill (Note 20)	284	-
Impairment loss on available-for-sale financial assets	73	1,118
Properties held for sale:		
- Cost of properties held for sale recognised as an expense	330	4,867
- Provision for diminution in value of properties held for sale (written back)/made	(106)	62
Provision for other liabilities and charges (Note 24)	-	539
Provision for impairment on trade and other receivables	130	4,822
Rental expense on operating leases	887	761

Notes to the Financial Statements

For the financial year ended 30 June 2006

6. Employee benefits

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Wages and salaries	2,660	1,525
Employer's contribution to defined contribution plans including Central Provident Fund	180	106
Share options granted to directors and employees (Notes 26 and 27)	9	-
	<u>2,849</u>	<u>1,631</u>

7. Finance expense

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Interest expense:		
- Obligations of former subsidiaries guaranteed by the Company	-	308
- Bank borrowings	104	-
- Finance lease liabilities	4	-
- Other	1	6
	<u>109</u>	<u>314</u>

8. Income taxes

(a) Income tax (credit)/expense

Tax (credit)/expense attributable to results is made up of:

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Deferred income tax	103	-
(Over)/under provision in preceding financial years		
- Current income tax	(309)	508
- Deferred income tax	13	(16)
	<u>(193)</u>	<u>492</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

8. Income taxes (continued)

(a) Income tax (credit)/expense (continued)

The tax expense on results differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Loss before tax	(584)	(9,825)
Tax calculated at a tax rate of 20% (2005: 20%)	(117)	(1,965)
Effects of:		
- Different tax rates in other countries	17	(139)
- Expenses not deductible for tax purposes	336	1,299
- Income not subject to tax	(482)	-
- Deferred tax benefits not recognised	349	805
Tax charge	<u>103</u>	<u>-</u>

(b) Movements in current income tax liabilities

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance at beginning of financial year	520	44	476	-
Income tax paid	(167)	(32)	(167)	(32)
(Over)/under provision in preceding financial years	(309)	508	(309)	508
Balance at end of financial year	<u>44</u>	<u>520</u>	<u>-</u>	<u>476</u>

9. Loss per share

(a) Basic loss per share

Basic loss per share is calculated by dividing the net results attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	<u>The Group</u>	
	2006	2005
Net loss attributable to members of Heshe Holdings Limited (\$'000)	(566)	(9,580)
Weighted average number of ordinary shares in issue for basic loss per share ('000)	591,266	408,462
Basic loss per share (cents per share)	<u>(0.10)</u>	<u>(2.35)</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

9. Loss per share (continued)

(b) Diluted loss per share

For the purpose of calculating diluted loss per share, results attributable to members of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has dilutive potential ordinary shares in share options.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The differences are added to the denominator as an issuance of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

Diluted earnings per share attributable to equity holders of the Company is calculated based on the following data:

	<u>The Group</u>	
	2006	2005
Net loss attributable to members of Heshe Holdings Limited (\$'000)	(566)	(9,580)
Weighted average number of ordinary shares outstanding for basic loss per share ('000)	591,266	408,462
Adjustments for share options ('000)	1,329	55,417
	<u>592,595</u>	<u>463,879</u>
Diluted loss per share (cents per share)	<u>(0.10)</u>	<u>(2.07)</u>

10. Cash and cash equivalents

	<u>The Group</u>		<u>The Company</u>	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	7,684	9,250	1,441	4,415
Short-term bank deposits	2,000	-	-	-
	<u>9,684</u>	<u>9,250</u>	<u>1,441</u>	<u>4,415</u>

The carrying amounts of cash and cash equivalents approximate their fair value.

Cash and cash equivalents are denominated in the following currencies:

	<u>The Group</u>		<u>The Company</u>	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	4,146	4,569	1,441	4,415
Chinese Renminbi	5,010	4,679	-	-
Other	528	2	-	-
	<u>9,684</u>	<u>9,250</u>	<u>1,441</u>	<u>4,415</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

10. Cash and cash equivalents (continued)

Short-term bank deposits at the balance sheet date have an average maturity of 4 months (2005: Nil) from the end of the financial year with the following weighted average effective per annum interest rate:

	<u>The Group</u>		<u>The Company</u>	
	2006	2005	2006	2005
Singapore Dollar	<u>2.72%</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	<u>The Group</u>	
	2006	2005
	\$'000	\$'000
Cash and bank balances (as above)	9,684	9,250
Less: Deposits placed with a bank as security [Note 29(a)]	(751)	(2,260)
Cash and cash equivalents per consolidated cash flow statement	<u>8,933</u>	<u>6,990</u>

Acquisition and deconsolidation of subsidiaries

On 26 September 2005, the Company acquired 70% of the issued share capital of Vic Technology Limited, incorporated in Hong Kong, with cash contribution of €700,000 (\$1,429,000) (Note 18).

On 9 March 2006, the Company acquired 60% of the issued share capital of CH E-Recycling Pte. Ltd., incorporated in Singapore, for a total consideration of \$4,160,000, of which \$1,500,000 was paid in cash while the remainder was satisfied by the issue of 24,406,056 new shares in the Company at \$0.109 per share which is based on the average weighted trading price of the Company's shares for the five trading days prior to the completion of the acquisition (Note 18).

Notes to the Financial Statements

For the financial year ended 30 June 2006

10. Cash and cash equivalents (continued)

Acquisition and deconsolidation of subsidiaries (continued)

The aggregate effects of acquisition and deconsolidation of subsidiaries are as follows:

	<u>The Group</u>		2005 Deconsolidation
	2006 Acquisition	Carrying amount in acquiree's books	
	Fair value \$'000	\$'000	Carrying amount \$'000
Cash and cash equivalents	24	24	(170)
Trade and other receivables	69	69	(776)
Inventories	460	460	-
Property, plant and equipment (Note 19)	6,300	6,300	(823)
Other current assets	124	124	-
Total assets	<u>6,977</u>	<u>6,977</u>	<u>(1,769)</u>
Trade and other payables	(444)	(444)	24
Borrowings	(55)	(55)	-
Total liabilities	<u>(499)</u>	<u>(499)</u>	24
Net identifiable assets	6,478	6,478	(1,745)
Less: Minority interest	(2,602)	(2,602)	488
Net identifiable assets acquired/(deconsolidated)	<u>3,876</u>	<u>3,876</u>	<u>(1,257)</u>
Goodwill (Note 20)	284		
Less: Consideration satisfied by issue of shares	<u>(2,660)</u>		
Total cash consideration	1,500		
Less: Cash and cash equivalents in subsidiary acquired	<u>(24)</u>		
Net cash outflow from acquisition of subsidiaries	<u>1,476</u>		

The aggregate cash outflows from the deconsolidation are as follows:

Net identifiable assets (as above)	1,257
Transfer from shareholders' equity – currency translation differences [Note 27(b)]	(159)
Provision for impairment	<u>(1,098)</u>
	-
Less: Cash and cash equivalents in subsidiary deconsolidated	<u>(170)</u>
Net cash outflow from deconsolidation of subsidiary	<u>(170)</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

11. Trade and other receivables – current

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivables:				
- Third parties	1,444	528	-	-
Non-trade receivables:				
- Subsidiaries	-	-	30,422	29,376
- Former associated company	400	3,066	-	-
- Third parties	279	178	33	-
	679	3,244	30,455	29,376
Less: Provision for impairment of non-trade receivables	(139)	(2,716)	(24,756)	(24,416)
Non-trade receivables - net	540	528	5,699	4,960
Trade and other receivables	1,984	1,056	5,699	4,960

Included in the Company's non-trade receivables from subsidiaries is a loan of \$500,000 to a subsidiary (2005: \$Nil) which is unsecured and repayable within one year. Interest is charged at 4.3% (2005: Nil) per annum.

The other non-trade receivables from subsidiaries and a former associated company are unsecured, interest-free and are repayable on demand.

The carrying amounts of current trade and other receivables approximate their fair value.

Trade and other receivables are denominated in the following currencies:

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Singapore Dollar	1,164	382	5,699	4,960
United States Dollar	115	-	-	-
Euro	560	-	-	-
Chinese Renminbi	145	674	-	-
	1,984	1,056	5,699	4,960

Impairment loss on trade and other receivables recognised as expense and included in "other expenses" amounted to \$130,000 (2005: \$2,716,000).

Notes to the Financial Statements

For the financial year ended 30 June 2006

12. Inventories

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Consumables	17	24
Finished goods	900	-
	917	24

The cost of inventories recognised as expense and included in "cost of sales" amounted to \$2,294,000 (2005: \$375,000).

13. Properties held for sale

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Completed properties held for sale, at cost	848	1,205
Less: Provision for diminution in value	(2)	(112)
	846	1,093

The fair value of properties held for sale as at balance sheet date amounted to \$1,593,000 (2005: \$1,805,000), based on a valuation carried out by an independent professional valuer on an open market basis.

The cost of properties held for sale recognised as an expense and included in "cost of sales" amounted to \$330,000 (2005: \$4,867,000).

During the current financial year, the Group reversed \$106,000 (2005: \$Nil), part of a write-down of properties held for sale made in 2005, as the properties were sold above the carrying amounts in 2006. The reversal has been included in "cost of sales" in the income statement.

Details of the properties held for sale are as follows:

<u>Description</u>	<u>Tenure</u>	<u>Site area (sq metre)</u>	<u>Gross floor area (sq metre)</u>	<u>Gross saleable floor area (sq metre)</u>	<u>Group's effective interest in the properties</u>
The Lakeview, Beijing, comprising 1 (2005: 2) apartment unit and 78 (2005: 85) carpark lots, situated at downtown Xuanwu District, South Second Ring Road	50 to 70 years leasehold from 20 November 2000	11,814	34,766	3,009 (2005: 3,457)	75% (2005: 75%)

Notes to the Financial Statements

For the financial year ended 30 June 2006

14. Other assets

(a) Other current assets

	<u>The Group</u>		<u>The Company</u>	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Refundable deposits	2,353	179	2,046	30
Prepayments	512	1	89	1
Prepaid tax to a foreign tax authority	1,086	1,421	-	-
	<u>3,951</u>	<u>1,601</u>	<u>2,135</u>	<u>31</u>

The carrying amounts of deposits and prepaid tax to a foreign tax authority approximate their fair value.

Other current assets are denominated in the following currencies:

	<u>The Group</u>		<u>The Company</u>	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	2,745	180	2,135	31
Chinese Renminbi	1,086	1,421	-	-
Other	120	-	-	-
	<u>3,951</u>	<u>1,601</u>	<u>2,135</u>	<u>31</u>

(b) Other non-current assets

	<u>The Group and The Company</u>	
	2006	2005
	\$'000	\$'000
Club membership, at cost	<u>50</u>	<u>-</u>
Club membership, at fair value	<u>55</u>	<u>-</u>

The fair value of the club membership is based on quotation from an independent broker.

Notes to the Financial Statements

For the financial year ended 30 June 2006

15. Other receivables – non-current

	The Group and The Company	
	2006 \$'000	2005 \$'000
Non-trade receivable from a former subsidiary	2,106	2,106
Less: Provision for impairment of receivable	(2,106)	(2,106)
	-	-

The non-trade receivable from a former subsidiary is unsecured, interest-free and is repayable on demand but repayment is not expected within the next twelve months from the balance sheet date.

The carrying amounts of long-term receivables, denominated in Singapore Dollar, approximate their fair value.

16. Available-for-sale financial assets

	The Group and The Company	
	2006 \$'000	2005 \$'000
Balance at beginning of financial year	100	120
Former subsidiary deconsolidated and transferred to available-for-sale financial assets	-	4,993
Xiamen Xiangyu's losses consolidated in the Group up to 1 July 2004, transferred to provision for impairment loss upon deconsolidation (see below)	-	(3,895)
Impairment loss	(73)	(1,118)
Balance at end of financial year	27	100

Long-term investments as at 1 July 2004 and 30 June 2005 have been reclassified into "available-for-sale financial assets" so as to conform to the presentation adopted in 2006. Available-for-sale financial assets are measured in accordance with the accounting policy as set out in Note 2.8 with effect from 1 July 2005.

Available-for-sale financial assets include the following:

	2006	The Group and The Company	
	At fair value \$'000	← 2005 → At fair value \$'000	At cost \$'000
Unquoted securities	27	100	100

The carrying amount of the unquoted securities relates to an entity whose main activity is investment holding. The entity does not have a history of profits and cash flows, is not similar in size and activity to any listed entity and there is also no active market for the equity interest. As such, it is not practicable to determine with sufficient reliability its fair value. However, the directors do not anticipate that the carrying amount of the unquoted investment will be significantly in excess of its fair value.

Notes to the Financial Statements

For the financial year ended 30 June 2006

16. Available-for-sale financial assets (continued)

Xiamen Xiangyu Presto Trading Ltd ("Xiamen Xiangyu")

Included in the available-for-sale financial assets is an investment in a 75%-owned entity, Xiamen Xiangyu, incorporated in the People's Republic of China. Xiamen Xiangyu was consolidated as a subsidiary up to the financial year ended 30 June 2004. During the financial year ended 30 June 2005, the Group was unable to gain access to the management and financial statements of Xiamen Xiangyu. Consequently, the directors have taken the view that the Group is not able to meaningfully exercise its shareholder's rights in Xiamen Xiangyu, nor does the Group has the ability to exercise any significant influence over this entity's financial and operating policies. Accordingly, the financial statements of Xiamen Xiangyu were not consolidated in the Group's financial statements with effect from the financial year ended 30 June 2005.

The Company has on 10 January 2006 filed a claim with the Intermediate People's Court of Xiamen, People's Republic of China against Xiamen Xiangyu and the other shareholder to enforce the Company's rights as a shareholder in Xiamen Xiangyu. The legal action is principally to seek an order for the Company to be given access to the documents and records of Xiamen Xiangyu and for the regaining of management control in Xiamen Xiangyu as a majority shareholder thereof. The legal proceedings are currently ongoing as at the date of these financial statements.

17. Investment in an associated company

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Balance at beginning of financial year	341	348
Share of loss	-	(7)
Disposal of associated company	(341)	-
Balance at end of financial year	-	341

Details of the associated company are as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Country of incorporation and place of business</u>	<u>Effective equity holding</u>	
			2006 %	2005 %
Heshe-Kabil Industrial Developments Pte Ltd ^(a)	Develop, construct and market industrial properties located at Kabil Industrial Estate, Batam Island, Indonesia on behalf of PT Kabil Indonesia Estate	Singapore	-	37.5

(a) Audited by PricewaterhouseCoopers, Singapore.

During the financial year, the Group disposed of its 37.5% interest in the associated company to the other shareholder for a cash consideration of \$341,000.

Notes to the Financial Statements

For the financial year ended 30 June 2006

18. Investments in subsidiaries

	<u>The Company</u>	
	2006 \$'000	2005 \$'000
Equity investments at cost	16,305	10,715
Less: Impairment losses	(10,715)	(10,715)
	5,590	-

Details of the subsidiaries are as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Country of incorporation and place of business</u>	<u>Effective equity holding</u>	
			2006 %	2005 %
<i>Held by the Company</i>				
Jacob's Larder Pte Ltd ^(a)	Investment holding and operation of restaurants, cafes and a franchise system for a chain of specialty restaurants.	Singapore	100	100
Lea Fashion (S) Pte Ltd ^(d)	Investment holding, dormant during the financial year	Singapore	100	100
Sylvia Lian Creation Pte Ltd ^(d)	Dormant	Singapore	100	100
Hinterland Property Development Pte Ltd ^(a)	Investment holding and property owner and developer	Singapore	75	75
Vic Technology Limited ^(c)	Investment holding	Hong Kong	70	-
CH E-Recycling Pte. Ltd. ^(a)	Recycling and trading of scrap metals and electronic waste products	Singapore	60	-
<i>Held by Jacob's Larder Pte Ltd</i>				
CJ Manna Pte Ltd ^(d)	Dormant	Singapore	100	100

Notes to the Financial Statements

For the financial year ended 30 June 2006

18. Investments in subsidiaries (continued)

Name	Principal activities	Country of incorporation and place of business	Effective equity holding	
			2006 %	2005 %
<i>Held by Hinterland Property Development Pte Ltd</i>				
Heighten Land Pte Ltd ^(a)	Investment holding and property owner and developer	Singapore	75	75
<i>Held by Heighten Land Pte Ltd</i>				
Beijing-Haiteng Real Estate Development Business Co., Ltd ^{(b), (c)}	Investment holding and property owner and developer	People's Rep. of China	75	75
<i>Held by Vic Technology Limited</i>				
M3 Electronic GmbH ^(f)	Sales, distribution and marketing and consumer electronic products	Germany	70	-

(a) Audited by PricewaterhouseCoopers, Singapore.

(b) The subsidiary has a statutory financial year-end of 31 December and the last audited statutory financial statements are made up to 31 December 2005. However, an audit has been performed on the financial statements for the financial period up to 30 June 2006 by KPMG Huazhen for Group consolidation purposes.

(c) Audited by Beijing Jia Xin Da Certified Public Accountants Co. Ltd., People's Republic of China.

(d) No statutory audit is required as exempted under Section 205B of the Singapore Companies Act.

(e) Audited by Keith Wong CPA & Co, Hong Kong.

(f) Audited by Dipl.-Kfm. Klaus Miller-Klaas, Frankfurt Germany.

Acquisition of subsidiaries

On 29 August 2005, the Company entered into an agreement with Chinawise Limited to engage in the business of selling, distributing and marketing audio, video and electronic products through Vic Technology Limited ("Vic Tech"), incorporated in Hong Kong. Vic Tech has a wholly-owned German incorporated subsidiary, M3 Electronic GmbH ("M3"). Pursuant to the terms of the agreement, the Company contributed capital of €700,000 (\$1,429,000) in Vic Tech in return for a 70% interest in the issued share capital of Vic Tech. The investment was completed on 26 September 2005. The subsidiary is currently carrying on the above businesses in the European Union, primarily in Germany, through M3. Vic Tech contributed revenue of \$925,000 and net loss of \$461,000 to the Group from the period from 26 September 2005 to 30 June 2006. The subsidiary's assets and liabilities at 30 June 2006 were \$1,672,000 and \$240,000 respectively.

On 29 August 2005, the Company also entered into an investment agreement with Mr Peh Hai Chin, Mr. Lim Chuan Heng and Team Rise Technology Limited for the acquisition by the Company of 3,000 ordinary shares in the issued and paid up share capital of CH E-Recycling Pte. Ltd. for a consideration of \$4,160,000. \$1,500,000 of the consideration is settled by cash while the remainder is satisfied by the issue of 24,406,056 new shares in the Company at the shares' fair value of \$0.109 per share which is based on the average weighted trading price of the Company's shares for the five trading days prior to the signing of the above agreement. The acquisition was completed on 9 March 2006. The acquired subsidiary contributed revenue of \$2,701,000 and net loss of \$85,000 to the Group from the period from 9 March 2006 to 30 June 2006. The subsidiary's assets and liabilities at 30 June 2006 were \$7,804,000 and \$610,000 respectively.

Notes to the Financial Statements

For the financial year ended 30 June 2006

18. Investments in subsidiaries (continued)

Acquisition of subsidiaries (continued)

If the above acquisitions had occurred on 1 July 2005, the Group's revenue and net loss would have been \$8,262,000 and \$539,000 respectively.

Details of identifiable net assets acquired are disclosed in Note 10.

19. Property, plant and equipment

	Leasehold properties \$'000	Plant and machinery \$'000	Furniture and fittings \$'000	Office equipment \$'000	Motor vehicles \$'000	Total \$'000
The Group						
<i>Cost</i>						
At 1 July 2005	-	215	648	216	450	1,529
Currency translation differences	-	-	-	-	(2)	(2)
Additions	-	8	109	76	74	267
Acquisition of subsidiaries (Note 10)	-	6,099	6	36	159	6,300
Disposals	-	-	-	(31)	(80)	(111)
At 30 June 2006	-	6,322	763	297	601	7,983
<i>Accumulated depreciation</i>						
At 1 July 2005	-	182	571	205	93	1,051
Currency translation differences	-	-	-	-	(2)	(2)
Depreciation charge	-	376	92	22	102	592
Disposals	-	-	-	(31)	(66)	(97)
At 30 June 2006	-	558	663	196	127	1,544
Net book value						
At 30 June 2006	-	5,764	100	101	474	6,439
<i>Cost</i>						
At 1 July 2004	2,930	616	867	249	144	4,806
Currency translation differences	-	-	-	-	(1)	(1)
Additions	-	-	-	1	368	369
Deconsolidation of a subsidiary	(2,930)	-	-	-	-	(2,930)
Disposals	-	(401)	(219)	(34)	(61)	(715)
At 30 June 2005	-	215	648	216	450	1,529
<i>Accumulated depreciation</i>						
At 1 July 2004	2,107	501	678	224	110	3,620
Currency translation differences	-	-	-	-	(1)	(1)
Depreciation charge	-	27	107	12	45	191
Deconsolidation of a subsidiary	(2,107)	-	-	-	-	(2,107)
Disposals	-	(346)	(214)	(31)	(61)	(652)
At 30 June 2005	-	182	571	205	93	1,051
Net book value						
At 30 June 2005	-	33	77	11	357	478

Notes to the Financial Statements

For the financial year ended 30 June 2006

19. Property, plant and equipment (continued)

	<u>Leasehold properties</u> \$'000	<u>Plant and machinery</u> \$'000	<u>Furniture and fittings</u> \$'000	<u>Office equipment</u> \$'000	<u>Motor vehicles</u> \$'000	<u>Total</u> \$'000
The Company						
<i>Cost</i>						
At 1 July 2005	-	-	3	116	368	487
Additions	-	-	97	15	-	112
Disposals	-	-	-	(17)	-	(17)
At 30 June 2006	-	-	100	114	368	582
<i>Accumulated depreciation</i>						
At 1 July 2005	-	-	3	111	31	145
Depreciation charge	-	-	21	5	73	99
Disposals	-	-	-	(17)	-	(17)
At 30 June 2006	-	-	24	99	104	227
Net book value						
At 30 June 2006	-	-	76	15	264	355
<i>Cost</i>						
At 1 July 2004	-	-	164	119	-	283
Additions	-	-	-	1	368	369
Disposals	-	-	(161)	(4)	-	(165)
At 30 June 2005	-	-	3	116	368	487
<i>Accumulated depreciation</i>						
At 1 July 2004	-	-	162	112	-	274
Depreciation charge	-	-	1	4	31	36
Disposals	-	-	(160)	(5)	-	(165)
At 30 June 2005	-	-	3	111	31	145
Net book value						
At 30 June 2005	-	-	-	5	337	342

Additions in the consolidated financial statements include \$74,000 (2005: \$Nil) of a motor vehicle acquired under finance lease (where the Group is the lessee).

The carrying amount of the motor vehicles held under finance leases at 30 June 2006 amounted to \$136,000 (2005: \$Nil).

Notes to the Financial Statements

For the financial year ended 30 June 2006

20. Intangible assets

Goodwill arising on consolidation

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
<i>Cost</i>		
Balance at beginning of financial year	-	-
Acquisition of subsidiary (Note 10)	284	-
Balance at end of financial year	<u>284</u>	<u>-</u>
<i>Accumulated impairment</i>		
Balance at beginning of financial year	-	-
Impairment charge (Note 5)	(284)	-
Balance at end of financial year	<u>(284)</u>	<u>-</u>
Net book value	<u>-</u>	<u>-</u>

Goodwill arising on consolidation is mainly allocated to the recycling business in Singapore.

Impairment charge of \$284,000 (2005: \$Nil) has been included in "other expenses" in the income statement. The goodwill on consolidation arose as the Group's share of the net fair values of a subsidiary's identifiable assets, liabilities and contingent liabilities as at the date of acquisition on 9 March 2006 differed from the purchase price determined and fixed at the date of the investment agreement on 29 August 2005. This difference is a result of additional liabilities recognised by the subsidiary during the period between the date of determination of the purchase price and the completion of the acquisition of the subsidiary and hence the Group has written off this difference.

21. Trade and other payables

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables:				
- Third parties	593	890	-	-
Non-trade payables:				
- Directors	27	102	27	14
- Minority shareholders	1,082	894	-	-
- Third parties	1,334	210	524	-
	<u>2,443</u>	<u>1,206</u>	<u>551</u>	<u>14</u>
Accrual for operating expenses	1,122	817	843	733
Goods and Services Tax payable	318	706	318	706
Advance receipts from customers	2	753	-	-
Deferred income	49	75	-	-
	<u>4,527</u>	<u>4,447</u>	<u>1,712</u>	<u>1,453</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

21. Trade and other payables (continued)

The non-trade payables to directors and minority shareholders are unsecured, interest-free and are repayable on demand.

The carrying amounts of trade and other payables approximate their fair value.

Trade and other payables are denominated in the following currencies:

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Singapore Dollar	3,519	2,884	1,712	1,453
Chinese Renminbi	808	1,563	-	-
Other	200	-	-	-
	<u>4,527</u>	<u>4,447</u>	<u>1,712</u>	<u>1,453</u>

22. Borrowings

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Current</i>				
Finance lease liabilities (Note 23)	40	-	-	-
<i>Non-current</i>				
Bank borrowings	3,000	-	3,000	-
Finance lease liabilities (Note 23)	74	-	-	-
	<u>3,074</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
Total borrowings	<u>3,114</u>	<u>-</u>	<u>3,000</u>	<u>-</u>

During the financial year, the Company has settled certain obligations of former subsidiaries which have been guaranteed by the Company by converting part of the obligations to a \$3 million term loan with a financial institution [Note 24(iv)].

(a) Security granted

Borrowings of the Group and the Company, excluding finance lease liabilities, are unsecured. Finance lease liabilities of the Group are secured by the rights to the leased motor vehicles (Note 19), which will revert to the lessor in the event of default by the Group.

Notes to the Financial Statements

For the financial year ended 30 June 2006

22. Borrowings (continued)

(b) Maturity of borrowings

The non-current borrowings [excluding finance lease liabilities (Note 23)] have the following maturity:

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Later than one year and not later than five years	<u>3,000</u>	-	<u>3,000</u>	-

(c) Currency risk

The carrying amounts of total borrowings are denominated in the following currencies:

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Singapore Dollar	3,047	-	3,000	-
Euro	67	-	-	-
	<u>3,114</u>	-	<u>3,000</u>	-

(d) Interest rate risks

The weighted average effective per annum interest rates of total borrowings at the balance sheet date are as follows:

	2006		2005	
	SGD %	€ %	SGD %	€ %
<u>The Group</u>				
Bank borrowings	4.75	-	-	-
Finance lease liabilities	3.40	5.44	-	-
	<u>3.40</u>	<u>5.44</u>	<u>-</u>	<u>-</u>
<u>The Company</u>				
Bank borrowings	4.75	-	-	-
	<u>4.75</u>	<u>-</u>	<u>-</u>	<u>-</u>

(e) Carrying amounts and fair value

The carrying amounts of borrowings approximate their fair value. The fair values of non-current borrowings are determined from a discounted cash flows analysis, using a discount rate based upon the borrowing rates which the directors expect would be available to the Group at the balance sheet date.

Notes to the Financial Statements

For the financial year ended 30 June 2006

23. Finance lease liabilities

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Minimum lease payments due:		
- Not later than one year	46	-
- Later than one year but not later than five years	79	-
	<u>125</u>	<u>-</u>
Less: Future finance charges	(11)	-
Present value of finance lease liabilities	<u>114</u>	<u>-</u>

The present value of finance lease liabilities may be analysed as follows:

	<u>The Group</u>	
	2006 \$'000	2005 \$'000
Not later than one year (Note 22)	40	-
Later than one year but not later than five years (Note 22)	74	-
	<u>114</u>	<u>-</u>

24. Provisions for other liabilities and charges

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Legal claims by:				
- Contractor [Note (i)]	93	103	-	-
- Property management company [Note (ii)]	166	508	-	-
- Property owners [Note (iii)]	252	513	-	-
- Others	30	12	-	-
Obligations of former subsidiaries guaranteed by the Company [Note (iv)]	-	4,744	-	4,744
	<u>541</u>	<u>5,880</u>	<u>-</u>	<u>4,744</u>

Movement in provision for other liabilities and charges are as follows:

Balance at beginning of financial year	5,880	6,665	4,744	5,255
Currency translation differences	(52)	(16)	(29)	-
Provision (written back)/made during the financial year	(579)	539	(205)	31
Conversion to bank borrowings [Note (iv)]	(3,000)	-	(3,000)	-
Utilised during the financial year	(1,708)	(1,308)	(1,510)	(542)
Balance at end of financial year	<u>541</u>	<u>5,880</u>	<u>-</u>	<u>4,744</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

24. Provisions for other liabilities and charges (continued)

- (i) The provision for legal claims is in respect of additional costs claimed in previous financial years by the main contractor of a subsidiary, Beijing-Haiteng Real Estate Development Business Co., Ltd's ("Beijing-Haiteng"), property development project. The provision has been made based on the quantum of settlement awarded by the court in favour of the main contractor during the financial year.
- (ii) The property management company of Beijing-Haiteng's property development project lodged legal claims against Beijing-Haiteng in May 2005 for property management fees of the unsold units, maintenance fees of electrical facilities and related compensation, etc. The provision has been made based on the quantum of settlement awarded by the court in favour of the property management company during the financial year.

In April 2006, the court in the People's Republic of China ("PRC") has ruled in favour of the property management company and found Beijing-Haiteng liable for \$166,000 in compensation. The Company has appealed against the court's decision. Management has provided for the legal claim based on the court verdict of \$166,000 awarded to the property management company. In the opinion of the directors, after taking appropriate legal advice, the outcome of this legal claim is not expected to give rise to a significant loss beyond the amount of \$166,000 provided at 30 June 2006.

- (iii) 46 property owners of the property development project sued Beijing-Haiteng in November 2004 to claim compensation for the delay in the registration of the master property ownership certificates and to request the relocation of electrical facilities as stipulated in the sales agreements. On 19 August 2005, the courts in the People's Republic of China issued the following verdict in relation to the claims by the 46 property owners. The courts have dismissed the claims of all 46 property owners in relation to the relocation of the electrical facilities. The courts have also dismissed the claims of 10 property owners in relation to the delay in the registration of the master property ownership certificates but decided in favour of 36 property owners on the same matter.

Beijing-Haiteng has paid \$198,000 in compensation during the current financial year. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims is not expected to give rise to a significant loss beyond the amount provided at 30 June 2006.

- (iv) During the previous financial years, financial institutions called upon the corporate guarantees provided by the Company when former subsidiaries defaulted on their repayments of outstanding trust receipts, bank overdrafts, hire purchase obligations and bank loans. In 2006, the Company has settled \$1.5 million of these liabilities with the financial institutions and converted the remaining liabilities into a \$3 million term loan with a financial institution (Note 22).

25. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follow:

	<u>The Group</u>	
	2006	2005
	\$'000	\$'000
Deferred income tax liabilities		
- To be settled within one year	81	-
- To be settled after one year	35	-
	<u>116</u>	<u>-</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

25. Deferred income taxes (continued)

The movement in the deferred income tax liabilities account during the period is as follows:

The Group

	Deferred income tax liabilities	Deferred income tax assets			Total
	Accelerated tax depreciation \$'000	Unutilised capital allowances \$'000	Provisions \$'000	Total \$'000	\$'000
<u>2006</u>					
Balance at 1 July 2005	-	-	-	-	-
Charged/(credited) to income statement	119	-	(3)	(3)	116
Balance at 30 June 2006	119	-	(3)	(3)	116
<u>2005</u>					
Balance at 1 July 2004	34	(18)	-	(18)	16
(Credited)/charged to income statement	(34)	18	-	18	(16)
Balance at 30 June 2005	-	-	-	-	-

As at 30 June 2006, the Group has unrecognised tax losses of \$24,884,000 and capital allowances of \$664,000 respectively (2005: \$39,443,000 and \$704,000) which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with tax losses and capital allowances in their respective countries of incorporation. These tax losses have no expiry date. The deferred tax benefit on these tax losses and capital allowances has not been recognised in the financial statements as the realisation is uncertain.

Prior to 2006, the Company submitted its tax returns on the basis of a normal trading company, and on this basis, the Company has unutilised tax losses of approximately \$11,851,000 as at 30 June 2005 which can be carried forward and used to offset against future taxable income subject to agreement with the Comptroller of Income Tax. During the current financial year, the Comptroller of Income Tax has subjected the Company to tax on an investment holding company basis. On this basis, unutilised tax losses previously estimated cannot be carried forward and the Company is not entitled to claim any capital allowance. Upon clarification with the Comptroller of Income Tax, the Company has accepted the revised tax basis for the Company's tax returns. In addition, upon agreement with the Comptroller of Income Tax, tax losses of a subsidiary carried forward was reduced accordingly by \$4,492,000 to reflect the final agreed position in respect of the past years of assessment. Accordingly, total tax losses amounting to \$16,343,000 previously included in unrecognised tax losses of the Group as at 30 June 2005, is no longer available to the Group for offsetting against future taxable income.

Notes to the Financial Statements

For the financial year ended 30 June 2006

26. Share capital

	Number of shares		Amount		
	Authorised share capital '000	Issued share capital '000	Authorised share capital \$'000	Issued share capital \$'000	Share premium \$'000
<u>2006</u>					
Balance at beginning of financial year	3,300,000	532,712	99,000	15,981	26,525
Effect of Companies (Amendment) Act 2005 [see Note (i) below]	(3,300,000)	-	(99,000)	27,875	(27,875)
Issuance of shares [see Note (ii) below]	-	154,406	-	8,461	1,350
Balance at end of financial year	-	687,118	-	52,317	-
<u>2005</u>					
Balance at beginning of financial year	3,300,000	319,712	99,000	79,928	23,330
Capital reduction	-	-	-	(70,337)	-
Issuance of shares	-	213,000	-	6,390	3,195
Balance at end of financial year	3,300,000	532,712	99,000	15,981	26,525

(i) Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital are abolished and the amount in the share premium account as of 30 January 2006 is required to become part of the Company's share capital.

(ii) During the financial year, the Company issued the following shares:

- 130,000,000 ordinary shares [Note 26(b)] pursuant to the investment agreements with Mr Chng Weng Wah and Mr Soh Kim Yong to provide funds for the placement of deposit in connection with the Group's proposed investment in Citiraya Industries Ltd [Note 30(a)], settlement of obligations of former subsidiaries (Note 24), payment of cash consideration for the acquisition of CH E-Recycling Pte. Ltd. (Note 18) and general working capital of the Group; and
- 24,406,056 ordinary shares at \$0.109 per share as part of the consideration for the acquisition of subsidiary CH E-Recycling Pte. Ltd. (Note 18).

The newly issued shares rank pari passu in all respects with the previously issued shares.

(a) Heshe Executives' Share Option Scheme

The Heshe Executives' Share Option Scheme (the "Scheme") of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 23 December 1999. Under the Scheme, options may be granted to executives, directors and employees of the Group who have contributed significantly to the growth and development of the Group to subscribe for ordinary shares in the Company.

The Scheme is administered by the Scheme Committee comprising Messrs Hoon Tai Meng (Chairman), Chng Weng Wah and Loh Eu Tse Derek.

The vesting of granted options is conditional on the executives, directors and employees remaining in service up to the date of exercise of the options.

Notes to the Financial Statements

For the financial year ended 30 June 2006

26. Share capital (continued)

(a) Heshe Executives' Share Option Scheme (continued)

Other information regarding these share options are as follows:

- (i) The subscription price in respect of which an option is exercisable shall be payable on the exercise of the option and may be at the market price or at a discount of not more than 20% to the market price, provided always that the subscription price shall be at least the nominal amount of a share; and
- (ii) Options granted to and accepted by the executives, directors and employees in respect of an option granted with a subscription price at the market price will be exercisable after the first anniversary of the offer date of that option. Options granted to and accepted by executives, directors and employees in respect of an option granted with a subscription price at a discount to the market price will only be exercisable after the second anniversary of the offer date of that option.

On 17 April 2006, options on 2,750,000 shares with an exercise price of \$0.08 per ordinary share were granted pursuant to the Scheme ("2006 Options"). The 2006 Options are exercisable from 17 April 2008 and expire in 2 tranches on 16 April 2011 or 16 April 2016.

Movements in the number of ordinary shares outstanding under options relating to the Scheme at end of the financial year are as follows:

	← <u>Number of ordinary shares under options outstanding</u> →						
	At beginning of financial year	Granted during financial year	Forfeited during financial year	Expired during financial year	At end of financial year	Exercise price	Exercise period
<u>2006</u>							
2006 Options	-	1,000,000	-	-	1,000,000	\$0.08	17 April 2008 - 16 April 2011
2006 Options	-	1,750,000	-	-	1,750,000	\$0.08	17 April 2008 - 16 April 2016
	-	2,750,000	-	-	2,750,000		
<u>2005</u>							
1999 Options	2,250,000	-	-	(2,250,000)	-	\$0.25	24 December 2000 - 22 December 2004
1999 Options	3,250,000	-	(3,250,000)	-	-	\$0.25	24 December 2000 - 22 December 2009
	5,500,000	-	(3,250,000)	(2,250,000)	-		

The fair value of options granted on 17 April 2006 determined using the Black-Scholes valuation model was \$9,000. The significant inputs into the model were share price of \$0.10, at the grant date, exercise price of \$0.08, standard deviation of expected share price returns of 1%, option life shown above and annual risk-free interest rate of 3.805%. The volatility measure at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last six months.

Notes to the Financial Statements

For the financial year ended 30 June 2006

26. Share capital (continued)

(b) Other share options

Details of the shares issued during the financial year by virtue of the exercise of options granted to Mr Chng Weng Wah and Mr Soh Kim Yong and the number of unissued ordinary shares of the Company under options outstanding at the end of the financial year under the investment agreements with Mr Chng Weng Wah and Mr Soh Kim Yong are as follows:

	2006 '000	2005 '000
<u>Number of ordinary shares under options outstanding</u>		
Balance at beginning of financial year	133,000	-
Granted during financial year	-	133,000
Exercised during year	(130,000)	-
Balance at end of financial year	<u>3,000</u>	<u>133,000</u>

The exercise price of the options is \$0.055 (2005: \$0.055) per ordinary share and the exercise period is from 3 February 2005 to 2 February 2007 (2005: 3 February 2005 to 2 February 2007).

On 3 July 2006, the remaining 3,000,000 options outstanding as at 30 June 2006 are exercised for the issuance of 3,000,000 ordinary shares of the Company [Note 34(a)].

27. Other reserves

(a) Composition

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Currency translation reserve	(230)	(89)	-	-
Share option reserve	9	-	9	-
	<u>(221)</u>	<u>(89)</u>	<u>9</u>	<u>-</u>

Notes to the Financial Statements

For the financial year ended 30 June 2006

27. Other reserves (continued)

(b) Movements

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>(i) Currency translation reserve</i>				
Balance at beginning of financial year	(89)	138	-	-
Net currency translation differences of financial statements of foreign subsidiaries	(159)	(93)	-	-
Release on deconsolidation of subsidiary (Note 10)	-	(159)	-	-
Minority interest	18	25	-	-
Balance at end of financial year	<u>(230)</u>	<u>(89)</u>	<u>-</u>	<u>-</u>
<i>(ii) Share option reserve</i>				
Balance at beginning of financial year	-	-	-	-
Employee share option scheme - value of employee services (Notes 6 and 26)	9	-	9	-
Balance at end of financial year	<u>9</u>	<u>-</u>	<u>9</u>	<u>-</u>

Other reserves are non-distributable.

28. Accumulated losses of the Company

Movements in accumulated losses for the Company are as follows:

	<u>The Company</u>	
	2006 \$'000	2005 \$'000
Balance at beginning of financial year	(39,331)	(99,476)
Capital reduction	-	70,337
Net loss for the financial year	(2,410)	(10,192)
Balance at end of financial year	<u>(41,741)</u>	<u>(39,331)</u>

Movement in accumulated losses for the Group is shown in the Consolidated Statement of Changes in Equity.

Notes to the Financial Statements

For the financial year ended 30 June 2006

29. Contingent liabilities

Details of contingent liabilities are as follows:

- (a) As at 30 June 2006, a subsidiary has provided guarantees amounting to RMB29 million (\$5.8 million) [2005: RMB38 million (\$7.8 million)] to certain banks in respect of mortgage loans granted to buyers of its development property. These guarantees are secured by cash deposits of RMB3.8 million (\$751,000) [2005: RMB11 million (\$2,260,000)] (Note 10) at the balance sheet date.
- (b) Properties purchased by buyers are provided with various warranties of lengths between one to five years against certain defects as stipulated in the People Republic of China laws and regulations. These contingent liabilities are covered by corresponding warranties from the relevant sub-contractors of the developmental project.
- (c) The Company has given formal undertakings, which are unsecured, to provide financial support to its subsidiaries. The Company's share of the deficits in shareholders' equity of these subsidiaries as at 30 June 2006 amounted to \$27,639,000 (2005: \$25,279,000).

30. Commitments

(a) Investment commitments

	The Group and The Company	
	2006	2005
	\$'000	\$'000
Investment in Citiraya Industries Ltd	16,100	-

The Company entered into an Investment Agreement dated 19 September 2005 (the "CIL Investment Agreement") with another investor company and Citiraya Industries Ltd ("CIL") pursuant to which the Company and the other investor company will each subscribe for 948,724,172 new ordinary shares in the issued and paid-up share capital of CIL, a listed company incorporated in Singapore, at a subscription price of \$0.01054 per share ("Tranche 1 Shares"). Assuming that both the Company and the other investor company subscribe for Tranche 1 shares at the same time, the Company's investment represents approximately 37.5% of the issued and paid-up share capital of CIL.

Under the CIL Investment Agreement, after the subscription of the Tranche 1 Shares, the Company and the other investor company 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 \$0.01054 per share. The option is exercisable within one year from the issue of the Tranche 1 Shares.

Subsequent to the signing of the CIL Investment Agreement, CIL was placed under judicial management by the High Court of Singapore on 25 November 2005 and the Judicial Managers of CIL requested for certain changes to be made to the CIL Investment Agreement in order to infuse more certainty to the transaction and to address some of the concerns raised by the creditors of CIL. Accordingly, the Company and the other investor company entered into the Amended and Restated Agreement on 27 March 2006 in connection with the Company's proposed investment in CIL. The CIL Investment Agreement was terminated in its entirety from the date of the Amended and Restated Agreement.

Notes to the Financial Statements

For the financial year ended 30 June 2006

30. Commitments (continued)

(a) Investment commitments (continued)

Pursuant to the Amended and Restated Agreement, the Company and the other investor company will each subscribe for 948,724,172 new ordinary shares in the share capital of CIL at a subscription price of \$0.008485 per share ("Amended Tranche 1 Shares"). Assuming that both the Company and the other investor company subscribe for the Amended Tranche 1 shares at the same time, the Company's investment represent approximately 37.5% of the issued and paid-up share capital of CIL.

Under the Amended and Restated Investment Agreement, after the subscription of the Amended Tranche 1 Shares, the Company and the other investor company 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 \$0.008485 per share. The option is exercisable within one year from the issue of the Amended Tranche 1 Shares.

Assuming that both the Company and the other investor company complete their respective subscription and exercise their respective options under the Amended and Restated Investment Agreement, the Company and the other investor company will each hold approximately 42.86% of the resultant issued and paid-up share capital of CIL. The total investment by the Company in such event will be \$16.1 million, including \$8.05 million for the Company's portion of Amended Tranche 1 Shares.

The obligations of the Company to subscribe for the Amended Tranche 1 Shares pursuant to the Amended and Restated Agreement is subject to certain conditions precedent being fulfilled (or, where applicable, waived under the Amended and Restated Agreement) on or before 31 July 2006 (the "Long Stop Date") or such extension thereto up till 30 November 2006 pursuant to the terms of the Amended and Restated Agreement. So far, these condition precedents have all not been satisfied or waived. The Long Stop Date has been extended to 30 September 2006 [Note 34(c)].

Pursuant to the terms of the Amended and Restated Investment Agreement, the Company has placed a deposit of an aggregate amount of \$2 million with a stakeholder who will hold the deposit on the terms set out in the Amended and Restated Investment Agreement (and the stakeholding agreement entered into pursuant thereto) pending the completion of the Investment Agreement, by which time the Company will be required to inject the balance of \$6.05 million to subscribe for its portion of the Amended Tranche 1 shares.

(b) Other capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	<u>The Group</u>	
	2006	2005
	\$'000	\$'000
Property, plant and equipment	2,772	-

Notes to the Financial Statements

For the financial year ended 30 June 2006

30. Commitments (continued)

(c) Operating lease commitments

The Group leases various premises and office equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than one year	854	567	177	30
Later than one year but not later than five years	718	287	228	-
	<u>1,572</u>	<u>854</u>	<u>405</u>	<u>30</u>

31. Financial risk management

The Group's activities expose it to a variety of financial risks: price risk (including currency risk, fair value interest rate risk and market risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out under policies approved by the Board of Directors.

(a) *Price risk*

Currency risk

The Group transacts its business in various currencies, primarily with respect to the Euro and Chinese Renminbi, and therefore is exposed to currency exchange risk. Currency exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group's currency risk exposure is monitored by key members of management from financial and operational areas.

Market risk

The Group is not exposed to any significant equity securities or commodity market risk.

Notes to the Financial Statements

For the financial year ended 30 June 2006

31. Financial risk management (continued)

(b) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest risk mainly arises from cash and cash equivalents and borrowings.

The tables below set out the Group and the Company's exposure to interest rate risks. Included in the tables are cash and cash equivalents and borrowings at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<u>Variable rates</u>		<u>Fixed rates</u>			<u>Non-interest bearing</u>	<u>Total</u>
	<u>Less than 6 months</u>	<u>1 to 5 years</u>	<u>Less than 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
The Group							
At 30 June 2006							
<i>Assets</i>							
Cash and cash equivalents	6,827	-	2,751	-	-	106	9,684
<i>Liabilities</i>							
Borrowings	-	3,000	20	20	74	-	3,114
At 30 June 2005							
<i>Assets</i>							
Cash and cash equivalents	6,833	-	2,260	-	-	157	9,250
The Company							
At 30 June 2006							
<i>Assets</i>							
Cash and cash equivalents	1,441	-	-	-	-	-	1,441
<i>Liabilities</i>							
Borrowings	-	3,000	-	-	-	-	3,000
At 30 June 2005							
<i>Assets</i>							
Cash and cash equivalents	4,415	-	-	-	-	-	4,415

(c) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Notes to the Financial Statements

For the financial year ended 30 June 2006

31. Financial risk management (continued)

(d) Liquidity risk

The Group maintains sufficient cash and cash equivalents, and has sufficient internally generated cash flows to meet its working capital requirements. In addition, the Group manages its liquidity risk by raising funds from both the capital market and financial institutions when necessary.

32. Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties during the financial year:

(a) Sales and purchases of goods and services

	<u>The Group</u>	
	2006	2005
	\$'000	\$'000
Sales to a company owned by a director of a subsidiary	-	271
Rental income received from companies in which a director of the Company has interest	62	-
Purchases from a company in which a director of the Company has interest	146	-
Professional fees paid to firms of which certain directors of the Company are members	10	-

(b) Key management personnel compensation

	<u>The Group</u>	
	2006	2005
	\$'000	\$'000
Salaries and other short-term employee benefits	1,335	888
Post-employment benefits	46	30
Share options granted	4	-
	<u>1,385</u>	<u>918</u>

Included in the above is total compensation to directors of the Company amounting to \$746,000 (2005: \$519,000).

Notes to the Financial Statements

For the financial year ended 30 June 2006

33. Segment information

Primary reporting format - business segments

	<u>Food and beverage</u> \$'000	<u>Property investment and development</u> \$'000	<u>Recycling</u> \$'000	<u>Consumer electronic products</u> \$'000	<u>Investment holding</u> \$'000	<u>Elimination</u> \$'000	<u>Group</u> \$'000
Financial year ended 30 June 2006							
Sales							
- External sales	1,606	1,020	2,701	925	62	-	6,314
- Inter-segment sales	-	-	-	-	467	(467)	-
Segment result	(174)	3,055	44	(655)	(2,278)	(467)	(475)
Finance expense							(109)
Loss before income tax							(584)
Income tax credit							193
Net loss							(391)
Segment assets	241	9,054	7,804	1,672	9,707	(5,666)	22,812
Unallocated assets							1,086
Consolidated total assets							23,898
Segment liabilities	(1,917)	(8,828)	(1,105)	(222)	(1,712)	8,719	(5,065)
Unallocated liabilities							(3,277)
Consolidated total liabilities							(8,342)
Other segment items							
Capital expenditure							
- property, plant and equipment	2	-	6,309	145	111	-	6,567
Depreciation	96	8	367	22	99	-	592
Impairment loss on goodwill	-	-	284	-	-	-	284
Impairment loss on available-for-sale financial assets	-	-	-	-	73	-	73

Notes to the Financial Statements

For the financial year ended 30 June 2006

33. Segment information

Primary reporting format - business segments (continued)

	Food and beverage \$'000	Property investment and development \$'000	Recycling \$'000	Consumer electronic products \$'000	Investment holding \$'000	Elimination \$'000	Group \$'000
Financial year ended 30 June 2005							
Sales							
- External sales	1,836	3,962	-	-	9	-	5,807
- Inter-segment sales	-	-	-	-	21	(21)	-
Segment result	(160)	(4,559)	-	-	(4,764)	(21)	(9,504)
Finance expense							(314)
Share of loss of associated company							(7)
Loss before income tax							(9,825)
Income tax expense							(492)
Net loss							(10,317)
Segment assets	410	6,884	-	-	9,848	(4,961)	12,181
Unallocated assets							1,421
Associated company							341
Consolidated total assets							13,943
Segment liabilities	(1,589)	(10,215)	-	-	(1,453)	7,686	(5,571)
Unallocated liabilities							(5,276)
Consolidated total liabilities							(10,847)
Other segment items							
Capital expenditure – property, plant and equipment	-	-	-	-	369	-	369
Depreciation	137	18	-	-	36	-	191
Impairment loss on available-for-sale financial assets	-	1,098	-	-	20	-	1,118

At 30 June 2006, the Group is organised into five main business segments:

- Food and beverage;
- Property investment and development;
- Recycling;
- Consumer electronic products; and
- Investment holding.

Notes to the Financial Statements

For the financial year ended 30 June 2006

33. Segment information

Primary reporting format - business segments (continued)

Inter-segment transactions are determined on an arm's length basis. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and exclude income tax assets. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and borrowings. Capital expenditure comprises additions to property, plant and equipment, including those acquired through business combinations.

Secondary reporting format – geographical segments

The Group's business segments operate in three main geographical areas:

- ASEAN;
- North Asia; and
- Europe.

Sales are based on the country in which the customer is located. Total assets and capital expenditure are shown by the geographical area where the assets are located.

	<u>Sales</u>		<u>Total assets</u>		<u>Capital expenditure</u>	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASEAN	2,817	1,845	12,086	4,956	6,422	369
North Asia	2,572	3,962	9,054	7,225	-	-
Europe	925	-	1,672	-	145	-
Total	<u>6,314</u>	<u>5,807</u>	<u>22,812</u>	<u>12,181</u>	<u>6,567</u>	<u>369</u>
Associated company			-	341		
Unallocated assets			<u>1,086</u>	<u>1,421</u>		
			<u>23,898</u>	<u>13,943</u>		

34. Events occurring after balance sheet date

(a) Exercise of option to subscribe for shares in the Company

On 3 July 2006, Mr Chng Weng Wah, a director of the Company, exercised his option to subscribe for 3,000,000 ordinary shares in the share capital of the Company at \$0.055 per share pursuant to the terms of the option granted to Mr Chng under the Chng Investment Agreement entered into on 29 December 2003.

Following the above exercise of his option, Mr Chng will not have further option to subscribe for any ordinary shares in the share capital of the Company pursuant to the Chng Investment Agreement.

(b) Proposed renounceable and partially underwritten Rights Issue

On 17 July 2006, the Company released an Offer Information Statement relating to the renounceable and partially underwritten Rights Issue of 276,047,322 new ordinary shares at an issue price of \$0.05 for each Rights Share on the basis of two Rights Shares for every five existing shares in the issued and paid-up share capital of the Company held by shareholders as at 14 July 2006, the Books Closure Date, fractional entitlements disregarded. The final day for application and acceptance of the Rights Issue was 2 August 2006. The Company successfully allotted all the 276,047,322 new shares in the Company pursuant to the Rights Issue.

Notes to the Financial Statements

For the financial year ended 30 June 2006

34. Events occurring after balance sheet date (continued)

(c) Acquisition of Citiraya Industries Ltd

The investment in Citiraya Industries Ltd ("CIL") is subject to, *inter alia*, the approval of the shareholders of the Company and the satisfaction of other conditions precedent set out in the Amended and Restated Investment Agreement in respect of the Company's proposed investment in CIL. On 31 July 2006, the Long Stop Date was extended to 31 August 2006 and was subsequently extended to 30 September 2006 on 31 August 2006 [Note 30(a)].

35. New accounting standards and FRS interpretations

Certain new accounting standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Company does not expect that adoption of these accounting standards or interpretations will have a material impact on the financial statements of the Group and Company.

36. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Hesse Holdings Limited on 1 September 2006.

Statistics of Shareholdings

as at 20 September 2006

Class of shares : Ordinary shares
Voting rights : One vote per share

Distribution of Shareholders by Size of Shareholdings As At 20 September 2006

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
1 - 999	39	0.46	3,908	0.00
1,000 - 10,000	4,787	56.32	27,754,622	2.87
10,001 - 1,000,000	3,619	42.58	218,789,200	22.65
1,000,001 - and above	54	0.64	719,617,898	74.48
TOTAL	8,499	100.00	966,165,628	100.00

Twenty Largest Shareholders As at 20 September 2006

NAME OF SHAREHOLDER	NO. OF SHARES	% OF ISSUED SHARE CAPITAL
1 CITIBANK NOMINEES SINGAPORE PTE LTD	190,363,000	19.70
2 MERRILL LYNCH (SINGAPORE) PTE LTD	151,370,000	15.67
3 LOW CHENG LUM	87,084,000	9.01
4 KIM ENG SECURITIES PTE. LTD.	25,651,000	2.66
5 CHNG WENG WAH	22,200,000	2.30
6 TEAM RISE TECHNOLOGY LIMITED	21,965,450	2.27
7 SOH YING ZHEN JESSICA	20,291,000	2.10
8 DBS NOMINEES PTE LTD	14,637,691	1.52
9 HSBC (SINGAPORE) NOMINEES PTE LTD	14,387,000	1.49
10 UNITED OVERSEAS BANK NOMINEES PTE LTD	13,155,750	1.36
11 YAP KIAN PENG	12,850,600	1.33
12 TAN AH EE	12,442,000	1.29
13 SIONG BEE INDUSTRIES PTE LTD	11,823,000	1.22
14 PHILLIP SECURITIES PTE LTD	8,725,000	0.90
15 JIN JIANZHONG	8,600,000	0.89
16 YONG KIM YEW MICHEAL	7,756,000	0.80
17 SBS NOMINEES PTE LTD	6,900,000	0.71
18 TAN AH KENG JIMMY	5,469,000	0.57
19 OCBC SECURITIES PRIVATE LTD	5,153,400	0.53
20 LEE THENG KIAT	5,016,000	0.52
Total:	645,839,891	66.84

Statistics of Shareholdings

as at 20 September 2006

Substantial Shareholders As At 20 September 2006

Substantial Shareholders	Direct Interest		Deemed Interest		Total	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Chng Weng Wah	22,200,000	2.30	189,000,000 ⁽¹⁾	19.56	211,200,000	21.86
Soh Kim Yong	-	-	151,361,000 ⁽²⁾	15.67	151,361,000	15.67
Starbids Ventures Inc.	-	-	189,000,000 ⁽³⁾	19.56	189,000,000	19.56
Low Cheng Lum	87,084,000	9.01	-	-	87,084,000	9.01

Notes:-

- (1) This represents Mr Chng Weng Wah's interest of 189,000,000 Shares held by his family trust, Starbids Ventures Inc.
- (2) This represents Mr Soh Kim Yong's interest of 151,361,000 Shares held in the name of the following:-
 (a) 161,000 Shares held by his wife, Mdm Lau Phuay Hong
 (b) 151,200,000 Shares held through Merrill Lynch (Singapore) Pte Ltd
- (3) This represents Starbids Ventures Inc. interest of 189,000,000 Shares held through Citibank Nominees Singapore Pte Ltd.

Directors' Interest in Shares As At 21 July 2006

According to the register maintained under Section 164 of the Companies Act, Cap 50, the Directors has an interest in the shares of the Company on the 21st day after the end of the financial year as undernoted:

Director	Direct Interest		Deemed Interest		Total	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Chng Weng Wah	21,000,000	3.04	189,000,000 ⁽ⁱ⁾	27.39	210,000,000	30.43
Soh Kim Yong	-	-	108,115,000 ⁽ⁱⁱ⁾	15.67	108,115,000	15.67
Lee Bon Leong	-	-	10,000,000 ⁽ⁱⁱⁱ⁾	1.45	10,000,000	1.45
Heng Lee Seng	-	-	-	-	-	-
Hoon Tai Meng	-	-	-	-	-	-
Loh Eu Tse Derek	-	-	-	-	-	-

Notes:-

- (i) This represents Mr Chng Weng Wah's interest of 189,000,000 Shares held by his family trust, Starbids Ventures Inc.
- (ii) This represents Mr Soh Kim Yong's interest of 108,115,000 Shares held in the name of the following:-
 (a) 115,000 Shares held by his wife, Mdm Lau Phuay Hong
 (b) 108,000,000 Shares held through Merrill Lynch (Singapore) Pte Ltd
- (iii) This represents Mr Lee Bon Leong's interest in 10,000,000 Shares held through HSBC (Singapore) Nominees Pte Ltd

Additionally, each of Mr Lee Bon Leong, Mr Heng Lee Seng, Mr Hoon Tai Meng and Mr Loh Eu Tse Derek has been granted an option to subscribe for 250,000 Shares under the Company's Executives' Share Option Scheme at the subscription price of \$0.08 per Share. The exercise period is from 17 April 2008 to 16 April 2011.

Based on the information available above, approximately 52.01% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual of the SGX-ST is complied with.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirtieth Annual General Meeting of Equation Corp Limited (formerly known as Heshe Holdings Limited) will be held at 8 Shenton Way, #37-01 Temasek Tower, Singapore 068811 on Wednesday, 25 October 2006 at 10.00 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To receive and consider the Directors' Report and Audited Accounts of the Company for the year ended 30 June 2006. (Resolution 1)
2. To approve Directors' fees of \$150,000 for the year ended 30 June 2006. (Resolution 2)
3. To re-elect Mr Hoon Tai Meng, a Director retiring in accordance with Article 92 of the Company's Articles of Association. (Resolution 3)

Mr Hoon Tai Meng will, upon re-election as a Director of the Company, remain a member of the Audit Committee and will be considered independent for purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To re-appoint Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 4)

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass the following as an Ordinary Resolution with or without modifications:-

"That pursuant to Section 161 of the Companies Act, Chapter 50, and the listing rules of the Singapore Exchange Securities Trading Limited, approval be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:

- (a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;
- (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, "Instruments") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;
- (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and
- (b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that

- (i) the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the Company's issued share capital, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company, and for the purpose of this resolution, the issued share capital shall be the Company's issued share capital at the time this resolution is passed, after adjusting for;

- (a) new shares arising from the conversion or exercise of convertible securities, or

Notice of Annual General Meeting

(b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the Singapore Exchange Securities Trading Limited, and

(c) any subsequent consolidation or subdivision of the Company's shares,

(ii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." (Resolution 5)

6. To consider and, if thought fit, to pass the following as an Ordinary Resolution with or without modifications:-

"That approval be and is hereby given to the Directors to offer and grant options in accordance with the Company's Executives' Share Option Scheme (the "Scheme"); and pursuant to Section 161 of the Companies Act, Chapter 50, to allot and issue such shares (the "Scheme Shares") as may be required to be issued pursuant to the exercise of options under the Scheme provided always that the aggregate number of Scheme Shares over which options granted when added to the number of shares issued and issuable in respect of all options granted under the Scheme shall not exceed fifteen percent (15%) of the issued share capital of the Company on the day immediately preceding the offer date of the options." (Resolution 6)

7. To transact any other business of an Annual General Meeting of which due notice shall have been given.

Date: 9 October 2006

By Order of the Board
Ms Joanna Lim Lan Sim
Company Secretary

Notes:

1. A Member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and vote in his stead.
2. A proxy need not be a Member of the Company.
3. The instrument appointing a proxy must be deposited at the registered office of the Company at 8 Cross Street #11-00 PWC Building, Singapore 048424 not later than 48 hours before the time appointed for the Meeting.

Notice of Annual General Meeting

Statement Pursuant to Article 54 of the Company's Articles of Association

The effect of the resolutions under the heading "Special Business" in this Notice of the Annual General Meeting are:-

- (a) The proposed ordinary resolution 5, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50 percent of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20 percent of the issued share capital of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.
- (b) The proposed ordinary resolution 6, if passed, will empower the Directors of the Company to grant options and issue shares pursuant to the Company's Executives' Share Option Scheme which was approved at the Extraordinary General Meeting of the Company on 23 December 1999.

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EQUATION CORP LIMITED

(Formerly known as Heshe Holdings Limited)

Co.Reg.No. 197501110N

(Incorporated in the Republic of Singapore)

Proxy Form

IMPORTANT

1. For investors who have used their CPF monies to buy EQUATION CORP LIMITED's shares, the annual report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

*I/We _____ (Name) of

_____ (Address)

being *a Member/Members of the abovenamed Company, hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)

*and/or (delete as appropriate)

--	--	--	--

as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting of the Company, to be held at 8 Shenton Way, #37-01 Temasek Tower, Singapore 068811 on Wednesday, 25 October 2006 at 10.00 a.m. and at any adjournment thereof. *I/we direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specified direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matters arising at the Meeting.

Ordinary Resolutions	For	Against
1. To receive and consider the Directors' Report and Audited Accounts of the Company for the financial year ended 30 June 2006. (Resolution 1)		
2. To approve Directors' fees of \$150,000 for the year ended 30 June 2006. (Resolution 2)		
3. To re-elect Mr Hoon Tai Meng pursuant to Article 92 of the Company's Articles of Association. (Resolution 3)		
4. To re-appoint Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 4)		
5. To authorise the Directors to issue shares in the Company. (Resolution 5)		
6. To offer and grant options and issue shares under the Company's Executives' Share Option Scheme. (Resolution 6)		

Dated this _____ day of _____ 2006

Total Number of Shares Held

Signature(s) of Member(s)/Common Seal

* Delete accordingly

IMPORTANT: PLEASE READ NOTES ON THE REVERSE

Notes:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
4. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore.
5. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at 8 Cross Street #11-00 PWC Building, Singapore 048424 not later than 48 hours before the time set for the Annual General Meeting.
6. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
7. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 48 hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.
8. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register 48 hours before the time set for the Annual General Meeting.

AFFIX
STAMP

The Company Secretary
EQUATION CORP LIMITED
(Formerly known as Heshe Holdings Limited)
8 Cross Street
#11-00 PWC Building
Singapore 048424

Equation Corp Limited

8 Shenton Way #37-01 Temasek Tower Singapore 068811

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