
9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

9.2 Interest in Similar Business

The interests, shareholdings and directorships in other businesses of our Directors and substantial shareholders are disclosed in Section 7.7 of this Prospectus. To the best knowledge and belief of our Directors and substantial shareholders, none of our Directors or substantial shareholders or key management are interested, directly or indirectly in any business carrying on a similar trade as our Company and subsidiaries or which are the customers or suppliers of our Group as at the LPD, save for the following:-

(a) TET Pan Sdn Bhd

Low Kim Joo has shareholdings and directorship in TET Pan Sdn Bhd which is principally involved in the wholesaling and retail dealing of metal products, hardware and tools. TET Pan Sdn Bhd has in the past three (3) FYE 31 December 2008 supplied steel products to our Group which represented only 1.07%, 0.23% and 0.05% of our Group's total purchases (which are not material to our Group) for the respective years.

Low Kim Joo is not involved in the day-to-day operations of TET Pan Sdn Bhd and our Directors have confirmed that the supply of steel products to our Group were on arms-length basis and on normal commercial terms which are not detrimental to our Group. Hence, there is no material conflict of interest in respect of his shareholding and directorship in TET Pan Sdn Bhd.

(b) Dynamic Stone Industries Sdn Bhd

Low Kim Hock and Low Kim Joo have shareholdings and directorships in Dynamic Stone Industries Sdn Bhd which is principally a quarry operator but is currently inactive. Dynamic Stone Industries Sdn Bhd had in FYE 31 December 2005 supplied granite blocks to our Group amounted to RM0.07 million, represented 0.6% of our Group's total purchases, which was not significant to our Group.

Low Kim Hock and Low Kim Joo have both expressed their intentions not to be involved in the day-to-day operations of Dynamic Stone Industries Sdn Bhd in the future as their equity participations (collectively 80%) in Dynamic Stone Industries Sdn Bhd are with the intention of forming strategic partnership with the other shareholder of Dynamic Stone Industries Sdn Bhd to operate our Group's quarry in the near future. Hence, such equity participations are intended to strengthen the business relationship and alliance with Dynamic Stone Industries Sdn Bhd.

Our Directors will ensure that any future transactions with Dynamic Stone Industries Sdn Bhd will be on terms not more favourable to the related parties than those generally available to the public. Hence, the situations of conflict of interest arising from the respective shareholdings and directorships of Low Kim Hock and Low Kim Joo in Dynamic Stone Industries Sdn Bhd are mitigated.

9.3 Transactions that are Unusual in their Nature and Condition

There are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which we or any of our subsidiary companies was a party in respect of the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

9.4 Loans Made to Related Parties

Save as disclosed below, there are no outstanding loans (including guarantees of any kind) made by us or our Group to or for the benefit of related parties during the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

Transacting Parties	Nature of relationship	Nature of transaction	Value as at			
			31 December			30 September 2009
			2006	2007	2008	
			RM'000	RM'000	RM'000	RM'000
HHG and LBS Realty Sdn Bhd	<p>Low Kim Hock, Low Kim Joo and Low Kim Chung who are our Directors and substantial shareholders are also the directors and substantial shareholders of LBS Realty Sdn Bhd.</p> <p>Low Kim Ong who is our substantial shareholder is also the director and substantial shareholder of LBS Realty Sdn Bhd.</p>	Corporate guarantee given by HHG in favour of a financial institution in relation to the banking facility granted by the financial institution to LBS Realty Sdn Bhd.	771	753	720	-
HHG and Menang Mulia Sdn Bhd^	<p>Low Kim Hock, Low Kim Joo and Low Kim Chung who are our Directors and substantial shareholders are also the directors of Menang Mulia Sdn Bhd and deemed interested in Menang Mulia Sdn Bhd by virtue of their interests in LBS Realty Sdn Bhd.</p> <p>Low Kim Ong is our substantial shareholder is deemed interested in Menang Mulia Sdn Bhd by virtue of his interest in LBS Realty Sdn Bhd.</p>	Corporate guarantee given by HHG in favour of a financial institution in relation to the credit facility granted by the financial institution to Menang Mulia Sdn Bhd.	-	1,263	1,111	995*

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9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

Transacting Parties	Nature of relationship	Nature of transaction	Value as at			
			31 December			30 September 2009
			2006	2007	2008	
			RM'000	RM'000	RM'000	RM'000
HHG and Wiscaya Development Sdn Bhd	<p>Low Kim Hock and Low Kim Joo who are our Directors and substantial shareholders are also the directors of Wiscaya Development Sdn Bhd and deemed interested in Wiscaya Development Sdn Bhd by virtue of their interests in LBS Realty Sdn Bhd.</p> <p>Low Kim Chung and Low Kim Ong who are our substantial shareholders are deemed interested in Wiscaya Development Sdn Bhd by virtue of their interests in LBS Realty Sdn Bhd.</p>	Corporate guarantee given by HHG in favour of a financial institution in relation to the banking facility granted by the financial institution to Wiscaya Development Sdn Bhd.	494	518	689	-
HHMSR and Kiara Cekal Sdn Bhd	<p>Low Kim Joo who is our Director and substantial shareholder is also the director of Kiara Cekal Sdn Bhd and deemed interested in Kiara Cekal Sdn Bhd by virtue of his interest in LBS Realty Sdn Bhd.</p> <p>Low Kim Hock, Low Kim Chung and Low Kim Ong who are our substantial shareholders are deemed interested in Kiara Cekal Sdn Bhd by virtue of their interests in LBS Realty Sdn Bhd.</p>	Corporate guarantee given by HHMSR in favour of a financial institution in relation to the banking facilities granted by the financial institution to Kiara Cekal Sdn Bhd.	2,154	2,077	2,015	-
HHG and - Dynamic Stone Industries Sdn Bhd	Low Kim Hock and Low Kim Joo who are our Directors and substantial shareholders are also the directors and substantial shareholders of Dynamic Stone Industries Sdn Bhd.	Short term advances #	269	-	-	-

9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

Transacting Parties	Nature of relationship	Nature of transaction	Value as at			
			31 December			30 September 2009
			2006	2007	2008	RM'000
			RM'000	RM'000	RM'000	RM'000
- LBS Realty Sdn Bhd	Low Kim Hock, Low Kim Joo and Low Kim Chung who are our Directors and substantial shareholders are also the directors and substantial shareholders of LBS Realty Sdn Bhd. Low Kim Ong who is our substantial shareholder is also the director and substantial shareholder of LBS Realty Sdn Bhd.	Short term advances #	2,406	23	-	-
- Dunia Batu Alam Sdn Bhd*	Low Kim Hock and Low Kim Joo who are our Directors and substantial shareholders were also the directors of Dunia Batu Alam Sdn Bhd.		53	-	-	-
HHMKL and						
- Legacy Construction Sdn Bhd**	Low Kim Hock who is our Director and substantial shareholder was also the director and substantial shareholder of Legacy Construction Sdn Bhd, HHM Tiling Sdn Bhd and Stone Frontier Sdn Bhd.		122	128	-	-
- HHM Tiling Sdn Bhd@			343	256	-	-
- Stone Frontier Sdn Bhd+			25	-	-	-
- Low Kim Hock	Low Kim Hock is our Director and substantial shareholder.		25	-	-	-

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9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

Transacting Parties	Nature of relationship	Nature of transaction	Value as at			
			31 December			30 September 2009
			2006 RM'000	2007 RM'000	2008 RM'000	RM'000
HHMSR and - Low Kim Joo	Low Kim Joo is our Director and substantial shareholder.	Short term advances #	26	311	-	-
- Low Kim Hock	Low Kim Hock is our Director and substantial shareholder.		-	63	-	-
PMK and - Low Kim Ong	Low Kim Ong is our substantial shareholder.		23	85	-	-
- Low Kim Chung	Low Kim Chung is our Director and substantial shareholder.		20	35	-	-
- HHSEC and Wong Liang Meng	Wong Liang Meng is a director of HHSEC.		-	7	-	-

Notes:

- ^ Further information on the corporate guarantee given by HHG in favour of the financial institution for credit facility granted to Menang Mulia Sdn Bhd is set out in Section 11.4.8 of this Prospectus.
- & Comprising amount payable within twelve (12) months of RM0.186 million and amount payable after twelve (12) months of RM0.809 million.
- # Being net short term advances to related parties which are non-trade in nature and interest free.
- * Low Kim Hock and Low Kim Joo had ceased to be the director of Dunia Batu Alam Sdn Bhd with effect from 19 January 2009.
- ** Low Kim Hock had disposed off his shareholding in Legacy Construction Sdn Bhd and ceased to be its director with effect from 19 February 2009.
- @ Low Kim Hock had disposed off his shareholding in HHM Tiling Sdn Bhd and ceased to be its director with effect from 19 February 2009 and 9 February 2009, respectively.
- + Low Kim Hock had disposed off his shareholding in Stone Frontier Sdn Bhd and ceased to be its director with effect from 9 February 2009.

As at the LPD, all short term advances owing to our Group by the related parties as stated above have been fully settled.

9.5 Promotions of Material Assets

Save as disclosed in Section 9.1 of this Prospectus, none of our Directors are aware of any Director and substantial shareholders having any interest, direct or indirect, in the promotion of or in any material assets which have been, within the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009, acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to our Group.

9. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)

9.6 Declaration by Advisers

- (a) PIVB wishes to highlight the relationship between Public Bank Berhad ("PBB"), the holding company of PIVB, and our Group whereby PBB has extended various credit facilities amounting to approximately RM8.81 million as at 30 September 2009, which comprise the following:-

- Fixed loans for the purchases of machineries, land and buildings;
- Overdraft facilities;
- Trade line facilities;
- Hire purchases; and
- Bank guarantees.

As at 30 September 2009, the outstanding balance of the said credit facilities are approximately RM6.75 million in aggregate.

PIVB hereby confirms that there is no material conflict of interest in its capacity as the Adviser, Managing Underwriter, Underwriter and Sole Placement Agent for the IPO and that the relationship between PBB and our Group does not give rise to a material conflict of interest situation due to the following reasons:-

- (i) PIVB's role as the Adviser for the Flotation Exercise has been carried out professionally and objectively in accordance with the relevant terms of the due diligence planning memorandum. The due diligence processes and the verification exercises (which were participated by our Directors and senior management, our Reporting Accountants, our solicitors, PIVB and other relevant advisors) have been duly undertaken and performed in relation to the preparation of relevant documents relating to our Flotation Exercise;
 - (ii) the exposure of the loan facilities to the consolidated shareholders' funds of PBB is insignificant;
 - (iii) none of the proceeds raised from the Public Issue are allocated for the repayment of borrowings owing by our Group to PBB; and
 - (iv) PIVB does not receive or derive any financial interest or benefit from the IPO other than the normal advisory and underwriting/placement fees charged.
- (b) Ernst & Young has given the confirmation that there is no existing or potential conflict of interest in their capacity as the Auditor and Reporting Accountant in relation to the IPO.
- (c) Tea, Kelvin Kang & Company (Incorporating Winston Wong Law Chambers) has given the confirmation that there is no existing or potential conflict of interest in their capacity as the solicitor for the IPO.
- (d) D&B Malaysia has given the confirmation that there is no existing or potential conflict of interest in their capacity as the Independent Market Researcher for the IPO.

10. OTHER INFORMATION CONCERNING OUR GROUP

10.1 Land and Buildings

10.1.1 Landed Properties Owned by Our Group

The summary of the information on landed properties owned by our Group as at the LPD are set out below:-

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HHG	Lot 197, Jalan Sungai Putat Batu Berendam 75350 Melaka	PM 707 (previously known as HSM805 and originally held under PM 152 Lot 197) Lot 6756 Mukim Batu Berendam District of Melaka Tengah State of Melaka	Double storey office block with a single storey factory/ head office cum main manufacturing plant	Leasehold for 88 years expiring on 5 September 2054	14 years	11,087/ 2,490	For industrial use only	Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)	7,330,177
								Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)	
								Charged to Public Bank Berhad	
		PM 708 (previously known as HSM 806 and originally held under PM 152) Lot 6757 Mukim Batu Berendam District of Melaka Tengah State of Melaka	Single storey warehouse/ warehouse for storing goods	Leasehold for 88 years expiring on 5 September 2054	14 years	6,895/ 7,845	For commercial building (for storing granite stone) only		
		GM 1031 (previously known as HSM 1350 PT 13140 and originally held under GM 71) Lot 13189 Mukim Batu Berendam District of Melaka Tengah State of Melaka	Double storey warehouse/ warehouse for storing goods	Freehold	3 years	12,811/ 4,706	For commercial building (for storing granite stone) only		

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HHG	Lot 197, Jalan Sungai Putat Batu Berendam 75350 Melaka	GM 650 (previously known as GM 70) Lot 9533 Mukim Batu Berendam District of Melaka Tengah State of Melaka	Vacant land/ stockyard	Freehold	Not applicable	27,187	Nil	Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)	732,960
	50, 50A & 50B Jalan Melaka Raya 20 Taman Melaka Raya 75000 Melaka	PN 15830 (previously known as HSD 25783) Lot 350 (previously known as PT 632) Mukim Kawasan Bandar XL District of Melaka Tengah State of Melaka	Three-storey terrace shophouse/ tenanted to third parties	Leasehold for 99 years expiring on 7 July 2093	15 years	143/ 331	For commercial building only This land shall not be transferred or leased except with the consent of the State Authority	Charged to Public Bank Berhad	281,790
	Lot 7669, Mukim of Tangkak Daerah Muar Johor	Geran 218661 (previously known as Geran 22742) Lot 7669 Mukim Tangkak District of Ledang State of Johor	Quarry land	Freehold	Not applicable	20,234	Nil	Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)	182,450
Lot 7670, Mukim of Tangkak Daerah Muar Johor	Geran 218662 (previously known as Geran 22743) Lot 7670 Mukim Tangkak District of Ledang State of Johor	Quarry land	Freehold	Not applicable	20,259	Nil	Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)		
	Lot 7671, Mukim of Tangkak Daerah Muar Johor	Geran 218666 (previously known as Geran 22744) Lot 7671 Mukim Tangkak District of Ledang State of Johor	Quarry land	Freehold	Not applicable	20,259	Nil	Charged to Southern Bank Berhad (now known as CIMB Bank Berhad)	

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HHG	Lot 45, Rainforest Sanctuary Genting Sempah Bentong Pahang	GM 3983 (previously known as HSM 5263) Lot 19730 Mukim Bentong District of Bentong State of Pahang	Vacant land	Freehold	Not applicable	891	For a unit of residential bungalow house (not exceeding 2 ½ storeys) only	Charged to Public Bank Berhad as security for a loan granted to HHMKL	459,949
	No. 64 & 64A, Taman Dato Raja Md Hanifah Jalan Kasah 70300 Seremban Negeri Sembilan	Geran 110212 (previously known as HSD 114809) Lot 20435 Bandar Seremban District of Seremban State of Negeri Sembilan	Double-storey terrace shophouse/ tenanted to a third party	Freehold	9 years	156/ 312	For commercial building only	Charged to Public Bank Berhad	202,166
	B 5 6 (B 5 F), Blk 'B' Palais Le Renaissance Condominium Jalan Berlian 8 Bukit Kaya 70200 Seremban	Master title no. Geran 77439 (previously held under HSD 89511) Lot 1468 Pekan Bukit Kepayang District of Seremban State of Negeri Sembilan	Condominium/ vacant	Freehold	11 years	93	For residential condominium only	Assigned to Southern Bank Berhad (now known as CIMB Bank Berhad) as security	193,855
	HSD 109736 PT No. 13 Pekan Subang Daerah Petaling Negeri Selangor	HSD 109736 PT 13 Pekan Subang District of Petaling State of Selangor	Building under construction	Leasehold for 60 years expiring on 9 April 2057	Not applicable	8,090	Medium industry This land shall not be transferred, leased or charged except with the consent from the State Authority	Charged to Public Bank Berhad	2,225,631

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HHG	19-2, Jalan 2/1A Taman Kepong Indah 52100 Kuala Lumpur	Master title no. PN 29645 (<i>previously held under HSD 75359</i>) Lot 49691 Mukim Batu District of Kuala Lumpur State of Wilayah Persekutuan Kuala Lumpur	Office lot within a three-storey shop office/ vacant	Leasehold for 99 years expiring on 22 July 2072	11 years	107	For commercial building only This land shall not be transferred, leased or charged except with the consent of the State Authority	Nil	125,425
	Block A-10-05, No. 451 Pangsapuri Mandy Villa Jalan Segambut Segambut Tengah, 51200 Kuala Lumpur	PN 33292 M1-A/ 11/143 Lot 58736 Mukim Batu District of Wilayah Persekutuan Kuala Lumpur State of Wilayah Persekutuan Kuala Lumpur	Apartment/ vacant	Leasehold for 98 years expiring on 23 August 2102	4 years	94	For residential building for medium cost apartments only This land shall not be transferred or leased without the consent of the State Authority	Charged to Public Bank Berhad as security for a loan granted to HHMKL	154,467
	No. 33, Jalan P9G 1/5 Presint 9 Putrajaya 62250 Wilayah Persekutuan Putrajaya	HSD 198 PT 317 Pekan Presint 9 Bandar Putrajaya District of Putrajaya State of Wilayah Persekutuan Putrajaya	Double storey terrace house/ tenanted to a third party	Freehold	9 years	464/ 164	For terrace residential house only	Charged to AmBank (M) Berhad	376,908

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HHG	Unit No. 08 Block H 2 nd Floor Tanning Jaya Balakong 43300 Selangor	Geran 34042/M3/3/152 Lot 19704 Mukim Kajang District of Hulu Langat State of Selangor	Flat/ staff quarters	Freehold	18 years	48	For constructing of buildings in accordance to plans approved by the relevant authorities	Nil	47,575
	Unit SB-08-02, 8 th Floor Kenangan View Apartment Taman Bukit Kenangan 43000 Kajang Selangor	Master title No. Grant No. 53455 Lot 40808 (previously known as Grant No. 24325 Lot 2987 & Grant No. 24326 Lot 2988) Bandar Kajang District of Ulu Langat State of Selangor	Medium cost apartment/ staff quarters	Freehold	8 years	105	For residential building only	Nil	100,167
Perbadanan Kemajuan Negeri, Negeri Sembilan/ HHG [^]	Unit No. 128D/33-2B Block D Seremban 2 70300 Seremban Negeri Sembilan	Geran 75319/ M1-D/3/182 Lot 21776 Mukim Rasah District of Seremban State of Negeri Sembilan	Office lot/ vacant	Freehold	11 years	79	For commercial building only Land shall not be transferred, leased or charged except with the written approval from the State Authority	Nil	68,224

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at 30 September 2009 RM
HEMSR	No. 20, Jalan Plentong 8 Sri Plentong Industrial Park 81750 Masai Johor	Geran 250614 (previously known as HSD 212302) Lot 182721 (previously known as PTD 11402) Mukim Plentong District of Johor Bahru State of Johor	Double storey office block with a single storey factory/ Sales office cum showroom and secondary processing plant with warehouse	Freehold	2 year	3.013/ 944	The land shall be used for a factory for the purposes of medium industry and other related purposes and built according to the plans approved by the local authorities The land shall not be transferred by whatever means until the construction of the factory as stipulated in the express conditions has commenced in accordance with the plans approved by the local authorities	Charged to Public Bank Berhad	2,039,168
	No.10, Jalan Industri Semambu 9/3 Cocopalms Industrial Park 25300 Kuantan Pahang	PN 10110 (previously known as HSD 18738) Lot 50611 Mukim Kuala Kuantan District of Kuantan State of Pahang	Double storey office block with a single storey factory/ Sales office cum showroom and secondary processing plant with warehouse	Leasehold for 66 years expiring on 20 November 2050	6 years	972/ 502	For industrial site only This land shall not be transferred, leased or charged except with the written consent from the YAB Menteri Besar Pahang	Charged to Public Bank Berhad	577,240

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Registered Owner/ Beneficial Owner	Address	Location/ Title	Description of Property/ Existing Use	Tenure	Approximate Age of Building	Approximate Land Area / Built-up Area (square meters)	Restriction of Use/Interest	Encumbrances	Audited NBV as at September 30 2009 RM
PMK	No. 27, Jalan SS 9 Taman Seri Selendang Batu Berendam 75350 Melaka	Geran 30848 (previously known as HSD36672) Lot 9223 (previously known as PT6619) Mukim Batu Berendam District of Melaka Tengah State of Melaka	Double storey terrace house/ vacant	Freehold	11 years	208/ 146	To be used for a residential house only	Charged to Public Bank Berhad	145,236

Note:

^ The purchase consideration for the property has been fully paid. Currently, the transfer of the title of the property from the name of Perbadanan Kemajuan Negeri, Negeri Sembilan to HHG is pending the receipt of the relevant state authority's consent.

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10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)**10.1.2 Properties Leased by Our Group**

The summary of the information on landed properties leased by our Group as at the LPD are set out below:-

Tenant	Title/Address	Landlord	Description of Property/ Existing Use	Tenancy period		Approximate Age of Building (years)	Approximate Land Area / Built-up Area (square meters)	Monthly Rental RM
				Start date	Expiry date			
HHG	PT 13139 Mukim Batu Berendam 75350 Melaka	LBS Realty Sdn Bhd	Double storey bungalow/ staff quarters	01.12.2005	30.11.2010	5	13,702/ 710	4,000
	Lot 1899 Mukim Batu Berendam 75350 Melaka	LBS Realty Sdn Bhd	Vacant land/ stockyard	01.12.2005	30.11.2010	Not applicable	3,938	3,000

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10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

10.2 Material Plant and Equipment

As at the LPD, the details of the material plant and equipment owned and used by our Group are as follows:-

Type of Machine	Description/Purpose	Total Capacity (square meters per annum)	No. of Units	Audited NBV as at 30 September 2009 RM
<u>For block cutting purpose</u>				
Block cutter	The block cutter is used for cutting the granite blocks into slabs with different thickness	4,600	2	76,360
Multi Blade Block cutter	The block cutter is used for cutting the granite blocks into slabs with different thickness	11,900	1	45,414
Granite gangsaw	The granite gangsaw is utilised for cutting the granite blocks into slabs with different thickness	28,500	2	867,756
Wire saw	The wire saw is used for cutting the granite or marble blocks into curvy slabs	#	2	641,901
Marble gangsaw	The marble gangsaw is principally utilised for cutting the marble blocks into slabs with various thickness	80,000	1	755,663
		160,000	2	1,699,149
<u>For surface processing purpose</u>				
Flaming machine	The flaming machine is utilised for processing the special effects on the surface of granite slabs	88,000	1	29,054
Automatic granite strips grinding machine	The automatic granite strips grinding machine is used for grinding the surfaces of the strips	35,000	1	303,775
Automatic granite and marble grinding machine	The automatic granite and marble grinding machine is utilised for polishing the surfaces of granites and marbles	140,000	1	870,147
Automatic marble grinding machine	The automatic marble grinding machine is utilised for polishing the surfaces of marbles strips	164,000	1	434,174
<u>For slab processing purpose</u>				
Bridge cutter	The bridge cutter is used for cutting the granite and marble slabs into desired sizes according to the customer requirements	280,000	8	402,280*
		70,000	2	277,701
Water jet cutter	The water jet cutter is utilised for cutting the slabs into desired shapes and words by using water	#	1	215,793

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

Type of Machine	Description/Purpose	Total Capacity (square meters per annum)	No. of Units	Audited NBV as at 30 September 2009 RM
<i>Other machineries and equipment</i>				
Overhead traveling crane	The overhead traveling crane is used for the loading and unloading of the rough blocks or slabs to the relevant processing area within our production plant	**	11	359,233 [^]
A-Crane	The A-Crane is used for loading and unloading granite and marble blocks from the stockyard into the block cutting machineries in the factory	@	1	93,333

Notes:

* 1 bridge cutter was acquired in December 2009 at a cost of RM149,051.

[^] 2 overhead traveling cranes were acquired in November 2009 at a total cost of RM230,000.

The machine runs at different capacity depending on the thickness of the dimension stones processed.

** The lifting capacities of the overhead traveling cranes ranges from 3 to 5 tonnes.

@ The lifting capacity of the A- crane is 32 tonnes.

Save for the above, all other plant and equipment of our Group are individually immaterial to be disclosed separately. Our Board is of the opinion that our Group has sufficient capacity to carry out our operations.

10.3 Our Quarry

Our quarry is located on three (3) pieces of freehold land measuring approximately 60,752 square meters in the Mukim of Tangkak, District of Muar, Johor. Based on the evaluation report on the reserves of dimension stone deposits in our quarry land that was prepared by Mr Low Keng Lok, a certified geologist of Institut Geologi Malaysia dated 11 June 2005 ("Evaluation Report") and the supplemental letter dated 5 February 2010, the dimension stone deposit located on the said quarry land is classified as granite and is characterised by the white and black banded flowing texture, which has some similar characteristic to Paradiso, a type of dimension stone originated from India. Based on the Evaluation Report, the quarry land is estimated to have a stone deposit of approximately 354,000 cubic meters and by factoring the wastage at 75%, the balance of 25% i.e. approximately 88,500 cubic meters are suitable for commercial purposes. Our Directors believe that this type of granite has commercial potential and good marketability due to its banded structure which is very rare in the market.

**Our Quarry in Tangkak**

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)

We have obtained the approval for extraction of granite stones from the relevant authorities to extract the quarry and some clearing work had been performed on the quarry land. However, we had since early 2006, temporarily stopped all preliminary quarry operations for commercialisation purposes due to the funding required. Our Group proposes to re-commence the operations of our quarry and intends to fund the estimated land clearing costs and costs of machineries of approximately RM2.12 million from the proceeds from the Public Issue. Our Group will engage an experienced quarry operator to commence the quarry operation in Tangkak. Depending on the market demand for our dimension stone blocks extracted, we expect the commercial sales of our dimension stone blocks extracted to contribute to our revenue twelve (12) months after the commencement of our quarry operations. In addition, we estimate that the future operating costs for our quarry will be funded from internally generated funds at the initial stage and thereafter to be self-funded from the cash flows to be generated from the quarry operations.



Our Quarry in Tangkak

10.4 Regulatory Requirement and Environmental Issue

Our Group believes that we are in compliance in respect to all material regulatory requirements (including the land rules or building regulations) and environmental issues which may materially affect our Group's operations and/or utilisation of assets which include the properties owned and leased by our Group. As at the LPD, our Group is not aware of any environmental proceedings or investigations to which it is or might become a party to.

10.5 Capital Expenditure and Divestments

Save as disclosed below and in Section 5.3.1 of this Prospectus, our Group did not incur any other material capital expenditure (including interests in other corporations) for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2009:-

	FYE 31 December 2006 RM'000	FYE 31 December 2007 RM'000	FYE 31 December 2008 RM'000	FPE 30 September 2009 RM'000
Capital Expenditures				
Land and building ⁽¹⁾	3,166	-	288	308
Capital work-in-progress ⁽²⁾	-	1,894	-	856
Plant and machinery ⁽³⁾	419	1,071	2,154	-
Motor vehicles	815	-	-	-
	4,400	2,965	2,442	1,164

10. OTHER INFORMATION CONCERNING OUR GROUP (Cont'd)*Notes:*

- (1) *Being the acquisition of the leasehold land in Pekan Subang, Selangor during the FYE 31 December 2006, the additional extension cost of our factory building at the Melaka headquarter during the FYE 31 December 2007 which was then completed in the FYE 31 December 2008 and the renovation work at secondary processing plant cum warehouse at Johor during the FPE 30 September 2009.*
- (2) *For the FYE 31 December 2007, the work in progress was in respect of the construction of a secondary processing plant cum warehouse in Johor and the extension work at our headquarter in Melaka which were both completed in 2008. The work in progress during the FPE 30 September 2009 was pertaining to the cost for the construction of our secondary processing plant cum warehouse at Subang, Selangor.*
- (3) *Mainly consists of acquisition of new machineries such as gangsaws, bridge cutters and grinding machines to improve on our production capacity.*

Our Group has not had any material divestitures (including interests in other corporations) for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2009.

10.6 Material Plans to Construct, Expand or Improve Facilities

As at the LPD, our Group has no immediate plans to construct, expand or improve our facilities, save for the following:-

- (i) a secondary processing plant cum warehouse in Subang, Selangor is currently under construction as disclosed in Section 3.9 of this Prospectus, for an estimated total investment cost of approximately RM5.69 million; and
- (ii) commence operations of our quarry in Tangkak as disclosed in Section 10.3 of this Prospectus for an estimated total investment cost of approximately RM2.12 million.

We plan to finance the construction of the secondary processing plant cum warehouse in Subang and the commencement of the quarry operation in Tangkak via the proceeds from the Public Issue, bank borrowings and internally generated funds. As at the LPD, we have incurred approximately RM1.87 million for the purpose of constructing the secondary processing plant cum warehouse and approximately RM0.38 million as the preliminary expenditure for the quarry.

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11. FINANCIAL INFORMATION

11.1 Historical Financial Information

11.1.1 Proforma Consolidated Income Statement

The following table sets out our proforma consolidated income statements for the past three (3) FYEs 31 December 2008 and the nine (9) months FPEs 30 September 2008 and 30 September 2009, which have been prepared based on the assumption that the current structure of our Group had been in existence throughout the financial years/periods under review. The proforma consolidated income statements are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on the proforma consolidated financial information set out in Section 11.7 of this Prospectus.

	FYE 31 December			FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 ⁽¹⁾ RM'000	2009 RM'000
Revenue	30,213	35,573	49,557	38,146	26,411
Cost of sales	(20,284)	(22,775)	(35,760)	(28,313)	(17,132)
Gross profit	9,929	12,798	13,797	9,833	9,279
Other income	170	105	185	57	221
General, administrative and selling expenses	(3,601)	(4,809)	(5,419)	(3,752)	(3,676)
Operating profit	6,498	8,094	8,563	6,138	5,824
Finance costs	(658)	(888)	(987)	(724)	(639)
PBT	5,840	7,206	7,576	5,414	5,185
Income tax expenses	(1,406)	(1,639)	(1,834)	(1,044)	(1,238)
Profit for the year/period	4,434	5,567	5,742	4,370	3,947
Attributable to:					
- Equity holders of the Company	4,441	5,569	5,754	4,372	3,962
- MI	(7)	(2)	(12)	(2)	(15)
	4,434	5,567	5,742	4,370	3,947
Number of Shares assumed in issue ('000) ⁽²⁾	64,658	64,658	64,658	64,658	64,658
Gross EPS (sen) ⁽³⁾	9.03	11.14	11.72	8.37	8.02
Net EPS (sen) ⁽⁴⁾	6.87	8.61	8.90	6.76	6.13
EBIDTA	7,854	9,800	10,533	7,650	7,393
GP margin (%)	32.86	35.98	27.84	25.78	35.13
PBT margin (%)	19.33	20.26	15.29	14.19	19.63
Net profit margin (%) ⁽⁵⁾	14.70	15.66	11.61	11.46	15.00

11. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) Based on unaudited management accounts for the nine (9) months FPE 30 September 2008.
- (2) The number of Shares assumed to be in issue is based on our issued and paid-up share capital after the Acquisitions but before the IPO.
- (3) Computed based on PBT of the Company for the respective financial years/periods divided by the number of Shares assumed in issue.
- (4) Computed based on profit attributable to equity holders of the Company for the financial years/periods divided by the number of Shares assumed in issue.
- (5) Computed based on profit attributable to equity holders of the Company divided by revenue for the respective financial years/periods.

There were no exceptional or extraordinary items for the financial years/period under review.

The auditors' reports for our subsidiary companies for the financial years under review were reported without any audit qualification.

11.1.2 Proforma Consolidated Balance Sheets

The following is our proforma consolidated balance sheets which have been prepared for illustrative purposes only to show the effects on our balance sheets had the Public Issue, Offer for Sale, Share Transfer and the utilisation of the proceeds from the Public Issue been completed on 30 September 2009. The proforma consolidated balance sheets below should be read in conjunction with the accompanying notes included in the Reporting Accountants' Letter on the proforma consolidated financial information set out in Section 11.7 of this Prospectus.

	Balance Sheet of Hock Heng RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	-	21,977	21,977	23,625
Prepaid land lease payments	-	2,675	2,675	2,675
Investment properties	-	2,011	2,011	2,011
Exploration, evaluation and development expenditure	-	379	379	1,639
	-	27,042	27,042	29,950
CURRENT ASSETS				
Inventories	-	16,981	16,981	16,981
Trade receivables	-	16,498	16,498	16,498
Other receivables	-	3,403	3,403	3,403
Tax recoverable	-	172	172	172
Cash and bank balances	1	1,215	9,653	5,215
	1	38,269	46,707	42,269
TOTAL ASSETS	1	65,311	73,749	72,219

11. FINANCIAL INFORMATION (Cont'd)

	Balance Sheet of Hock Heng RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Share capital	1	32,329	40,000	40,000
Share premium	-	-	767	-
(Accumulated loss)/ Retained earnings	(4)	6,322	6,322	5,559
Shareholders' equity	(3)	38,651	47,089	45,559
Minority interest	-	36	36	36
Total Equity	(3)	38,687	47,125	45,595
NON-CURRENT LIABILITIES				
Long term borrowings	-	6,142	6,142	6,142
Deferred tax liabilities	-	1,530	1,530	1,530
	-	7,672	7,672	7,672
CURRENT LIABILITIES				
Short term borrowings	-	12,752	12,752	12,752
Trade payables	-	3,475	3,475	3,475
Other payables	4	2,301	2,301	2,301
Tax payables	-	424	424	424
	4	18,952	18,952	18,952
TOTAL LIABILITIES	4	26,624	26,624	26,624
TOTAL EQUITY AND LIABILITIES	1	65,311	73,749	72,219
Number of Shares ('000)	2	64,658	80,000	80,000
(Net liabilities)/NA (RM'000)	(3)	38,651	47,089	45,559
(Net liabilities) per share/NA per share (RM)	(1.50)	0.60	0.59	0.57

Notes:

Proforma I : After the Acquisitions and after adjusting for the payment of an interim tax exempt dividend amounting to RM450,000 by HHG that was declared subsequent to 30 September 2009 but before the implementation of the Acquisition of HHG.

Proforma II : After Proforma I, the IPO and the Share Transfer.

Proforma III : After Proforma I, Proforma II and the utilisation of proceeds from the Public Issue.

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11. FINANCIAL INFORMATION (Cont'd)

11.1.3 Proforma Consolidated Cash Flow Statement

The following is our proforma Group cash flow statement for the FPE 30 September 2009 which have been prepared on the assumption that the current structure of our Group had been in existence throughout the financial year under review and the Public Issue, Offer for Sale, Share Transfer and the utilisation of proceeds from the Public Issue had been completed on 30 September 2009. The proforma consolidated cash flow statement is prepared for illustrative purposes only and should be read in conjunction with the Reporting Accountant's Letter on the proforma consolidated financial information set out in Section 11.7 of this Prospectus.

	FPE 30 September 2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	5,185
Adjustments for:	
Amortisation of prepaid land lease payments	44
Depreciation:	
- Property, plant and equipment	1,496
- Investment properties	29
Loss on disposal of property, plant and equipment	(1)
Property, plant and equipment written off	2
Gain on disposal of subsidiaries	160
Interest expenses	639
Operating profit before working capital changes	7,234
Increase in inventories	(3,012)
Decrease in receivables	382
Decrease in payables	(595)
Cash generated from operations	4,009
Interest paid	(639)
Income tax paid	(1,519)
Income tax refund	3
Net cash from operating activities	1,854
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(2,984)
Purchase of prepaid land lease payment	(11)
Proceeds from disposal of property, plant and equipment	8
Addition of exploration, evaluation and development expenditure	(1,260)
Net cash used in investing activities	(4,247)

11. FINANCIAL INFORMATION (*Cont'd*)

	FPE 30 September 2009 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of term loans	(609)
Repayment of hire purchase	(180)
Increase in short term borrowings	234
Proceeds from issuance of ordinary shares	1
Proceeds from the Public Issue	8,438
Dividends paid#	(642)
Payment of estimated listing expenses	(1,530)
Net cash from financing activities	5,712
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,319
Cash and cash equivalents at beginning of period	(819)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,500
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER 2009 COMPRISE:	RM'000
Cash on hand and at bank	4,046
Deposits with licensed banks*	1,169
	5,215
Less: Bank overdrafts	(2,715)
	2,500

Notes:

- * *The deposits with licensed banks are pledged to banks as securities for credit facilities granted to our Group.*
- # *Adjusted for the payment of an interim tax exempt dividend amounting to RM450,000 that has been declared by HHG subsequent to the 30 September 2009 but before the implementation of the Acquisition of HHG.*

11.2 Capitalisation and Indebtedness

The following table shows the proforma consolidated capitalisation and indebtedness of our Group:-

- (i) as at 30 September 2009 based on our proforma consolidated financial information after the Acquisitions;
- (ii) as adjusted for the net proceeds arising from the issue of the 15,342,000 Public Issue Shares pursuant to the Public Issue set out in Section 3.9 of this Prospectus.

11. FINANCIAL INFORMATION (Cont'd)

	Proforma as at 30 September 2009 after the Acquisitions# RM'000	After the IPO and utilisation of proceeds RM'000
Cash and bank balances	1,215*	5,215*
Short term debts:		
Secured and guaranteed:		
- Bankers' acceptance, trust receipts and bank overdrafts	11,791	11,791
- Hire purchase payables	211	211
- Term loans	750	750
Long term debts:		
Secured and guaranteed:		
- Hire purchase payables	446	446
- Term loans	5,696	5,696
Total debts	18,894	18,894
Total shareholders' equity	38,651	45,559
Total capitalisation and indebtedness	57,545	64,453

Notes:

* Included the deposits with licensed banks of RM1.169 million pledged to banks as securities for credit facilities granted to our Group.

After the Acquisitions and after adjusting for the payment of an interim tax exempt dividend amounting to RM450,000 that has been declared by HHG subsequent to the 30 September 2009 but before the implementation of the Acquisition of HHG.

The indirect and contingent liabilities of our Group are as set out in Section 11.4.8 of this Prospectus.

As at 30 September 2009, based on our proforma consolidated balance sheet after the Acquisitions, the cash and bank balances held by our Group amounted to approximately RM1.22 million. After the IPO and the utilisation of proceeds from the Public Issue, the cash and bank balances will increase to approximately RM5.22 million, contributed mainly by the balance of the net proceeds from the Public Issue allocated for working capital purposes amounting to approximately RM4.00 million. As the proceeds from the Public Issue have not been allocated for the repayment of borrowings, the total indebtedness for both short and long term debts remain the same before and after the Public Issue.

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11. FINANCIAL INFORMATION (Cont'd)

11.3 Management's Discussion and Analysis of the Financial Condition and Results of Operations

The following discussion and analysis by our Board and management should be read in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and Accountant's Report set out in Section 11.7 and Section 12 of this Prospectus, respectively, and related notes for the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2008 and 30 September 2009.

This management's discussion and analysis contains data derived from our audited financial statements, which may not be reflective of future results, and forward-looking statements that involve risks and uncertainties. Factors that may cause future results to differ significantly from those included in forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 4 of this Prospectus.

11.3.1 Overview

Our Group is principally involved in the manufacturing, selling, distribution and trading of dimension stones and related products. Please refer to Section 5 of this Prospectus for details on our Group.

Revenue

Our revenue is mainly generated from the sales of dimension stones and related products, mainly granite and marbles, in the domestic market. We also provide installation services for the dimension stone products purchased by our customers. In addition, our revenue also include projects secured for the supply and installation of dimension stone products in the domestic market.

For the purpose of segmental analysis of our revenue as set out in Section 11.3.2 (iii) of this Prospectus, we have broadly categorised our revenue into the following:-

(a) Sales of goods

Revenue generated from sales of goods is in respect of the sales of dimension stones and related products, mainly granite and marbles. With effect from the FYE 31 December 2007, it also includes revenue derived from the supply and installation of dimension stone products, the value of which is below RM500,000 and is normally completed within three (3) to six (6) months period.

(b) Contract revenue

Contract revenue is derived from the supply and installation of dimension stone and related products for the projects secured. With effect from the FYE 31 December 2007, contract revenue would only include those projects secured with the value exceeds RM500,000 and is normally completed over a period of more than six (6) months. Contract revenue is recognised based on the percentage of completion method where the percentage of completion is measured by reference to the proportion of contract costs incurred for work performed to-date to the estimated contract costs.

11. FINANCIAL INFORMATION (Cont'd)

Analysis of our Group's revenue for the past three (3) FYEs 31 December 2008 and the FPEs 30 September 2008 and 30 September 2009 are set out in Section 11.3.2 of this Prospectus.

The main factors that may affect our revenue recognised over a given period include, amongst others, the demand for dimension stone products which are mainly linked to the performance of the property market and construction sector, as well as the market trends and consumers' preference, the selling price of our products, our Group's ability to continue to secure new projects, generate additional sales of dimension stone products and expand our customer base as well as the percentage of completion for projects on hand.

Cost of sales

Our cost of sales mainly comprise the following:-

- (a) cost of purchases of raw and semi-processed materials such as dimension stone blocks and slabs are the most significant part of our cost of sales. These material costs that are charged to the accounts include the carriage inwards and are mainly dependent on its purchase price and optimum use of raw materials. Efficient production process will result in low wastage and scrap leading to optimum use of raw/semi-processed materials;
- (b) sub-contract wages represent the cost of outsourcing of the installation work of our dimension stone products for our customers, which are generally negotiated on a case by case basis depending on the urgency and the nature of the work done;
- (c) direct labour costs mainly consist of salaries, wages, bonuses, statutory contribution to employees or factory workers that are directly involved in our production and manufacturing activities. These costs are mainly driven by the labour market conditions, government policies on foreign labour and the labour-hours required; and
- (d) factory overheads such as depreciation of factory building, plant and machinery, electricity charges and upkeep and maintenance costs of factory building, plant and machinery and factory tools and hardware. Generally, an increase in the scale of production will lead to an increase in total factory overhead (save for those fixed in nature such as depreciation of factory building).

Other Income

Our other income mainly consists of interest income and rental income which is derived from our investment properties.

General, Administrative and Selling Expenses

Our general, administrative and selling expenses mainly comprise the depreciation charges, commission expenses, directors' remuneration, staff costs including salaries, bonuses, statutory contribution, allowances and overtime, rental expenses and other operating expenses such as audit fees, professional fees, insurance and traveling expenses.

11. FINANCIAL INFORMATION (Cont'd)

Hence, our general, administrative and selling expenses are mainly affected by the level of operation, staff strength, prevailing wage rates, rental rates, commission rates and our ability to manage our business operations and control our operating costs.

Finance Costs

Finance costs are mainly interest charged for bank borrowings, which consist of bank overdrafts, bankers' acceptances, trust receipts, term loans and hire purchases utilised by our Group.

Income Tax Expenses

Income tax expenses comprise the current year provision for taxation, under or overprovision of taxation in previous year and deferred taxation. For the past three (3) FYEs 31 December 2008 and nine (9) months FPE 30 September 2009, our Group were subject to Malaysian statutory tax rates of 28% on our assessable profits for the FYE 31 December 2006, 27% for the FYE 31 December 2007, 26% for the FYE 31 December 2008 and 25% for the FPE 30 September 2009, respectively.

Our effective tax rates for the FYE 31 December 2006, FYE 31 December 2007, FYE 31 December 2008 and the (9) months FPE 30 September 2009 were 24.08%, 22.74%, 24.21% and 23.88%, respectively. Our effective tax rates were lower than the statutory tax rates mainly due to the utilisation of reinvestment allowances under the Income Tax Act, 1967 by HHG whilst the first RM500,000 chargeable income for HHMKL, HHMSR and PMK is subject to the tax rate of 20%.

11.3.2 Segmental Analysis of Our Group's Historical Financial Performance

Analysis of Revenue:

(i) Company

Our revenue by companies for the past three (3) FYEs 31 December 2008 and the nine (9) months FPEs 30 September 2008 and 2009 is as follows:-

Company	< ----- FYE 31 December ----- >			Nine (9) months FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
HHG	18,056	22,506	35,482	24,290	21,071
HHMKL	13,313	17,449	30,025	24,078	11,714
HHMSR	8,760	9,288	9,607	7,185	6,028
HHSEC	12	773	992	701	654
PMK	5,886	7,409	9,205	6,540	8,075
	46,027	57,425	85,311	62,794	47,542
Less: Consolidation adjustment	(15,814)	(21,852)	(35,754)	(24,648)	(21,131)
Total	30,213	35,573	49,557	38,146	26,411

11. FINANCIAL INFORMATION (Cont'd)

(ii) Products

Our revenue by products for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2008 and 2009 is as follows:-

Products	< ----- FYE 31 December ----- >			Nine (9) months FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
Granite	23,005	24,336	28,623	24,159	13,565
Marbles	5,631	8,621	18,197	11,496	11,632
Others	1,777	2,834	3,470	2,985	1,375
	30,413	35,791	50,290	38,640	26,572
Less: Discounts and returns	(200)	(218)	(733)	(494)	(161)
Total	30,213	35,573	49,557	38,146	26,411

(iii) Activity

Our revenue by business activities for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2008 and 2009 is as follows:-

Activity	< ----- FYE 31 December ----- >			Nine (9) months FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
Sales of goods	21,557	25,373	31,931	21,863	23,298
Contract revenue	8,856	10,418	18,359	16,777	3,274
	30,413	35,791	50,290	38,640	26,572
Less: Discounts and returns	(200)	(218)	(733)	(494)	(161)
Total	30,213	35,573	49,557	38,146	26,411

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11. FINANCIAL INFORMATION (Cont'd)

(iv) Location

Our revenue by geographical markets for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2008 and 2009 is as follows:-

Geographical Markets	< ----- FYE 31 December ----- >			Nine (9) months FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
Local sales	30,329	35,660	50,005	38,399	26,223
Export sales	84	131	285	241	349
	30,413	35,791	50,290	38,640	26,572
Less: Discounts and returns	(200)	(218)	(733)	(494)	(161)
Total	30,213	35,573	49,557	38,146	26,411

Analysis of profit for the year:

The analysis of profit for the year by companies for the past the three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2008 and 2009 is as follows:-

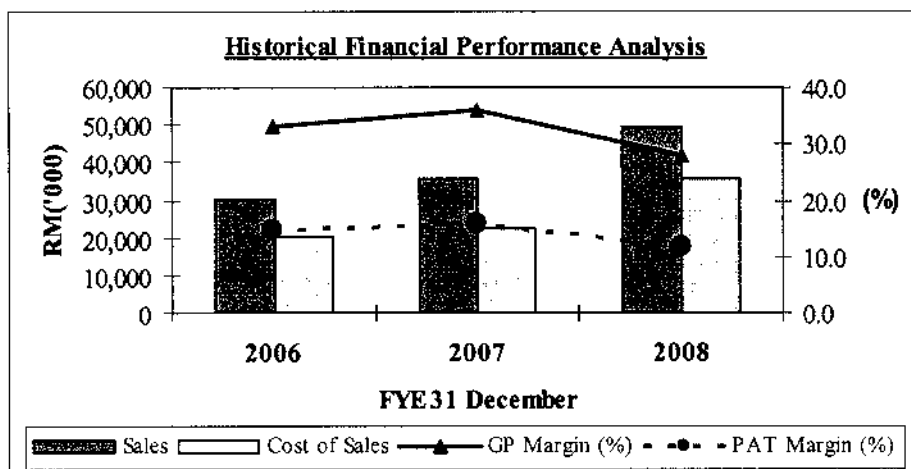
Company	< ----- FYE 31 December ----- >			Nine (9) months FPE 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
Hock Heng	-	-	-	-	(4)
HHG	3,400	3,632	3,303	2,517	2,569
HHMKL	244	1,124	1,408	1,136	632
HHMSR	564	421	276	355	199
HHSEC	(35)	(12)	(94)	(50)	(113)
PMK	261	402	849	412	664
Total	4,434	5,567	5,742	4,370	3,947

11.3.3 Commentary on Our Group's Historical Financial Performance

The financial analysis and commentaries in respect of our Group's financial performance for the past three (3) FYE 31 December 2008 and the nine (9) months FPE 30 September 2009 are presented for illustration purposes only and on the assumption that our Group had been in existence throughout the financial years/period under review.

11. FINANCIAL INFORMATION (Cont'd)

The historical financial performance analysis for the past three (3) FYEs 31 December 2008 is as follows:-



Review for the FYE 31 December 2006

Our Group's revenue for the FYE 31 December 2006 increased marginally by approximately RM1.09 million or 3.74% as compared to the FYE 31 December 2005 was mainly due to higher revenue derived from the sales of goods but was however partly offset by the lower contract revenue recognised during the financial year. Some of the major projects completed during the FYE 31 December 2006 were the Ministry of Finance 2's (Parcel 2M10 & 2M11) building in Putrajaya and the Customs, Immigration and Quarantine Complex in Johor which had contributed approximately RM4.05 million to our Group's revenue. During the FYE 31 December 2006, our Group had secured several new projects for the supply and installation of dimension stone products such as the Kuala Lumpur Sentral Lot N and Sutramas Condominium where revenue of approximately RM1.95 million and RM1.00 million, respectively had been recognised for the FYE 31 December 2006.

The GP margin of our Group for the FYE 31 December 2006 was fairly consistent to the GP margin recorded in FYE 31 December 2005.

Our Group's PBT for the FYE 31 December 2006 decreased by approximately 3.34% as compared to the FYE 31 December 2005 largely due to the increase in operating expenses arising from the additional staff recruited as well as higher finance costs incurred for the increased utilisation of banking facilities in line with our increased level of business operations.

The effective tax rate was 24.08% for FYE 31 December 2006, which was lower than the statutory tax rate of 28% due to the utilisation of reinvestment allowances under the Income Tax Act, 1967 and a lower tax rate of 20% was applied on the first chargeable income of RM500,000 for certain of our subsidiaries.

11. FINANCIAL INFORMATION (Cont'd)

Review for the FYE 31 December 2007

Our Group's revenue for the FYE 31 December 2007 increased from RM30.21 million to RM35.57 million, represented an increase of RM5.36 million or 17.74% as compared to the FYE 31 December 2006. This was mainly due to the increase in sales of goods by approximately RM3.82 million and higher contract revenue recognised by approximately RM1.56 million as compared to the FYE 31 December 2006 as our Group managed to secure several large scale projects during the FYE 31 December 2007 for the supply and installation of dimension stone products such as the JB Sentral Customs, Immigration and Quarantine Complex Package 09, UEM 26-storey Headquarter, Suasana Sentral Two KL Condominium and Suria Stonor Condominium which contributed approximately RM7.82 million to the total revenue of our Group for the FYE 31 December 2007.

The GP margin of our Group for the FYE 31 December 2007 was 35.98%, represented an increase of 3.12% as compared to the preceding financial year. This was largely due to several of our projects had contributed higher profit margin during the financial year.

Our Group's PBT for the FYE 31 December 2007 increased by approximately 23.39% as compared to the FYE 31 December 2006 mainly due to higher sales with improved GP margin but was partly offset by the increase in operating and administrative expenses such as staff costs, directors' fees, commission expenses and finance costs.

The effective tax rate of our Group was 22.74% for the FYE 31 December 2007, which was lower than the statutory tax rate of 27% mainly due to utilisation of reinvestment allowances under the Income Tax Act, 1967 and a lower tax rate of 20% was applied on the first chargeable income of RM500,000 for certain of our subsidiaries.

Review for the FYE 31 December 2008

Our Group recorded revenue of RM49.56 million in the FYE 31 December 2008, represented an increase of RM13.99 million or 39.31% as compared to the the preceding year. The improvement in our Group's revenue was mainly attributable to the increase in sales of goods by RM6.56 million and higher contract revenue contribution from projects such as the Suria Stonor Condominium, JB Sentral Customs, Immigration and Quarantine Complex Package 09, Solaris Dutamas, UEM 26-storey Headquarter and Alam Warisan which contributed approximately RM16.32 million to the total revenue.

Despite the revenue growth, our Group's GP margin decreased from 35.98% for the FYE 31 December 2007 to 27.84% for the FYE 31 December 2008. This was mainly due to the lower margin for a residential project and the competitive pricing given for sales of goods to a customer for bulk purchase of dimension stone products as well as the increase in the overall cost of sales such as the carriage inward charges and electricity bills arising from the inflationary pressure globally.

11. FINANCIAL INFORMATION (Cont'd)

Our Group's PBT for the FYE 31 December 2008 increased by approximately 5.13% as compared to the FYE 31 December 2007. The increase was largely due to the improvement in revenue but was partially offset by the lower GP margin and the increase in operating and administrative expenses during the FYE 31 December 2008 which was in line with the increased level of business operations.

The effective tax rate of our Group was 24.21% for the FYE 31 December 2008, which was lower than the statutory tax rate of 26% was mainly due to the utilisation of reinvestment allowances under the Income Tax Act, 1967 and a lower tax rate of 20% was applied on the first chargeable income of RM500,000 for certain of our subsidiaries.

Review for the FPE 30 September 2009

Our Group's revenue for the FPE 30 September 2009 decreased from RM38.15 million to RM26.41 million, represented a decrease of approximately RM11.74 million or 30.77% as compared to the FPE 30 September 2008. The decrease in revenue was mainly due to the decrease in contract revenue as majority of the projects were completed in the preceding year and that most of the newly secured projects only commence work in the fourth quarter of the FYE 31 December 2009. Nevertheless, there was a slight increase in the sales of goods segment.

Despite a drop in our revenue, our GP margin was higher at 35.13% in the FPE 30 September 2009 as compared to 25.78% in the FPE 30 September 2008. The higher GP margin recorded was mainly due to the contribution from the sales of goods with relatively higher gross margin.

Our Group's PBT for the FPE 30 September 2009 only decreased by approximately 4.23% as compared to the FPE 30 September 2008 due principally to the decrease in revenue which the magnitude was partly offset with the better gross profit recorded.

The effective tax rate of our Group was 23.88% for the FPE 30 September 2009, which was lower than the statutory tax rate of 25%. This was mainly due to the utilisation of reinvestment allowances under the Income Tax Act, 1967 and a lower tax rate of 20% was applied on the first chargeable income of RM500,000 for certain of our subsidiaries.

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11. FINANCIAL INFORMATION (Cont'd)

11.3.4 Factors Affecting Financial Conditions and Results of Operations

The primary factors which have affected, and are expected to continue affecting our future financial performance, position and operations include but are not limited to the following:-

(i) Growth of the Property Market and Construction Sector and the General Economic Condition

The sales volumes of our products are mainly driven by the demand for dimension stones as building materials to fuel the needs of the property market and construction sector.

However, our Group is confident that our businesses may not be severely affected by a slowdown in the domestic construction sector and property market as dimension stone products are generally used in medium and high cost residential and commercial properties and that the diversity and broad customer base of our Group are able to cushion some impact from the lower demand of certain end-user group. In general, purchasers of medium and high cost properties are less adverse to economic slowdown. Although the primary property market may experience some contractions during economic slowdowns, activities in the secondary property market may still be active as property owners may possibly undertake renovations and restorations. As for government projects, when pump-priming measures are instituted during periods of economic slowdown, then additional projects that utilise dimension stones may be in the pipeline.

Further, in view that our Group plans to expand our market presence in China, Singapore, Indonesia and Vietnam, we will be subject to the changes in economic and political conditions in these countries which could adversely affect our financial position. In order to limit our risk associated with the expansion of the business, our Group will conduct or engage professionals to conduct detailed analysis of potential new markets prior to making any concrete decisions on expansion of our business in these target markets.

(ii) Prices of our Products

Although inherent characteristic of dimension stone makes it unique and not directly comparable, we are however subject to the pricing of competing products by our competitors which may affect the pricing of our products.

Our Directors consider our ability to source for the required quality raw material at competitive prices and continued improvement of our production process that allows greater production efficiency (without compromising on our products quality) to be keys to our ability to lower our cost of sales, which in turn allows us to price our products competitively.

Further, our continued use of sophisticated machinery and equipment in our manufacturing process allows completion of complex tasks economically and accurately which will enable us to compete effectively in the dimension stone products market.

11. FINANCIAL INFORMATION (Cont'd)

Going forward, we intend to integrate backwards into the quarrying of dimension stones, to expand further up the value chain. Hence, this will provide our Group with a form of control in the supply chain and enjoy greater price competitiveness which at the same time will expose our Group to the inherent risk in such business operation.

(iii) Customer Requirements and Maintaining our Reputation

Generally, our customers require us to supply them with quality products at competitive prices, with deliveries and/or installation done on a timely manner. Hence, should we be unable to satisfy these requirements or any adverse changes to our reputation may adversely affect our ability to secure new projects and sales, thus affecting our financial performance. Nevertheless, our Group will ensure that we continue to provide high quality products at competitive prices to our customers and we will closely monitor the progress of our work to ensure any setback is rectified in a timely manner.

Given the signs of gradual recovery of the global economy and Malaysian economy as set out in Section 6 of this Prospectus, our Board is confident that our Group will be able to sustain itself during this economic recovery period based on our Group's competitive strength and financial stability. Nevertheless, any slowdown in collection of debts or bad debts may adversely affect our Group's liquidity in view of the current economic conditions. Thus, we may be required to seek external financing to fund our working capital or capital expenditure to support the growth of our business which may result in the increase in borrowings and finance costs.

Please refer to Section 4 of this Prospectus for the detailed discussion of the risks and uncertainties that may affect our business.

11.3.5 Impact of Foreign Exchange/Interest Rates/Commodity Prices on Operating Profits**Foreign Exchange**

Our Group has business transactions in foreign currencies in the ordinary course of business which involve the purchases from foreign suppliers, in particular, for raw materials and semi-processed slabs. For the FPE 30 September 2009, approximately 17.6% of our Group's total purchases are denominated in foreign currencies. Hence, our Group is subject to minimal risk of fluctuation in foreign exchange rates. In addition, there is no material impact of fluctuations of foreign exchange rates on our historical profits for the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

11. FINANCIAL INFORMATION (*Cont'd*)

Interest rates

As at 30 September 2009, our Group's total outstanding borrowings of RM18.89 million are all interest-bearings. Hence, any fluctuation in interest rates will affect our Group's profitability and our Group is subject to financial risk which is discussed and set out in Section 4.1(xi) of this Prospectus. However, there is no material impact of the fluctuations of interest rates on our historical profits for the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

Commodity prices

Our Group's raw materials are mainly unprocessed dimension stones blocks where their supplies are widely available. In addition, fluctuations in the price of the raw materials can be passed in full/part to our non-project customers. As such, our Group's historical profits had not been materially affected by any fluctuation in commodity price in the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

11.3.6 Impact of Inflation

There was no material impact of inflation on our historical profits for the past two (2) FYEs 31 December 2007 and the nine (9) months FPE 30 September 2009. Nevertheless, our Group's financial results for the FYE 31 December 2008 was exposed to the impact of the increase in inflation rate which have resulted in the general upward movement of costs which was affecting the local and global economy.

11.3.7 Government/Economic/Fiscal/Monetary Policies

Risks relating to the government, economic, fiscal, monetary policies or any other factors which may materially affect our operations, are set out in Section 4.3 of this Prospectus.

There is no government, economic, fiscal or monetary policies or factors that have a material impact on our historical profits for the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009.

11.4 Liquidity and Capital Resources

11.4.1 Working Capital

Our Group has been financing our growth and operations through a combination of shareholders' equity, cash generated from operating activities and bank borrowings. We also have credit terms granted by our suppliers.

As at 30 September 2009, our Group has fixed deposits, cash and bank balances of approximately RM1.22 million. In addition, we have total unutilised banking facilities (comprising bank overdrafts, bankers' acceptance, trust receipts, letter of credit, foreign exchange bills, shipping guarantee and bank guarantee) of approximately RM1.35 million.

11. FINANCIAL INFORMATION (Cont'd)

Our Directors are of the opinion that after taking into consideration our fixed deposits, cash and bank balances position, banking facilities currently available to us, cash flow from operating activities and net proceeds to be received from the Public Issue, we will have adequate working capital to meet our present or foreseeable requirements for a period of twelve (12) months from the date of this Prospectus.

11.4.2 Proforma Cash Flow Summary

The following is a summary of our proforma Group cash flow statement for the FPE 30 September 2009 which have been prepared on the assumption that the current structure of our Group had been in existence throughout the financial year under review and the Public Issue, Offer for Sale, Share Transfer and the utilisation of proceeds from the Public Issue had been completed on 30 September 2009. The summary proforma consolidated cash flow statement is prepared for illustrative purposes only and should be read in conjunction with the Reporting Accountant's Letter on the proforma consolidated financial information set out in Section 11.7 of this Prospectus.

FPE 30 September 2009	RM'000
Net cash from operating activities	1,854
Net cash used in investing activities	(4,247)
Net cash from financing activities	5,712
Net increase in cash and cash equivalents	3,319
Cash and cash equivalents at beginning of period	(819)
Cash and cash equivalents at end of the period ⁽¹⁾	2,500

Note:

(1) Components of cash and cash equivalents as at 30 September 2009:-

	RM'000
Cash on hand and at bank	4,046
Deposits with licensed banks*	1,169
	<u>5,215</u>
Less: Bank overdrafts	(2,715)
Total cash and cash equivalents	<u>2,500</u>

Note:

* The deposits with licensed banks are pledged to banks as securities for credit facilities granted to our Group.

Brief commentaries on our Group's proforma consolidated cash flow statement for the FPE 30 September 2009 are set out below:-

Net cash from operating activities

During the FPE 30 September 2009, our Group generated net cash from operating activities of approximately RM1.85 million which was attributed to the operating profit before working capital changes of approximately RM7.23 million (after adjusting for non-cash items and net interest income of approximately RM2.05 million) and the net cash outflow for working capital of approximately RM3.23 million as well as the net payment for income tax and interest of approximately RM1.52 million and RM0.64 million, respectively.

11. FINANCIAL INFORMATION (*Cont'd*)

Net cash used in investing activities

During the FPE 30 September 2009, the net cash used in investment activities was mainly due to the purchases of property, plant and equipment amounting to approximately RM1.34 million. For proforma purposes, our Group's actual cashflow used in investing activities has been adjusted to take into account the following which arises from the utilisation of proceeds:-

- (a) RM0.79 million used for setting up a new secondary processing plant in Subang, Selangor, comprising costs of constructing the factory building and purchases of plant and equipment;
- (b) RM0.86 million used for purchases of machineries for the commencement of quarry operations; and
- (c) RM1.26 million incurred as expenditure for the development of the quarry,

the details of which are set out in Section 3.9 of this Prospectus.

Had our IPO been completed on 30 September 2009, our net cash used in investing activities would have been approximately RM4.25 million.

Net cash used in financing activities

In financing our operations and for the purchases of assets, our Group has drawn down approximately RM0.23 million credit facilities comprising banker acceptances and trust receipts. During the FPE 30 September 2009, our Group had also repaid bank borrowings and hire purchase totalling RM0.79 million. In addition, a net dividend of approximately RM0.19 million was paid in respect of the FYE 31 December 2008 to the shareholders of HHG and RM0.01 million proceeds was received for the subscription of new shares issued by Hock Heng.

For proforma purposes, our Group's actual cashflow used in financing activities has been adjusted to take into account the following:-

- (a) gross proceeds arising from the Public Issue of approximately RM8.44 million of which approximately RM1.53 million is paid for the listing expenses; and
- (b) payment of the interim tax exempt dividend amounting to RM0.45 million that has been declared by HHG subsequent to the 30 September 2009 but before the implementation of the Acquisition of HHG.

Had our IPO been completed on 30 September 2009, our net cash generated from financing activities would have been RM5.71 million.

11.4.3 Borrowings

As at 30 September 2009, the total outstanding borrowings, all of which are interest bearing, amounted to approximately RM18.89 million. Our Group has no foreign currency borrowings.

11. FINANCIAL INFORMATION (Cont'd)

Details of the outstanding bank borrowings as at 30 September 2009 are as follows:-

Types of borrowings	Payable within one (1) year RM'000	Payable after one (1) year RM'000	Total RM'000
Bank overdrafts	2,715	-	2,715
Bankers' acceptance	9,042	-	9,042
Trust receipts	34	-	34
Term loans	750	5,696	6,446
Hire purchase payables	211	446	657
	12,752	6,142	18,894
Gearing ratio as at 30 September 2009 ⁽¹⁾			0.49
Gearing ratio after IPO ⁽²⁾			0.41

Notes:

- (1) Based on audited proforma consolidated shareholders' funds of Hock Heng of RM38.65 million as at 30 September 2009 (assuming the Acquisitions were completed on 30 September 2009 and adjusted for the payment interim tax exempt dividend that has been declared by HHG subsequent to 30 September 2009).
- (2) Based on proforma consolidated shareholders' funds of Hock Heng of RM45.56 million upon completion of the IPO and after the utilisation of proceeds in the manner as set out in Section 3.9 of this Prospectus.

Our Group has not defaulted on any payments of either interest charges and/or principal sums in respect of any of our borrowings throughout the past one (1) financial year and up to the LPD.

11.4.4 Breach of Terms and Conditions or Covenants Associated with a Credit Arrangement or Bank Loan, if any

As at the LPD, our Group has not breached any terms and conditions or covenants associated with credit arrangement or bank loan which can materially affect our Group's financial position and results or business operations, or the investments by holders of securities in us.

11.4.5 Funding Policies and Type of Financial Instruments Used

Our Group has been funding our operations through cash generated from our operations and external source of funds. Our external source of funds consist of credit terms granted by our suppliers and borrowings from financial institutions. Our funding policy is to obtain the most favourable interest rates available and our treasury policy is to maintain sufficient cash flow and funding through an adequate amount of committed credit facilities to meet estimated commitments arising from operational expenditure and financial liabilities.

II. FINANCIAL INFORMATION (Cont'd)

The normal credit terms granted to our Group by our suppliers ranges from 30 to 90 days due to the good relationship established with our suppliers which granted our Group an interest-free credit facility. Our Group's borrowings from financial institutions consist of both short term and long term credit facilities and hire purchase arrangement. Our short term borrowings are mainly bank overdrafts, bankers' acceptance and trust receipts which are mainly used for purchases of raw materials and semi-processed slabs. The interest rates for these short term borrowings are based on the market rates prevailing at the dates of the respective transactions.

Our long term borrowings are mainly term loan drawn down to finance the acquisitions of capital goods such as machineries, land and buildings. The interest rates for these long term borrowings are based on the prevailing base lending rate plus a margin agreed upon by our bankers when the respective term loans were granted. Our hire purchase arrangements are mainly obtained to finance the acquisitions of capital goods such as motor vehicles and machineries. The interest rates for these hire purchase arrangements are normally fixed rate which are agreed upon with our financial institutions and the maturity period for these financing ranges from 36 to 84 months.

Our Group will constantly manage and review our debts portfolio, taking into account the investment holding period and nature of our assets and will ensure prompt repayments of interest and principal.

Our Group's sales are mainly local transactions and denominated in RM. However, some of our purchases consist of raw materials and semi-processed slabs sourced from various countries which are denominated in foreign currencies and thus we are subject to foreign exchange risks. It is not our Group's policy to hedge against foreign exchange exposure. As at the LPD, our Group does not have any exposure or use any financial instruments for hedging purposes.

11.4.6 Material Commitments for Capital Expenditure

As at the LPD, save as disclosed below, there are no material commitments for capital expenditure contracted or known to be contracted by our Company or our subsidiary companies, which may have a substantial impact on our financial position:-

	RM'000
<u>Contracted but not provided for:-</u>	
- Construction of secondary processing plant in Subang	2,393
- Purchase of a two-storey building to be used as a showroom for our products	1,363
	<u>3,756</u>
<u>Approved but not contracted for:-</u>	
- Construction of secondary processing plant in Subang	1,423
	<u>5,179</u>

The above-mentioned capital expenditure will be financed via our gross proceeds from the Public Issue as detailed in Section 3.9 of this Prospectus, internally generated funds and borrowings from financial institutions.

11. FINANCIAL INFORMATION (Cont'd)

11.4.7 Material Litigation/Arbitration

As at the LPD, our Company and our subsidiary companies are not engaged in any litigation or arbitration, either as plaintiff or defendant, which have a material effect on our Company or subsidiary companies' financial position and our Directors have no knowledge of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect our Company or subsidiary companies' financial position or business.

11.4.8 Contingent Liabilities

Save as disclosed below, our Directors are not aware of any other indirect and/or material contingent liabilities, which upon becoming enforceable, may have a material effect on the financial position of our Group.

Transacting Parties	Nature of relationship	Nature of transaction	FYE 30 September 2009 RM'000
HHG and Menang Mulia Sdn Bhd	<p>Low Kim Hock, Low Kim Joo and Low Kim Chung who are our Directors and substantial shareholders are also the directors of Menang Mulia Sdn Bhd and deemed interested in Menang Mulia Sdn Bhd by virtue of their interests in LBS Realty Sdn Bhd.</p> <p>Low Kim Ong who is our substantial shareholder is deemed interested in Menang Mulia Sdn Bhd by virtue of his interest in LBS Realty Sdn Bhd.</p>	Corporate guarantee given by HHG in favour of a financial institution in relation to the credit facility granted by the financial institution to Menang Mulia Sdn Bhd ("Credit Facility").	995

In respect of the aforesaid corporate guarantee, the Directors and substantial shareholders of our Group, namely, Low Kim Hock, Low Kim Joo, Low Kim Chung and Low Kim Ong, had given an irrevocable written undertaking that they will:-

- (i) indemnify and keep Hock Heng and/or HHG indemnified against all damages, claims, losses, demands, charges, costs, expenses and payment for which Hock Heng and/or HHG may be liable or become liable and against all actions, suits, liabilities and proceedings, of whatever nature and howsoever arising, which may be taken or made against Hock Heng and/or HHG howsoever arising from the non-repayment of any monies owing by Menang Mulia Sdn Bhd to the financial institution or any other defaults by Menang Mulia Sdn Bhd in relation to the Credit Facility or as a result of any breach by HHG of the aforesaid corporate guarantee; and

11. FINANCIAL INFORMATION (Cont'd)

- (ii) pay or reimburse Hock Heng and/or HHG upon demand by Hock Heng and/or HHG all costs, expenses and fees of whatever nature howsoever arising which are incurred by Hock Heng and/or HHG due to the non-repayment of any monies owing by Menang Mulia Sdn Bhd to the financial institution or any other defaults by Menang Mulia Sdn Bhd in relation to the Credit Facility or as a result of any breach by HHG of the aforesaid corporate guarantee.

Our Company has undertaken not to enter into any transactions of such nature in the future that would involve the provision of financial assistance to or in favour of third parties save and except as permitted under the provisions of the Listing Requirements.

11.4.9 Key Financial Ratios

Our key financial ratios for the past five (5) FYE 31 December 2008 and the nine (9) months FPE 30 September 2009 based on our proforma consolidated balance sheets and proforma consolidated income statements are as follows:-

	----- FYE 31 December ----->					FPE 30 September 2009*
	2004	2005	2006	2007	2008	
Inventory turnover (months)	6.57	4.81	4.72	4.45	4.65	8.92
Trade receivable turnover (months)	3.99	4.91	5.48	6.84	4.70	5.62
Trade payable turnover (months)	3.32	2.08	1.63	1.23	1.37	1.83

Note:

* Annualised.

Inventory turnover period

Our inventories consist of raw materials, work-in-progress and finished goods. It is our Group's practice to maintain a sustainable level of inventories to support our production operations, to reduce the lead time for production and prevent shortages of raw materials and work-in-progress in our production. The inventory turnover period has been fairly consistent of between four (4) to six (6) months over the period under review save for the FPE 30 September 2009 wherein the inventory turnover period is relatively higher. The higher inventory turnover period for the FPE 30 September 2009 is mainly due to the following reasons:-

- to maintain higher inventory level in the newly set up sales office cum showroom and secondary processing plant with warehouse in Johor for our market expansion in the Southern Region of Peninsular Malaysia;
- inventory held in line with the expected commencement of production for several secured projects in the fourth quarter of the FYE 31 December 2009; and
- to cater for the expected increase in sales in the fourth quarter for the FYE 31 December 2009.

11. FINANCIAL INFORMATION (Cont'd)

Trade receivables turnover period

Our Group's normal credit period granted to our customers ranges from 30 to 90 days, which is further subject to a grace period of another 30 days. Other credit terms are assessed and approved on a case-by-case basis. The higher receivable turnover period for an average of 4 to 7 months was mainly due to the nature of the business in which our Group is involved in where our trade receivables include unbilled receivables for work done, retention sums withheld by our project customers over the defect liability period as well as those amounts owing by project customers that are pending finalisation of final account claims. The trade receivables turnover period for the FPE 30 September 2009 is higher due to amounts owing by project customers that are pending the finalisation of final account claims. The finalisation of final account claims is usually a time consuming process, which is common in the industry.

As at 30 September 2009, the trade receivables of our Group of RM14.56 million (excluding unbilled receivables for work done) can be summarised as follows:-

	←----- Within credit period -----→				Exceed credit period over 120 days RM'000	Total RM'000
	0 - 30 days RM'000	31 - 60 days RM'000	61 - 90 days RM'000	91 - 120 days RM'000		
Trade receivables (excluding retention sum)	2,335	2,223	1,185	1,022	6,202	12,967
Retention sum	22	-	17	47	1,909	1,995
Less: Provision for doubtful debts	-	-	-	-	(398)	(398)
	2,357	2,223	1,202	1,069	7,713	14,564
% of total trade receivables	16.18	15.26	8.25	7.34	52.97	100.00

As at the LPD, approximately RM3.20 million of the total amount exceeding the credit period of 120 days have been collected. The balance of RM2.74 million (excluding the retention sums of RM1.77 million and the amount already provided as doubtful debts of RM0.40 million) mainly relates to amounts owing by project customers that are pending the finalisation of final account claims. Our Directors are of the opinion that the remaining balances that exceed the credit period are recoverable and that no allowance for doubtful debts is required. They further confirm that there are no overdue trade receivables which are in dispute or under legal action.

Trade payables turnover period

The trade payables turnover period indicates that our Group's repayment is within the credit term granted by our suppliers which ranges from 30 to 90 days. Our Group believes the timely settlement to our suppliers will benefit our Group for more favourable pricings from our suppliers.

11. FINANCIAL INFORMATION (Cont'd)

As at 30 September 2009, the trade payables of our Group of RM3.48 million can be summarised as follows:-

	←---- Within credit period ----→			Exceed credit period over 90 days RM'000	Total RM'000
	0 - 30 days RM'000	31 - 60 days RM'000	61 - 90 days RM'000		
Trade payables	1,653	291	303	1,228	3,475
% of total trade payables	47.57	8.37	8.72	35.34	100.00

The amounts payable to trade payables which exceed the credit period are mainly consist of the retention sum withheld on our sub-contractors for the installation work performed.

Funding gap between the collection and payment cycle

The funding gap between the collection and payment cycle arises from trade receivables turnover period being generally longer than the trade payables turnover period are due to the reasons as explained above.

Among the steps taken by our Group in managing the funding gap between the collection and payment cycles are:-

- require upfront deposit for most of our retail customer orders;
- constantly review and ensure the sufficiency of our Group's credit facilities (as disclosed in Section 11.4.1 of this Prospectus) to support our working capital and maintain a good relationship with the financial institutions;
- review our debtors' aging regularly and follow up closely on those outstanding debts exceeding credit period as well as perform field visits to project customers;
- negotiate with our suppliers for a reduced upfront deposits for our purchases;
- encourage customers to pay cash term and promptly by providing cash discounts; and
- provide an additional avenue for payment via credit card.

11.5 Trend Information

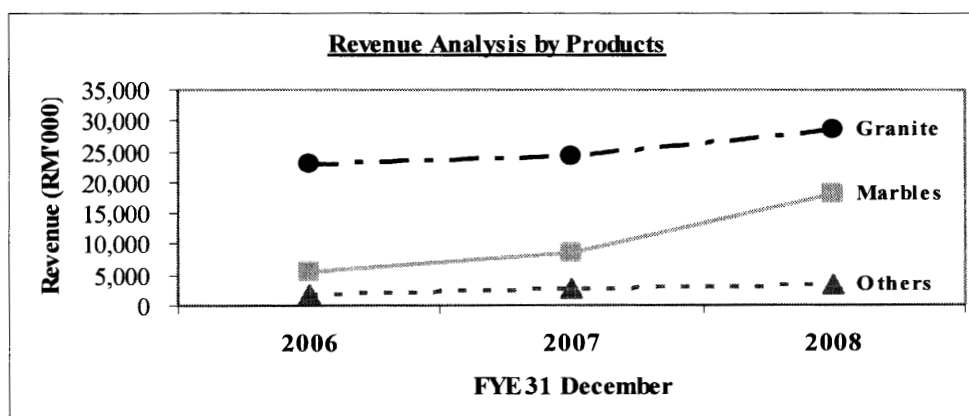
The following discussion about industry trends includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in these forward-looking statements.

Based on our Directors' knowledge and experience in the industry, for the financial years under review and up to the LPD, our Directors observed the following major trends:-

- (i) Our increased revenue was mainly due to the improvement in sales of our dimension stone products and projects secured as a result of our consistent quality products, competitive pricing and our established reputation.

11. FINANCIAL INFORMATION (Cont'd)

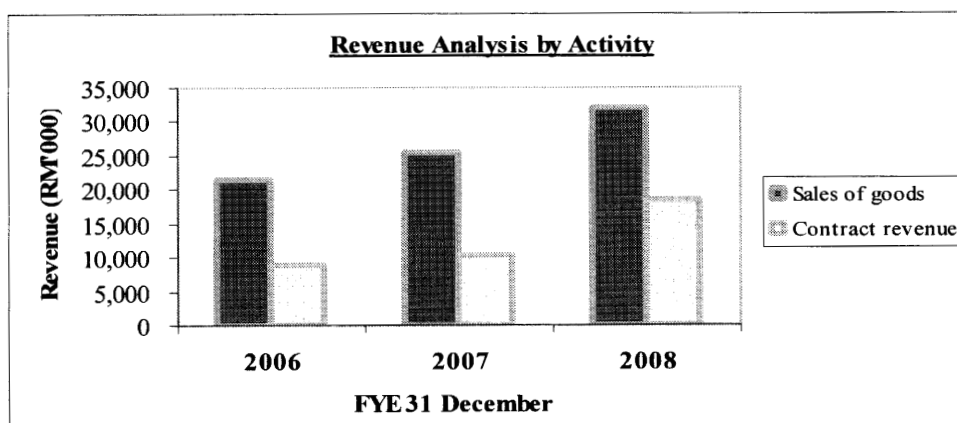
The revenue analysis by products for the past three (3) FYEs 31 December 2008 are as follows:-



Granite products are our Group's main revenue contributor for the past three (3) FYE 31 December 2008, which contributed between approximately 56.9% and 75.6% of our total sales for the past three (3) FYE 31 December 2008. Marble products are our second most important revenue contributor which saw a significant growth of approximately 223.2% in the FYE 31 December 2008 as compared to the previous FYE 31 December 2006 due to the recent market trend towards marble products and our increased capacity for the marble production. Revenue contributed from other products is mainly from products made of sand stones and slates.

For the nine (9) months FPE 30 September 2009, granite products remained the main revenue contributor for our Group at approximately 51.0% of our total revenue. However, the contribution for marble products has increased to approximately 43.8% of our total revenue.

The revenue analysis by activity for the past three (3) FYEs 31 December 2008 are as follows:-



Our Group's main source of revenue is derived from the sale of goods (as elaborated in Section 11.3.1 of this Prospectus) which represented between approximately 63.5% and 70.9% of our total revenue for the past three (3) FYE 31 December 2008. Nevertheless, contract revenue recorded by our Group has been steadily increasing for the past three (3) FYE 31 December 2008.

11. FINANCIAL INFORMATION (Cont'd)

For the nine (9) months FPE 30 September 2009, contract revenue contributed to approximately 12.3% of our Group's total revenue, which recorded a decrease of approximately 80.5% as compared to the preceding nine (9) months FPE 30 September 2008 mainly due to reduction in projects secured as a result of the general slowdown in the economy.

- (ii) The costs of purchases of our raw materials, mainly dimension stone blocks, have not changed significantly over the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009, though their prices may be quite variable and depend on factors that include colour, texture, finishing, quality and consistency as well as irregularity of supply.
- (iii) The selling prices of our dimension stone products have not changed significantly over the past three (3) FYEs 31 December 2008 and the nine (9) months FPE 30 September 2009, though their prices may vary dependent on, amongst others, the nature and complexity of processing work required to be done, the quantity purchased and availability of supply in hand or in the market.
- (iv) Our Group has been able to secure more projects recently given the gradual recovery of the Malaysian economy. As at the LPD, our order book based on secured projects amounted to approximately RM40.53 million (as disclosed in Section 5.4.5 of this Prospectus) which are expected to be completed over the next eighteen (18) months and are expected to contribute positively to our Group's future earnings.
- (v) Since 1 January 2006 to the LPD, our production capacity for granite slabs has been maintained at 45,000 square meters per annum whilst for marble slabs, it has increased from 80,000 square meters per annum to 240,000 square meters per annum mainly due to the purchase of additional plant and machinery supported by the increase in staff force. The increased scale of production allows us to benefit from greater economies of scale and accept orders which require large scale production with tight delivery date.
- (vi) We generally maintained minimal level of finished goods as we usually manufacture to order, while we maintain certain range of raw materials and work-in-progress at levels we feel are adequate to cater to any sudden increase in demand, to reduce the lead time and prevent shortage of supplies in raw materials in line with the increase in sales. Hence, our inventories turnover period has been fairly consistent over the years under review save for the nine (9) months FPE 30 September 2009 which has been explained in Section 11.4.9 of this Prospectus.

As at the LPD, save as disclosed in this Prospectus, to best of our Directors' knowledge and belief, our operations have not been and are not expected to be affected by any of the following:-

- (i) known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expects to have, a material favourable or unfavourable impact on the financial performance, position and operations of our Group other than those discussed in this section and Sections 4 and 5 of this Prospectus;

11. FINANCIAL INFORMATION (Cont'd)

- (ii) material commitment for capital expenditure as disclosed in Section 11.4.6 of this Prospectus;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as disclosed in this section and Sections 4 and 6 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group revenue and/or profits, save for those that had been disclosed in this section, Sections 4, 5 and 6 of this Prospectus;
- (v) known trends, demands, commitments, events or uncertainties that would cause the historical financial statements to be not necessarily indicative of future financial information other than those discussed in this section and Section 4 of this Prospectus; and
- (vi) known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expects to have, a material favourable or unfavourable impact on the liquidity and capital resources of our Group, other than those discussed in this section and Section 4 of this Prospectus.

11.6 Dividend Policy

Our Directors have considered the general principles that they currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends. The actual dividend that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed fit and relevant by our Directors.

In considering the level of dividend payments, if any, upon recommendation by our Directors, we intend to take into account various factors including:-

- (i) our expected results of operations;
- (ii) required and expected interest expense and taxation, cash flows, our profits and return on equity and retained earnings;
- (iii) our projected levels of capital expenditure and other investment plans;
- (iv) the prevailing interest rates and yields of the financial market; and
- (v) the level of our cash, marketable financial assets and level of indebtedness.

It will be the policy of our Directors in recommending dividends to allow shareholders to participate in the profits of our Group as well as maintaining adequate reserves for the future growth of our Group.

The future dividends proposed and declared, may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

11. FINANCIAL INFORMATION (Cont'd)

11.7 Reporting Accountants' Letter on the Proforma Consolidated Financial Information

(Prepared for inclusion in this Prospectus)



Ernst & Young

AF: 0039

Lot 1, 6th Floor, Menara Pertam

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Reporting accountants' letter on the pro forma consolidated financial information

(Prepared for inclusion in the Prospectus)

The Board of Directors
Hock Heng Stone Industries Bhd.
Lot 1A, 6th Floor
Menara Pertam, Jalan BBP 2
Taman Batu Berendam Putra
Batu Berendam, 75350 Melaka

9 February 2010

Dear Sirs,

Hock Heng Stone Industries Bhd. ("Hock Heng" or "the Company") Pro forma consolidated financial information

We report on the pro forma consolidated financial information of Hock Heng and its subsidiaries ("Hock Heng Group" or "the Group") as set out in the accompanying notes, which we have stamped for the purposes of identification. The pro forma consolidated financial information has been prepared for illustrative purposes only on the basis of assumptions as set out in the accompanying notes and after making certain adjustments to show what:

- (i) the financial results of the Hock Heng Group for the three (3) financial years ended ("FYE") 31 December 2006 to 2008 and nine (9) months financial period ended ("FPE") 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place throughout the financial years/period being reported thereon;
- (ii) the financial position of the Hock Heng Group as at 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place on that date, adjusted for the Flotation Exercise (as defined herein) and utilisation of proceeds from the Public Issue (as defined herein); and
- (iii) the cash flows of the Hock Heng Group for the nine (9) months FPE 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place since the beginning of the financial period, adjusted for the Flotation Exercise (as defined herein) and utilisation of proceeds from the Public Issue (as defined herein).

This letter is required by and is given for the purpose of complying with the Prospectus Guidelines issued by Securities Commission ("the Guidelines") and for no other purpose.

The pro forma consolidated financial information, because of its nature, may not be reflective of the Hock Heng Group's actual financial results, financial position and cash flows.

11. FINANCIAL INFORMATION (Cont'd)

**Hock Heng Stone Industries Bhd.
Pro forma consolidated financial information (continued)****Responsibilities**

It is solely the responsibility of the Board of Directors of Hock Heng to prepare the pro forma consolidated financial information in accordance with the requirements of the Guidelines.

It is our responsibility to form an opinion, as required by the Guidelines as to the proper compilation of the pro forma consolidated financial information, and to report our opinion to you.

In providing this opinion, we are not responsible in updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma consolidated financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Malaysian Approved Standard on Assurance, ISAE 3000 - Assurance Engagements Other Than Audit or Review Historical Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the pro forma consolidated financial information to the audited financial statements as listed below, considering the evidence supporting the adjustments and discussing the pro forma consolidated financial information with the directors of Hock Heng.

- (i) the audited financial statements of Hock Heng for the first financial period from 28 November 2008 (date of incorporation) to 30 September 2009;
- (ii) the audited financial statements of Hock Heng Granite Sdn. Bhd. for the three (3) FYEs 31 December 2006 to 2008 and the nine (9) months FPE 30 September 2009;
- (iii) the audited financial statements of Hock Heng Marketing (KL) Sdn. Bhd. for the three (3) FYEs 31 December 2006 to 2008 and the nine (9) months FPE 30 September 2009;
- (iv) the audited financial statements of Hock Heng Marketing (Southern Region) Sdn. Bhd. for the three (3) FYEs 31 December 2006 to 2008 and the nine (9) months FPE 30 September 2009;
- (v) the audited financial statements of PMK Construction & Design Sdn. Bhd. for the three (3) FYEs 31 December 2006 to 2008 and the nine (9) months FPE 30 September 2009;
- (vi) the audited financial statements of Hock Heng Stone (East Coast) Sdn. Bhd. for the three (3) financial period/years ended 31 December 2006 to 2008 and the nine (9) months FPE 30 September 2009;

11. FINANCIAL INFORMATION (Cont'd)



Hock Heng Stone Industries Bhd.
Pro forma consolidated financial information (continued)

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma consolidated financial information have been properly compiled on the basis stated using financial statements prepared in accordance with Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of Hock Heng. Our work also involves assessing whether each material adjustment made to the information used in the preparation of the pro forma consolidated financial information is appropriate for the purposes of preparing the pro forma consolidated financial information.

In our opinion:

- (i) the pro forma consolidated financial information which have been prepared by the directors of Hock Heng have been properly compiled on the basis stated in the accompanying notes using the financial statements prepared in accordance with the Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies adopted by Hock Heng; and
- (ii) each material adjustment made to the information used in the preparation of the pro forma consolidated financial information is appropriate for the purposes of preparing the pro forma consolidated financial information.

Yours faithfully,

A stylized signature of an Ernst & Young representative.

Ernst & Young
AF: 0039
Chartered Accountants

A handwritten signature of Lee Ah Too.

Lee Ah Too
2187/09/11(J)
Chartered Accountant

Melaka, Malaysia

11. FINANCIAL INFORMATION (Cont'd)



Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information

1. Introduction

The pro forma consolidated financial information, comprising the pro forma consolidated income statements for the three (3) FYEs 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009, the pro forma consolidated balance sheet as at 30 September 2009 and the notes thereto, and the pro forma consolidated cash flow statement for the nine (9) months FPE 30 September 2009, have been prepared for inclusion in the Prospectus of Hock Heng in connection with the listing of Hock Heng on the Main Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

2. Flotation Exercise

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of Hock Heng on the Main Market of Bursa Securities, Hock Heng undertakes the following exercises:

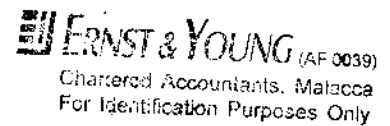
2.1 Acquisitions

On 20 February 2009, Hock Heng entered into Sale of Shares Agreements for the following acquisitions ("the Acquisitions"):

- (a) Acquisition of the entire equity interests in Hock Heng Granite Sdn. Bhd. ("HHG") comprising 4,300,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM25,417,000 which was fully satisfied by the issuance of 50,834,000 new ordinary shares of RM0.50 each in Hock Heng ("Hock Heng Shares") at par.
- (b) Acquisition of the entire equity interests in Hock Heng Marketing (KL) Sdn. Bhd. ("HHMKL") comprising 200,004 ordinary shares of RM1.00 each, for a total purchase consideration of RM2,562,000 which was fully satisfied by the issuance of 5,124,000 new Hock Heng Shares at par.
- (c) Acquisition of the entire equity interests in Hock Heng Marketing (Southern Region) Sdn. Bhd. ("HHMSR") comprising 1,000,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM2,895,000 which was fully satisfied by the issuance of 5,790,000 new Hock Heng Shares at par.
- (d) Acquisition of the entire equity interests in PMK Construction & Design Sdn. Bhd. ("PMK") comprising 150,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM1,252,000 which was fully satisfied by the issuance of 2,504,000 new Hock Heng Shares at par.
- (e) Acquisition of 80% equity interests in Hock Heng Stone (East Coast) Sdn. Bhd. ("HHSEC") comprising 240,003 ordinary shares of RM1.00 each, for a total purchase consideration of RM202,000 which was fully satisfied by the issuance of 404,000 new Hock Heng Shares at par.

The total purchase consideration for the Acquisitions of RM32,328,000 was arrived at on a willing buyer-willing seller basis after taking into consideration the audited/adjusted net assets of HHG, HHMKL, HHMSR, PMK and HHSEC as at 31 December 2007.

11. FINANCIAL INFORMATION (Cont'd)


**Hock Heng Stone Industries Bhd.
Notes to the pro forma consolidated financial information (continued)**
2. Flotation Exercise (continued)
2.1 Acquisitions (continued)

On 31 December 2009, the Board of Directors of HHG had declared an interim tax exempt dividend of 10.47% amounting to RM450,000 in respect of the FYE 31 December 2009.

The Acquisitions were completed on 4 February 2010.

2.2 Public Issue

The public issue of 15,342,000 new Hock Heng Shares at an issue price of RM0.55 per Hock Heng Share payable in full on application ("Public Issue").

2.3 Offer for Sale

The offer for sale of 14,258,000 Hock Heng Shares, at the offer price of RM0.55 per Hock Heng Share payable in full upon application ("Offer for Sale").

2.4 Share Transfer

During the prescription period, certain shareholders of Hock Heng will transfer 36,000,000 Hock Heng Shares to Jasa Maju Jaya Sdn. Bhd. ("JMJ") for a total cash consideration of RM18.0 million payable by JMJ to these shareholders ("Share Transfer").

2.5 Listing

Upon completion of the Public Issue, Offer for Sale and Share Transfer, Hock Heng will seek a listing of and quotation for its entire enlarged issued and paid-up share capital of RM40,000,000 comprising 80,000,000 Hock Heng Shares on the Main Market of Bursa Securities.

(Collectively referred to as the "Flotation Exercise")

3. Basis of preparation of the pro forma consolidated financial information
3.1 The pro forma consolidated financial information has been prepared to illustrate that:

- (a) the financial results of the Hock Heng Group for the three (3) FYEs 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place since the beginning of the years/period being reported thereon;
- (b) the financial position of the Hock Heng Group as at 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place on that date adjusted for the Flotation Exercise and utilisation of proceeds from the Public Issue; and
- (c) the cash flows of the Hock Heng Group for the nine (9) months FPE 30 September 2009 would have been, if the Group structure as at the date of the Prospectus had been in place since the beginning of the financial period, adjusted for the Flotation Exercise and utilisation of proceeds from the Public Issue.

11. FINANCIAL INFORMATION (Cont'd)



Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

3. Basis of preparation of the pro forma consolidated financial information (continued)

3.2 The pro forma consolidated financial information has been prepared using the bases and the accounting principles consistent with those adopted by the Hock Heng Group, after giving effect to the pro forma adjustments considered appropriate, based on the following:

- (a) the audited financial statements of HHSEC for the financial period/years ended 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009; and
- (b) the audited financial statements of HHG, HHMKL, HHMSR and PMK for the FYEs 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009.

3.3 The financial statements for the subsidiaries have been prepared in accordance with the applicable approved accounting standards in Malaysia, where relevant adjustments were made to the financial results and financial positions to comply with the Financial Reporting Standards in Malaysia for the purpose of inclusion in the pro forma consolidated financial information.

3.4 It was assumed that Hock Heng acquired its subsidiaries prior to 1 January 2006 in arriving at the pro forma consolidated income statements for the three (3) FYEs 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009 for illustrative purposes.

The pro forma consolidated financial information has been prepared for illustrative purposes only and, because of their nature, may not be reflective of the actual financial position, results of operations and cash flows of the Hock Heng Group.

The financial information has been rounded to the nearest thousand, unless otherwise indicated. Hock Heng's functional currency is Ringgit Malaysia (RM).

3.5 Auditors' opinions

- (a) The audited financial statements of Hock Heng for the FPE from 28 November 2008 (date of incorporation) to 30 September 2009 were reported on without qualification or modification by Ernst & Young.
- (b) The audited financial statements of HHG and HHMKL for the FYEs 31 December 2006 to 2008; HHMSR and PMK for the FYE 31 December 2008 were reported on without qualification or modification by Ernst & Young.
- (c) The audited financial statements of HHMSR and PMK for the FYEs 31 December 2006 and 2007; HHSEC for the FPE/FYEs 31 December 2006 to 2008 were reported on without qualification or modification by firms of auditors other than Ernst & Young, except for the auditors' report on the financial statements of HHSEC for the FPE 31 December 2006 emphasised that the continuance of HHSEC as a going concern is dependent on its ability to achieve future profitable operation and obtain sufficient financial support.
- (d) The audited financial statements of HHG, HHMKL, HHMSR, PMK and HHSEC for the nine (9) months FPE 30 September 2009 were reported on without qualification by Ernst & Young, other than emphasis of matter on the fact that the comparatives for income statements, statements of changes in equity and cash flow statements are in respect of comparable interim period for the immediate preceding financial year from 1 January 2008 to 30 September 2008 in accordance with Financial Reporting Standard 134 : Interim Financial Reporting and are unaudited.

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****4. Summarised pro forma consolidated income statements of the Hock Heng Group**

4.1 The following table sets out a summary of the pro forma consolidated income statements of the Hock Heng Group for the past three (3) FYEs 31 December 2006 to 2008 and nine (9) months FPE 30 September 2009, prepared on the assumption that the Hock Heng Group has been in existence throughout the periods under review. The pro forma consolidated income statements are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the pro forma consolidated financial information set out in this Prospectus.

4.2 Hock Heng Group

	Note	12 months ended 31 December			9 months ended	
		2006 RM'000	2007 RM'000	2008 RM'000	30.9.2008 * RM'000	30.9.2009 RM'000
Revenue	4.3	30,213	35,573	49,557	38,146	26,411
Cost of sales		(20,284)	(22,775)	(35,760)	(28,313)	(17,132)
Gross profit		9,929	12,798	13,797	9,833	9,279
Other income		170	105	185	57	221
General, administrative and selling expenses		(3,601)	(4,809)	(5,419)	(3,752)	(3,676)
Operating profit		6,498	8,094	8,563	6,138	5,824
Finance costs	4.4	(658)	(888)	(987)	(724)	(639)
Profit before tax		5,840	7,206	7,576	5,414	5,185
Income tax expense	4.5	(1,406)	(1,639)	(1,834)	(1,044)	(1,238)
Profit for the year		4,434	5,567	5,742	4,370	3,947
Attributable to:						
Equity holders of the Company		4,441	5,569	5,754	4,372	3,962
Minority interests		(7)	(2)	(12)	(2)	(15)
		4,434	5,567	5,742	4,370	3,947
Number of shares assumed in issue ('000) ⁽¹⁾		64,658	64,658	64,658	64,658	64,658
Earnings per share ("EPS") (sen) ⁽²⁾						
Gross		9.03	11.14	11.72	8.37	8.02
Net		6.87	8.61	8.90	6.76	6.13
Gross profit margin (%)		32.86	35.98	27.84	25.78	35.13
Net profit margin (%) ⁽³⁾		14.70	15.66	11.61	11.46	15.00
Earning before interest, taxation, depreciation and amortisation ("EBITDA") (RM'000)		7,854	9,800	10,533	7,650	7,393
Effective tax rate (%)		24.08	22.74	24.21	19.28	23.88

11. FINANCIAL INFORMATION (Cont'd)



Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

4. Summarised pro forma consolidated income statements of the Hock Heng Group (continued)

4.2 Hock Heng Group (continued)

	12 months ended 31 December			9 months ended	
	2006	2007	2008	30.9.2008 *	30.9.2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables turnover period (months)	5.48	6.84	4.70	n/a	# 5.62
Trade payables turnover period (months)	1.63	1.23	1.37	n/a	# 1.83
Inventories turnover period (months)	4.72	4.45	4.65	n/a	# 8.92

Notes:

(1) Based on the number of shares in issue after the Acquisitions but before the Public Issue and Offer for Sale.

(2) Gross EPS and net EPS were computed by dividing the profit before tax and profit attributable to equity holders of the Company respectively by the assumed number of ordinary shares in issue.

(3) Net profit margin was computed by dividing the profit attributable to equity holders of the Company by the revenue.

(4) There were no exceptional or extraordinary items for the financial years/periods under review.

* The income statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

n/a: Not applicable

annualised

4.3 Revenue

Revenue consist of the following:

	12 months ended 31 December			9 months ended	
	2006	2007	2008	30.9.2008 *	30.9.2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Sales of goods	21,357	25,155	31,198	21,369	23,137
Contract revenue	8,856	10,418	18,359	16,777	3,274
	<u>30,213</u>	<u>35,573</u>	<u>49,557</u>	<u>38,146</u>	<u>26,411</u>

4.4 Finance costs

	12 months ended 31 December			9 months ended	
	2006	2007	2008	30.9.2008 *	30.9.2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Interest expense on:					
Bank borrowings	609	830	951	700	606
Hire purchase	49	58	36	24	33
	<u>658</u>	<u>888</u>	<u>987</u>	<u>724</u>	<u>639</u>

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For identification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****4. Summarised pro forma consolidated income statements of the Hock Heng Group (continued)****4.5 Income tax expense**

	12 months ended 31 December			9 months ended	
	2006	2007	2008	30.9.2008 *	30.9.2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Current tax:					
Based on profit for the year	1,213	1,458	1,573	931	1,338
Underprovided in prior years	46	35	109	-	(12)
	<u>1,259</u>	<u>1,493</u>	<u>1,682</u>	<u>931</u>	<u>1,326</u>
Deferred tax:					
Relating to origination and reversal of temporary differences	166	170	167	175	(71)
Relating to reduction in tax rate	(102)	(163)	(59)	(56)	-
Underprovided in prior years	83	139	44	(6)	(17)
	<u>147</u>	<u>146</u>	<u>152</u>	<u>113</u>	<u>(88)</u>
	<u>1,406</u>	<u>1,639</u>	<u>1,834</u>	<u>1,044</u>	<u>1,238</u>

Income tax is calculated at the statutory tax rate as set out below:

Statutory tax rate	<u>28%</u>	<u>27%</u>	<u>26%</u>	<u>26%</u>	<u>25%</u>
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11. FINANCIAL INFORMATION (Cont'd)


ERNST & YOUNG (AF 0039)
 Chartered Accountants, Malacca
 For Identification Purposes Only

Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009

The pro forma balance sheets below are for illustrative purposes only, based on audited financial statements of Hock Heng and its subsidiaries as at 30 September 2009, to show the effects on the balance sheets of Hock Heng had the Acquisitions, Public Issue, Offer for Sale, Share Transfer and the utilisation of proceeds from the Public Issue been completed on 30 September 2009.

	Note	Audited balance sheet of Hock Heng as at 30.9.2009 RM'000	Pro Forma I After the Acquisitions RM'000	Pro Forma II After the Public Issue, Offer for Sale and Share Transfer RM'000	Pro Forma III After the utilisation of proceeds RM'000
Assets					
Non-current assets					
Property, plant and equipment	5.2	-	21,977	21,977	23,625
Prepaid land lease payments	5.3	-	2,675	2,675	2,675
Investment properties	5.4	-	2,011	2,011	2,011
Exploration, evaluation and development expenditure	5.5	-	379	379	1,639
		-	27,042	27,042	29,950
Current assets					
Inventories	5.6	-	16,981	16,981	16,981
Trade receivables	5.7	-	16,498	16,498	16,498
Other receivables	5.8	-	3,403	3,403	3,403
Tax recoverable		-	172	172	172
Cash and bank balances	5.10	1	1,215	9,653	5,215
		1	38,269	46,707	42,269
Total assets		1	65,311	73,749	72,219
Equity and liabilities					
Equity attributable to equity holders of the Company					
Share capital	5.11	1	32,329	40,000	40,000
Share premium	5.12	-	-	767	-
(Accumulated loss)/ retained earnings		(4)	6,322	6,322	5,559
Shareholders' equity		(3)	38,651	47,089	45,559
Minorities interests		-	36	36	36
		(3)	38,687	47,125	45,595
Non-current liabilities					
Long term borrowings	5.13	-	6,142	6,142	6,142
Deferred tax liabilities	5.17	-	1,530	1,530	1,530
		-	7,672	7,672	7,672
Current liabilities					
Short term borrowings	5.13	-	12,752	12,752	12,752
Trade payables	5.15	-	3,475	3,475	3,475
Other payables	5.16	4	2,301	2,301	2,301
Tax payables		-	424	424	424
		4	18,952	18,952	18,952
Total liabilities		4	26,624	26,624	26,624
Total equity and liabilities		1	65,311	73,749	72,219

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)

	Audited balance sheet of Hock Heng as at 30.9.2009	Pro Forma I After the Acquisitions	Pro Forma II After the Public Issue, Offer for Sale and Share Transfer	Pro Forma III After the utilisation of proceeds
Number of ordinary shares in issue ('000)	2	64,658	80,000	80,000
Net assets attributable to the equity holders of the Company ("NA") (RM'000)	(3)	38,651	47,089	45,559
(Net liabilities)/NA per share (RM)	(1.50)	0.60	0.59	0.57
Current ratio (times)	0.25	2.02	2.46	2.23
Gearing ratio (times)	n/a	0.49	0.40	0.41
After tax return on shareholders' funds (%)	n/a	10.25	8.41	8.70

5.1 Notes to the pro forma consolidated balance sheets of Hock Heng as at 30 September 2009

The following transactions assumed to have been effected as at 30 September 2009:

Pro Forma I:

Pro forma I incorporates the Acquisitions, after adjusting for the payment of an interim tax exempt dividend amounting to RM450,000 by HHG that was declared subsequent to 30 September 2009 but before the implementation of the acquisition of HHG by Hock Heng. The pro forma consolidated balance sheets are arrived at using the merger method of accounting.

Pro Forma II:

Pro forma II incorporates the effects of Proforma I, the Public Issue, Offer for Sale and Share Transfer. The Offer for Sale and Share Transfer do not have any effect on the pro forma consolidated balance sheets of the Company.

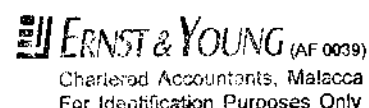
Pro Forma III:

Pro forma III incorporates the effects of Pro Forma II and the following:

- (i) Estimated listing expenses of RM1.53 million will be set off against the share premium account.
- (ii) Utilisation of the proceeds from the Public Issue of RM8.438 million to be utilised as follows:

	RM'000	RM'000
Cost in relation to quarry operation:		
- Purchases of machineries	860	
- Development expenditure	1,260	2,120
Construction of a secondary processing plant:		
- Purchases of machineries	396	
- Part finance construction of factory building	392	788
Working capital		4,000
Estimated listing expenses		1,530
		<u>8,438</u>

11. FINANCIAL INFORMATION (Cont'd)

**Hock Heng Stone Industries Bhd.****Notes to the pro forma consolidated financial information (continued)****5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)****5.2 Property, plant and equipment**

	RM'000
Net carrying amounts:	
Freehold land	2,711
Factory buildings and extensions	7,903
Hostel	171
Building in progress	856
Plant, machinery and factory equipment	9,780
Motor vehicles	1,213
Other assets*	991
	<u>23,625</u>

* Other assets comprise office equipment, furniture and fittings, electrical installation and computer.

The movement of property, plant and equipment are as follows:

	RM'000
As at 30 September 2009	-
Add: Property, plant and equipment in subsidiaries acquired	21,977
Balance after Pro Forma I and II	<u>21,977</u>
Add: Machineries for quarry acquired arising from the utilisation of proceeds	860
Add: Construction of secondary processing plant from the utilisation of proceeds	788
Balance after Pro Forma III	<u>23,625</u>

Freehold land with carrying amount of RM202,000 was registered in the name of a third party. Subsequent to the FPE 30 September 2009, the freehold land was disposed off.

Net carrying amounts of property, plant and equipment pledged for banking facilities obtained by the subsidiaries of the Group are as follows:

	RM'000
Freehold land	2,509
Factory buildings and extensions	7,903
Hostel	145
Plant and factory equipment	3,956
	<u>14,513</u>

Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

	RM'000
Plant and machinery	316
Motor vehicles	821
	<u>1,137</u>

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)****5.3 Prepaid land lease payments**

The prepaid land lease payments are in respect of leasehold land which have been pledged to banks for banking facilities obtained by the subsidiaries of the Group.

5.4 Investment properties

Investment properties represent shophouses, condominium, apartment and terrace house owned by the Group.

Investment properties with carrying value of RM1,669,000 are pledged to banks for banking facilities obtained by the subsidiaries of Hock Heng.

The fair value of the investment properties as at 30 September 2009 is approximately RM2,140,000.

5.5 Exploration, evaluation and development expenditure

The movement of exploration, evaluation and development expenditure are as follows:

	RM'000
As at 30 September 2009	-
Add: Exploration, evaluation and development expenditure in subsidiary acquired	379
Balance after Pro Forma I and II	<u>379</u>
Add: Part finance of quarry operation from the utilisation of proceeds	1,260
Balance after Pro Forma III	<u><u>1,639</u></u>

This represents amount of exploration expenditure incurred and are stated at cost.

5.6 Inventories

	RM'000
At cost:	
Raw materials	8,057
Work-in progress	7,784
Finished goods	1,140
	<u><u>16,981</u></u>

5.7 Trade receivables

	Note	RM'000
Third parties		12,967
Due from customer on contracts	5.9	1,934
Retention sums on contract	5.9	1,995
		<u>16,896</u>
Less: Provision for doubtful debts		<u>(398)</u>
		<u><u>16,498</u></u>

The Group's normal trade term ranges from 30 days to 90 days, subject to a grace period of additional 30 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
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Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)****5.8 Other receivables**

	RM'000
Deposits and prepayment	775
Deposit for purchase of property, plant and equipment	176
Deposits paid to sub-contractor	230
Deposits paid to suppliers	1,866
Sundry receivables	356
	<u>3,403</u>

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or group of debtors except for two (2) debtors which accounted for 39% of total other receivables as at balance sheet date.

5.9 Due from customers on contracts

	Note	RM'000
Contract costs incurred to date		5,415
Attributable profits		1,490
		<u>6,905</u>
Less: Progress billings	5.7	<u>(4,971)</u>
		<u>1,934</u>
Retention sums on contracts, included within trade receivables	5.7	<u>1,995</u>

5.10 Cash and bank balances

The movement of cash and bank balances are as follows:

	Note	RM'000
As at 30 September 2009		1
Add: Cash and bank balances in subsidiaries acquired		1,214
Balance after Pro Forma I		1,215
Add: Proceeds from Public Issue		8,438
Balance after Pro Forma II		9,653
Less: Cost in relation to quarry operation		(2,120)
Construction of a secondary processing plant		(788)
Estimated listing expenses		(1,530)
Balance after Pro Forma III		5,215
Less: Bank overdrafts	5.13	<u>(2,715)</u>
Cash and cash equivalents		<u>2,500</u>

RM'000

The cash and bank balances consist of:

Cash on hand and at banks	4,046
Deposits with licensed banks	1,169
	<u>5,215</u>

11. FINANCIAL INFORMATION (Cont'd)



ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)****5.10 Cash and bank balances (continued)**

The deposits with licensed banks are pledged to banks as securities for credit facilities granted to the subsidiaries of the Group.

The weighted average interest rates of deposits and average maturities of deposits as at 30 September 2009 were as follows:

Weighted average interest rates (%)	2.69
Average maturities (days)	354

5.11 Share capital

The movement in the issued and paid-up share capital of Hock Heng is as follow:

	Number of ordinary share of RM0.50 each '000	Amount RM'000
As at 30 September 2009	2	1
Add: Issuance of shares pursuant to the Acquisitions	64,656	32,328
Balance after Pro Forma I	<u>64,658</u>	<u>32,329</u>
Add: Issuance of shares pursuant to the Public Issue	15,342	7,671
Balance after Pro Forma II and III	<u>80,000</u>	<u>40,000</u>

5.12 Share premium

The movement in the share premium of Hock Heng is as follow:

	RM'000
As at 30 September 2009/ Pro Forma I	-
Add: Issuance of shares pursuant to the Public Issue	767
Balance after Pro Forma II	<u>767</u>
Less: Estimated listing expenses	(767)
Balance after Pro Forma III	<u>-</u>

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)****5.13 Borrowings**

	Note	RM'000
Short term borrowings		
Secured:		
Bank overdrafts	5.10	2,715
Banker acceptances		9,042
Trust receipts		34
Term loans		750
Hire purchase payables	5.14	211
		<u>12,752</u>
Long term borrowings		
Secured:		
Term loans		5,696
Hire purchase payables	5.14	446
		<u>6,142</u>
Total Borrowings		
Bank overdrafts		2,715
Banker acceptances		9,042
Term loans		6,446
Trust receipts		34
Hire purchase payables		657
		<u>18,894</u>
Maturity of borrowings (excluding hire purchase)		
Within one year		12,541
More than 1 year and less than 2 years		584
More than 2 years and less than 5 years		2,546
5 years or more		2,566
		<u>18,237</u>

The effective interest rates at the balance sheet date for borrowings, excluding hire purchase payables, were as follows:

	%
Bank overdrafts	6.89
Banker acceptances	3.88
Trust receipts	6.80
Term loans	5.24

The above bank borrowings were secured by property, plant and equipment, prepaid land lease payments, investment properties and deposits with licensed banks as referred to in Note 5.2, 5.3, 5.4 and 5.10.

11. FINANCIAL INFORMATION (Cont'd)



Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

5. Pro forma consolidated balance sheets of Hock Heng as at 30 September 2009 (continued)

5.14 Hire purchase payables

	Note	RM'000
Minimum lease payments:		
Not later than 1 year		244
Later than 1 year and not later than 2 years		260
Later than 2 years and not later than 5 years		220
		<u>724</u>
Less: Future finance charges		(67)
Present value of finance lease liabilities		<u>657</u>
Present value of finance lease liabilities:		
Not later than 1 year		211
Later than 1 year and not later than 2 years		238
Later than 2 years and not later than 5 years		208
		<u>657</u>
Analysed as:		
Due within 12 months	5.13	211
Due after 12 months	5.13	446
		<u>657</u>

The hire purchase bore interest at balance sheet date of between 2.37% to 4.00% per annum.

5.15 Trade payables

The normal trade credit terms granted to the Group ranges from 30 days to 90 days.

5.16 Other payables

	RM'000
Accruals	489
Deposits	617
Sundry payables	1,195
	<u>2,301</u>

5.17 Deferred tax liabilities

The deferred taxation provided represents the temporary differences between the amounts attributed to property, plant and equipment for tax purposes and their carrying amount.

11. FINANCIAL INFORMATION (Cont'd)

ERNST & YOUNG (AF 0038)
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For Modification Purposes Only

Hock Heng Stone Industries Bhd.**Notes to the pro forma consolidated financial information (continued)****6. Pro forma consolidated cash flow statement**

- 6.1 The pro forma consolidated cash flow statement of the Hock Heng Group for the FPE 30 September 2009 is provided for illustrative purposes only, assuming that the Hock Heng Group had been in existence throughout the financial period under review and that the Public Issue, Offer for Sale, Share Transfer and the utilisation of proceeds have been completed on 30 September 2009.

The pro forma consolidated cash flows for the nine (9) months ended 30 September 2009 are prepared based on the audited financial statements of Hock Heng and its subsidiaries.

6.2 Hock Heng Group

	9 months ended 30 September 2009 RM'000
Cash flows from operating activities	
Profit before tax	5,185
Adjustments for:	
Amortisation of prepaid land lease payments	44
Depreciation:	
- Property, plant and equipment	1,496
- Investment properties	29
Gain on disposal of property, plant and equipment	(1)
Property, plant and equipment written off	2
Gain on disposal of subsidiaries	(160)
Interest expense	639
Operating profit before working capital changes	<u>7,234</u>
Increase in inventories	(3,012)
Decrease in receivables	382
Decrease in payables	(595)
Cash generated from operations	<u>4,009</u>
Interest paid	(639)
Income tax paid	(1,519)
Income tax refund	3
Net cash from operating activities	<u>1,854</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	(2,984)
Purchase of prepaid land lease payment	(11)
Proceeds from disposal of property, plant and equipment	8
Addition of exploration, evaluation and development expenditure	(1,260)
Net cash used in investing activities	<u>(4,247)</u>

11. FINANCIAL INFORMATION (Cont'd)

 **ERNST & YOUNG** (AF 0039)
Chartered Accountants, Malacca
For Identification Purposes Only

Hock Heng Stone Industries Bhd.

Notes to the pro forma consolidated financial information (continued)

6. Pro forma consolidated cash flow statement (continued)

6.2 Hock Heng Group (continued)

	9 months ended 30 September 2009 RM'000
Cash flows from financing activities	
Repayment of term loans	(609)
Repayment of hire purchase	(180)
Increase in short term borrowings	234
Proceeds from issuance of ordinary shares	1
Proceeds from the Public Issue	8,438
Dividends paid	(642)
Payment of estimated listing expenses	(1,530)
Net cash from financing activities	<u>5,712</u>
Net increase in cash and cash equivalents	3,319
Cash and cash equivalents at the beginning of period	<u>(819)</u>
Cash and cash equivalents at end of period	<u><u>2,500</u></u>

12. ACCOUNTANT REPORT

(Prepared for inclusion in this Prospectus)



Ernst & Young

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9 February 2010

Dear Sirs,

Hock Heng Stone Industries Bhd. ("Hock Heng" or "the Company")

Accountants' report

(Prepared for inclusion in the Prospectus)

1. This report has been prepared by Ernst & Young, an approved company auditor, for the inclusion in the Prospectus of Hock Heng to be dated 9 March 2010 in connection with the listing of Hock Heng on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") and should not be relied upon for any other purposes.

2. Introduction

2.1 Background

Hock Heng was incorporated in Malaysia under the Companies Act, 1965 on 28 November 2008 as a public limited company.

The principal activity of Hock Heng is investment holding. Further details of its subsidiaries are set out in paragraph 2.4 below.

2.2 Share capital

As at date of incorporation, the authorised share capital of Hock Heng is RM100,000 comprising 200,000 ordinary shares of RM0.50 each ("Hock Heng Shares") and the issued and paid-up share capital of Hock Heng was RM1.50 comprising three (3) Hock Heng Shares. Subsequently, on 15 December 2008, the issued and paid-up share capital of Hock Heng was increased to RM1,000 comprising 2,000 Hock Heng Shares.

12. ACCOUNTANT REPORT (Cont'd)

**2. Introduction (continued)****2.2 Share capital (continued)**

On 13 October 2009, the authorised share capital of Hock Heng was increased from RM100,000 comprising of 200,000 Hock Heng Shares to RM100,000,000 comprising 200,000,000 Hock Heng Shares by the creation of additional 199,800,000 Hock Heng Shares.

Arising from the Acquisitions as mentioned in Section 2.3.1 below, the issued and paid-up capital of Hock Heng was increased to RM32,328,000 by way of the issuance of 64,656,000 Hock Heng Shares.

Pursuant to the Public Issue as mentioned in Section 2.3.2 below, the issued and fully paid-up capital of Hock Heng will be further increased to RM40,000,000 comprising 80,000,000 Hock Heng Shares.

2.3 Listing Scheme

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of Hock Heng on the Main Market of Bursa Securities, Hock Heng undertakes the following exercises:

2.3.1 Acquisitions

On 20 February 2009, Hock Heng entered into Sale of Shares Agreements for the following acquisitions ("the Acquisitions"):

- (a) Acquisition of the entire equity interests in Hock Heng Granite Sdn. Bhd. ("HHG") comprising 4,300,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM25,417,000 which was fully satisfied by the issuance of 50,834,000 new Hock Heng Shares at par.
- (b) Acquisition of the entire equity interests in Hock Heng Marketing (KL) Sdn. Bhd. ("HHMKL") comprising 200,004 ordinary shares of RM1.00 each, for a total purchase consideration of RM2,562,000 which was fully satisfied by the issuance of 5,124,000 new Hock Heng Shares at par.
- (c) Acquisition of the entire equity interests in Hock Heng Marketing (Southern Region) Sdn. Bhd. ("HHMSR") comprising 1,000,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM2,895,000 which was fully satisfied by the issuance of 5,790,000 new Hock Heng Shares at par.
- (d) Acquisition of the entire equity interests in PMK Construction & Design Sdn. Bhd. ("PMK") comprising 150,000 ordinary shares of RM1.00 each, for a total purchase consideration of RM1,252,000 which was fully satisfied by the issuance of 2,504,000 new Hock Heng Shares at par.

12. ACCOUNTANT REPORT *(Cont'd)*



2. Introduction (continued)

2.3.1 Acquisitions (continued)

- (e) Acquisition of 80% equity interests in Hock Heng Stone (East Coast) Sdn. Bhd. ("HHSEC") comprising 240,003 ordinary shares of RM1.00 each, for a total purchase consideration of RM202,000 which was fully satisfied by the issuance of 404,000 new Hock Heng Shares at par.

The total purchase consideration for Acquisitions of RM32,328,000 was arrived at on a willing buyer-willing seller basis after taking into consideration the audited/adjusted net assets of HHG, HHMKL, HHMSR, PMK and HHSEC as at 31 December 2007.

On 31 December 2009, the Board of Directors of HHG had declared an interim tax exempt dividend of 10.47% amounting to RM450,000 in respect of the FYE 31 December 2009.

The Acquisitions were completed on 4 February 2010.

2.3.2 Public Issue

The public issue of 15,342,000 new Hock Heng Shares at an issue price of RM0.55 per Hock Heng Share payable in full on application ("Public Issue").

2.3.3 Offer for Sale

The offer for sale of 14,258,000 Hock Heng Shares, at the offer price of RM0.55 per Hock Heng Share payable in full upon application ("Offer for Sale").

2.3.4 Share Transfer

During the prescription period, certain shareholders of Hock Heng will transfer 36,000,000 Hock Heng Shares to Jasa Maju Jaya Sdn. Bhd. ("JMJ") for a total cash consideration of RM18.0 million payable by JMJ to these shareholders ("Share Transfer").

2.3.5 Listing

Upon completion of the Public Issue, Offer for Sale and Share Transfer, Hock Heng will seek a listing of and quotation for its entire enlarged issued and paid-up share capital of RM40,000,000 comprising 80,000,000 Hock Heng Shares on the Main Market of Bursa Securities.

(Collectively referred to as the "Flotation Exercise")

12. ACCOUNTANT REPORT (Cont'd)



2.4 Information on subsidiaries

2.4.1 HHG

Incorporation

HHG was incorporated in Malaysia under the Companies Act, 1965 on 27 February 1988 as a private limited company and domiciled in Malaysia.

Principal activities

The principal activities of HHG are manufacture and sale of dimension stones and related products.

Share capital

The authorised share capital of HHG is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The issued and fully paid-up share capital is RM4,300,000 comprising 4,300,000 ordinary shares of RM1.00 each.

The changes in HHG's issued and paid-up share capital since incorporation are as follows :

Date of allotment	No. of Ordinary Share Allotted	Par value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
27.02.1988	3	1	Cash; subscribers' shares	3
25.06.1988	40,000	1	Cash	40,003
22.04.1989	10,000	1	Cash	50,003
15.06.1989	67,571	1	Acquisition of assets	117,574
15.06.1989	2,429	1	Cash	120,003
24.08.1989	20,000	1	Cash	140,003
02.05.1992	20,000	1	Cash	160,003
28.05.1997	339,997	1	Cash	500,000
16.09.2002	1,500,000	1	Bonus issue	2,000,000
22.07.2003	900,000	1	Cash	2,900,000
02.08.2004	900,000	1	Cash	3,800,000
27.12.2005	500,000	1	Cash	4,300,000

12. ACCOUNTANT REPORT (Cont'd)



2.4 Information on subsidiaries (continued)

2.4.2 HHMKL

Incorporation

HHMKL was incorporated in Malaysia under the Companies Act, 1965 on 31 March 2003 as a private limited company and domiciled in Malaysia.

Principal activities

The principal activities of HHMKL are distributing of dimension stones and renovation works for homes and offices.

Share capital

The authorised share capital of HHMKL is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and fully paid-up share capital is RM200,004 comprising 200,004 ordinary shares of RM1.00 each.

The changes in HHMKL's issued and paid-up share capital since incorporation are as follows:

Date of allotment	No. of Ordinary Share Allotted	Par value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
31.03.2003	4	1	Cash; subscribers' shares	4
21.08.2006	200,000	1	Cash	200,004

2.4.3 HHMSR

Incorporation

HHMSR was incorporated in Malaysia under the Companies Act, 1965 on 16 July, 1994 as a private limited company and domiciled in Malaysia.

Principal activities

The principal activities of HHMSR are processing and trading of dimension stones.

Share capital

The authorised share capital of HHMSR is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each. The issued and fully paid-up share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

12. ACCOUNTANT REPORT (Cont'd)



2.4 Information on subsidiaries (continued)

2.4.3 HHMSR (continued)

Share capital (continued)

The changes in HHMSR's issued and paid-up share capital since incorporation are as follows:

Date of allotment	No. of Ordinary Share Allotted	Par value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
16.07.1994	4	1	Cash; subscribers' shares	4
01.07.2003	200,000	1	Cash	200,004
01.09.2004	250,000	1	Cash	450,004
10.01.2007	549,996	1	Cash	1,000,000

2.4.4 PMK

Incorporation

PMK was incorporated in Malaysia under the Companies Act, 1965 on 5 February, 2001 as a private limited company and domiciled in Malaysia.

Principal activities

The principal activities of PMK are processing and trading of dimension stones.

Share capital

The authorised share capital of PMK is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and fully paid-up share capital is RM150,000 comprising 150,000 ordinary shares of RM1.00 each.

The changes in PMK's issued and paid-up share capital since incorporation are as follows:

Date of allotment	No. of Ordinary Share Allotted	Par value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
05.02.2001	3	1	Cash; subscribers' shares	3
10.09.2008	149,997	1	Cash	150,000

12. ACCOUNTANT REPORT (Cont'd)



2.4 Information on subsidiaries (continued)

2.4.5 HHSEC

Incorporation

HHSEC was incorporated in Malaysia under the Companies Act, 1965 on 6 July, 2005 as a private limited company and domiciled in Malaysia.

Principal activities

The principal activities of HHSEC are trading in dimension stones and related services.

Share capital

The authorised share capital of HHSEC is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and fully paid-up share capital is RM300,004 comprising 300,004 ordinary shares of RM1.00 each.

The changes in HHSEC's issued and paid-up share capital since incorporation are as follows:

Date of allotment	No. of Ordinary Share Allotted	Par value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
06.07.2005	4	1	Cash; subscribers' shares	4
24.03.2008	300,000	1	Cash	300,004

12. ACCOUNTANT REPORT (Cont'd)



3. Financial statements and auditors

The auditors who audited the financial statements of Hock Heng, HHG, HHMKL, HHMSR, PMK and HHSEC for the financial years/periods under review are as follows:

Companies	Financial years/periods ended	Auditors
Hock Heng	28 November 2008 to 30 September 2009	Ernst & Young ("EY")
HHG	1 January 2006 to 31 December 2006	EY
	1 January 2007 to 31 December 2007	EY
	1 January 2008 to 31 December 2008	EY
	1 January 2009 to 30 September 2009	EY
HHMKL	1 January 2006 to 31 December 2006	EY
	1 January 2007 to 31 December 2007	EY
	1 January 2008 to 31 December 2008	EY
	1 January 2009 to 30 September 2009	EY
HHMSR	1 January 2006 to 31 December 2006	A. V. Varan & Co.
	1 January 2007 to 31 December 2007	A. V. Varan & Co.
	1 January 2008 to 31 December 2008	EY
	1 January 2009 to 30 September 2009	EY
PMK	1 January 2006 to 31 December 2006	A. V. Varan & Co.
	1 January 2007 to 31 December 2007	A. V. Varan & Co.
	1 January 2008 to 31 December 2008	EY
	1 January 2009 to 30 September 2009	EY
HHSEC	6 July 2005 to 31 December 2006	Lau, Wong & Yeo
	1 January 2007 to 31 December 2007	Lau, Wong & Yeo
	1 January 2008 to 31 December 2008	Lau, Wong & Yeo
	1 January 2009 to 30 September 2009	EY

For the purpose of this report, the audited financial statements of Hock Heng since its date of incorporation on 28 November 2008 to 30 September 2009 is presented.

12. ACCOUNTANT REPORT (Cont'd)



3. Financial statements and auditors (continued)

The auditors have reported on the respective financial statements of Hock Heng and its subsidiaries for the relevant financial periods/years under review without any qualification or modification, except for the following emphasis of matter:

- (a) The auditors' report for the financial statements of HHSEC for the FPE 31 December 2006 emphasised that the continuance of HHSEC as a going concern is dependent on its ability to achieve future profitable operation and obtain sufficient financial support.
- (b) The auditors' reports for the financial statements of HHG, HHMKL, HHMSR, PMK and HHSEC for the nine (9) months FPE 30 September 2009 emphasised that the comparatives for income statements, statements of changes in equity and cash flow statements are in respect of comparable interim period from 1 January 2008 to 30 September 2008 in accordance with Financial Reporting Standard 134 : Interim Financial Reporting and are unaudited.

4. Accounting policies and standards

The accounting policies adopted in the preparation of this report are set out in Section 12 of this report and are consistent with the accounting policies adopted by Hock Heng and its subsidiaries ("Hock Heng Group").

The financial information presented in Sections 5 to 11 in this report for the three (3) financial periods/years ended 31 December 2006 to 2008 and nine (9) months financial period ended ("FPE") 30 September 2009 are prepared based on the audited financial statements of Hock Heng, HHG, HHMKL, HHMSR, PMK and HHSEC.

The financial statements of Hock Heng, HHG, HHMKL, HHMSR, PMK and HHSEC were prepared in accordance with Financial Reporting Standards in Malaysia.

12. ACCOUNTANT REPORT (Cont'd)



5. Hock Heng Stone Industries Bhd.

5.1 Balance sheet

	Note	As at 30 September 2009 RM'000
Asset		
Current assets		
Cash and bank balances		1
Total assets		<u>1</u>
Equity and liability		
Equity attributable to equity holders of the Company		
Share capital	5.5.1	1
Accumulated loss		(4)
Total equity		<u>(3)</u>
Current liability		
Other payables	5.5.2	4
Total liability		<u>4</u>
Total equity and liability		<u>1</u>

For the purpose of this report, the audited financial statements of Hock Heng since its date of incorporation on 28 November 2008 to 30 September 2009 is presented.

FPE 30 September 2009 is the first set of financial statements which covers the financial period of 28 November 2008 (date of incorporation) to 30 September 2009.

Ratios

Net liabilities ("NL")/net assets ("NA") (RM'000)	(3)
NL/NA per share (RM)	(1.50)
Current ratio (Times)	0.25
Loss after tax on shareholders' fund ⁽ⁱ⁾ (%)	133.33

Note

⁽ⁱ⁾ $\frac{\text{Loss after tax for the year}}{\text{Shareholders' funds}}$

12. ACCOUNTANT REPORT (Cont'd)



5. Hock Heng Stone Industries Bhd. (continued)

5.2 Income statement

	28 November 2008 to 30 September 2009 RM'000
Revenue	-
Other income	-
Operating and administrative expenses	(4)
Loss before tax	(4)
Income tax expense	-
Loss after tax	(4)
Loss before interest, depreciation, tax and amortisation ("LBIDTA") (RM'000)	4
Number of ordinary shares of RM0.50 each ('000)	2
Weighted average number of ordinary shares of RM0.50 each ('000)	2
Loss per share ("LPS")	
Gross ⁽ⁱ⁾ (RM)	(2.00)
Net ⁽ⁱⁱ⁾ (RM)	(2.00)
Net loss margin (%)	n/a
LBIDTA margin (%)	n/a
Effective tax rate (%)	-

Notes:

⁽ⁱ⁾ $\frac{\text{Loss before tax for the year}}{\text{Weighted average number of ordinary shares}}$

⁽ⁱⁱ⁾ $\frac{\text{Loss after tax for the year}}{\text{Weighted average number of ordinary shares}}$

n/a: Not applicable

12. ACCOUNTANT REPORT (Cont'd)



5. Hock Heng Stone Industries Bhd. (continued)

5.3 Statement of changes in equity

	Share capital RM'000	Accumulated loss RM'000	Total equity RM'000
At 28 November 2008	*	-	-
Issue of share capital	1	-	1
Loss for the period	-	(4)	(4)
At 30 September 2009	1	(4)	(3)

* This represents share capital of RM1.50.

5.4 Cash flow statement

	28 November 2008 to 30 September 2009 RM'000
Net cash from operating activities	-
Net cash used in investing activities	-
Net cash from financing activities	1
Net increase in cash and cash equivalents	1
Cash and cash equivalents at end of period	1

5.5 Notes to the financial statements

5.5.1 Share capital

	Number of ordinary shares of RM 0.50 each '000	Amount RM'000
As at 30 September 2009		
Authorised	200	100
Issued and fully paid up	2	1

5.5.2 Other payables

The amount is due to a company in which certain directors of Hock Heng have interest. The amount is unsecured, interest-free and repayable on demand.

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd.

6.1 Balance sheets

	Note	← As at 31 December →			As at 30
		2006 RM'000	2007 RM'000	2008 RM'000	September 2009 RM'000
Assets					
Non-current assets					
Property, plant and equipment	6.5.1	15,942	16,958	17,480	17,203
Prepaid land lease payments	6.5.2	2,346	2,311	2,545	2,516
Investment properties	6.5.3	1,654	1,616	2,040	2,011
Other investment		12	12	-	-
Exploration, evaluation and development expenditure	6.5.4	379	379	379	379
		<u>20,333</u>	<u>21,276</u>	<u>22,444</u>	<u>22,109</u>
Current assets					
Inventories	6.5.5	7,865	8,066	11,522	13,633
Trade receivables	6.5.6	9,564	13,681	11,632	9,870
Other receivables	6.5.7	2,820	261	425	2,657
Cash and bank balances	6.5.8	453	614	872	* 1,073
		<u>20,702</u>	<u>22,622</u>	<u>24,451</u>	<u>27,233</u>
Total assets		<u>41,035</u>	<u>43,898</u>	<u>46,895</u>	<u>49,342</u>
Equity and liabilities					
Equity attributable to equity holders of the company					
Share capital	6.5.9	4,300	4,300	4,300	4,300
Retained earnings	6.5.10	20,496	21,118	21,421	* 23,990
Total equity		<u>24,796</u>	<u>25,418</u>	<u>25,721</u>	<u>28,290</u>
Non-current liabilities					
Borrowings	6.5.11	3,442	3,649	4,320	3,778
Other payables		800	400	-	-
Deferred tax liabilities	6.5.12	1,218	1,343	1,504	1,434
		<u>5,460</u>	<u>5,392</u>	<u>5,824</u>	<u>5,212</u>
Current liabilities					
Trade payables	6.5.13	1,256	1,411	2,312	2,444
Other payables		1,587	1,315	1,234	1,299
Borrowings	6.5.11	7,665	10,292	11,567	11,804
Dividend payables		-	-	192	-
Tax payable		271	70	45	293
		<u>10,779</u>	<u>13,088</u>	<u>15,350</u>	<u>15,840</u>
Total liabilities		<u>16,239</u>	<u>18,480</u>	<u>21,174</u>	<u>21,052</u>
Total equity and liabilities		<u>41,035</u>	<u>43,898</u>	<u>46,895</u>	<u>49,342</u>

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.1 Balance sheets (continued)

	← As at 31 December →			As at 30
	2006	2007	2008	September
Ratios				
Net assets ("NA") (RM'000)	24,796	25,418	25,721	28,290
NA per share (RM)	5.77	5.91	5.98	6.58
Current ratio (times)	1.92	1.73	1.59	1.72
Profit after tax on shareholders' fund ⁽¹⁾ (%)	13.71	14.29	12.84	^ 12.11

Note

⁽¹⁾ $\frac{\text{Profit after tax for the year}}{\text{Shareholders' funds}}$

^ Results for the FPE 30 September 2009 had been extrapolated into 12 months results.

* These balances have not taken into account the subsequent declaration of interim tax exempt dividend of RM450,000 before the Acquisitions.

6.1.1 Restatement of Balance sheets

The restatement of balance sheets of Hock Heng Granite Sdn. Bhd. arose from the adoption of new and revised FRS. The reconciliations of the audited financial statements to that presented in this report are set out below:

	As at 31 December	
	2006	2007
	RM'000	RM'000
Previously stated in audited financial statements:		
Property, plant and equipment	19,942	20,885
Adopting of new and revised FRS: Increase/(decrease)		
Property, plant and equipment	(4,000)	(3,927)
Prepaid land lease payments	2,346	2,311
Investment properties	1,654	1,616
Restated:		
Property, plant and equipment	15,942	16,958
Prepaid land lease payments	2,346	2,311
Investment properties	1,654	1,616

Note:

In FYE 2008, HHG has adopted FRSs. Thus, no comparative amounts have been restated in FYE 2008.

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.2 Income statements

	Note	12 months ended 31 December			9 months ended 30 September	
		2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Revenue	6.5.16	18,056	22,506	35,482	24,291	21,071
Cost of sales		(12,120)	(16,574)	(29,410)	(20,067)	(17,221)
Gross profit		5,936	5,932	6,072	4,224	3,850
Other income		157	169	347	210	498
Operating and administrative expenses		(1,002)	(771)	(1,211)	(771)	(480)
Operating profit		5,091	5,330	5,208	3,663	3,868
Finance costs	6.5.17	(617)	(811)	(908)	(640)	(533)
Profit before tax		4,474	4,519	4,300	3,023	3,335
Income tax expense	6.5.18	(1,074)	(887)	(997)	(505)	(766)
Profit after tax		3,400	3,632	3,303	2,518	2,569

* The income statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

Earnings before interest, depreciation, tax and amortisation ("EBIDTA") (RM'000)	6,282	6,757	6,817	4,861	5,092
Number of ordinary shares of RM1.00 each ('000)	4,300	4,300	4,300	4,300	4,300
Weighted average number of ordinary shares of RM1.00 each ('000)	4,300	4,300	4,300	4,300	4,300
Earnings per share					
Gross ⁽ⁱ⁾ (RM)	1.04	1.05	1.00	^ 0.94	^ 1.03
Net ⁽ⁱⁱ⁾ (RM)	0.79	0.84	0.77	^ 0.78	^ 0.80
Gross profit margin (%)	32.88	26.36	17.11	17.39	18.27
Net profit margin (%)	18.83	16.14	9.31	10.37	12.19
EBIDTA margin (%)	34.79	30.02	19.21	20.01	24.17
Effective tax rate (%)	24.01	19.63	23.19	16.71	22.97
Trade receivables turnover period (months)	6.36	7.29	3.93	n/a	^ 4.22

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.2 Income statements (continued)

	12 months ended 31 December			9 months ended 30 September	
	2006	2007	2008	2008 *	2009
Trade payables turnover period (months)	1.24	1.02	0.94	n/a	^ 1.28
Inventories turnover period (months)	7.79	5.84	4.70	n/a	^ 7.12

Notes:

(i) $\frac{\text{Profit before tax for the year}}{\text{Weighted average number of ordinary shares}}$

(ii) $\frac{\text{Profit after tax for the year}}{\text{Weighted average number of ordinary shares}}$

n/a: Not applicable

^ Results for the 9 months period had been extrapolated into 12 months results.

6.3 Statements of changes in equity

	Share capital RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2006	4,300	17,096	21,396
Profit for the year	-	3,400	3,400
At 31 December 2006	4,300	20,496	24,796
Profit for the year	-	3,632	3,632
Less: dividend	-	(3,010)	(3,010)
At 31 December 2007	4,300	21,118	25,418
Profit for the year	-	3,303	3,303
Less: dividend	-	(3,000)	(3,000)
At 31 December 2008	4,300	21,421	25,721
Profit for the period	-	2,569	2,569
At 30 September 2009	4,300	23,990	28,290

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.4 Cash flow statements

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Net cash from operating activities	969	3,090	4,642	2,590	1,585
Net cash used in investing activities	(4,132)	(2,354)	(2,748)	(2,595)	(888)
Net cash from/(used in) financing activities	2,754	(816)	(1,564)	(117)	(755)
Net (decrease)/increase in cash and cash equivalents	(409)	(80)	330	(122)	(58)
Cash and cash equivalents at the beginning of year/period	(1,425)	(1,834)	(1,914)	(1,914)	(1,584)
Cash and cash equivalents at end of year/period	(1,834)	(1,914)	(1,584)	(2,036)	(1,642)
Cash and cash equivalents comprise of:					
Cash on hand and at banks	26	20	153	48	104
Deposits with licensed banks	427	594	719	693	969
Cash and bank balances	453	614	872	741	1,073
Less: Bank overdrafts	(2,287)	(2,528)	(2,456)	(2,777)	(2,715)
	(1,834)	(1,914)	(1,584)	(2,036)	(1,642)

* The cash flow statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements

6.5.1 Property, plant and equipment

	Accumulated Cost depreciation		Net carrying amount
	RM'000	RM'000	RM'000
As at 31 December 2006			
Land and buildings	9,570	(995)	8,575
Plant, machinery and factory equipment	11,867	(5,066)	6,801
Other assets	2,062	(1,496)	566
	<u>23,499</u>	<u>(7,557)</u>	<u>15,942</u>
As at 31 December 2007			
Land and buildings	10,286	(1,208)	9,078
Plant, machinery and factory equipment	13,441	(6,031)	7,410
Other assets	2,098	(1,628)	470
	<u>25,825</u>	<u>(8,867)</u>	<u>16,958</u>
As at 31 December 2008			
Land and buildings	9,774	(1,418)	8,356
Plant, machinery and factory equipment	15,615	(7,121)	8,494
Other assets	2,450	(1,820)	630
	<u>27,839</u>	<u>(10,359)</u>	<u>17,480</u>
As at 30 September 2009			
Land and buildings	10,630	(1,591)	9,039
Plant, machinery and factory equipment	15,620	(7,983)	7,637
Other assets	2,465	(1,938)	527
	<u>28,715</u>	<u>(11,512)</u>	<u>17,203</u>

(a) Other assets comprise motor vehicles, office equipment, furniture and fittings, electrical installation and cabin.

(b) Net carrying amounts of property, plant and equipment pledged to financial institutions for bank borrowings are as follows:

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
Freehold land	1,923	1,923	1,923	1,923
Factory buildings and extension	5,889	5,920	6,201	6,032
Machinery	1,779	2,422	4,261	3,956
	<u>9,591</u>	<u>10,265</u>	<u>12,385</u>	<u>11,911</u>

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.2 Prepaid land lease payments

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
At cost				
At 1 January	346	2,346	2,311	2,545
Additions	2,042	-	288	12
Amortisation for the year/period	(42)	(35)	(54)	(41)
At 31 December / 30 September	<u>2,346</u>	<u>2,311</u>	<u>2,545</u>	<u>2,516</u>

The prepaid land lease payments are in respect of short term leasehold land which have been pledged to banks for banking facilities obtained by HHG.

6.5.3 Investment properties

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
At cost	1,932	1,932	2,395	2,395
Accumulated depreciation	(278)	(316)	(355)	(384)
Net carrying amount	<u>1,654</u>	<u>1,616</u>	<u>2,040</u>	<u>2,011</u>

As at 30 September 2009, investment properties with net carrying amounts of RM1,669,000 are pledged to banks for banking facilities obtained by HHG and HHMKL.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. The fair value of the investment properties as at 30 September 2009 is approximately RM2,140,000.

6.5.4 Exploration, evaluation and development expenditure

This represents amount of exploration expenditure incurred and are stated at cost.

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.5 Inventories

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
At cost:				
Raw materials	3,202	4,105	5,221	4,986
Work-in-progress	4,621	3,904	5,905	7,784
Finished goods	42	57	396	863
	<u>7,865</u>	<u>8,066</u>	<u>11,522</u>	<u>13,633</u>

6.5.6 Trade receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Third parties	918	1,337	2,138	281
Companies in which certain directors have interests	8,646	12,344	9,494	9,589
	<u>9,564</u>	<u>13,681</u>	<u>11,632</u>	<u>9,870</u>

HHG's normal credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

HHG has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors other than amounts due from the companies in which certain directors of HHG have interests.

6.5.7 Other receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Due from companies in which certain directors have interests	2,466	86	125	390
Deposits and prepayment	56	28	24	580
Deposit for purchase of property, plant and equipment	201	72	120	65
Deposits paid to raw material suppliers	-	-	133	1,332
Sundry receivables	97	75	23	290
	<u>2,820</u>	<u>261</u>	<u>425</u>	<u>2,657</u>

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.7 Other receivables (continued)

The amount due from companies in which certain directors of HHG have interests is unsecured, interest-free and repayable on demand.

As at 30 September 2009, HHG has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors except for two (31.12.2008: nil) debtors which accounted for 50% (31.12.2008: nil) of total other receivables.

6.5.8 Cash and bank balances

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
Cash on hand and at banks	25	20	153	104
Deposits with licensed banks	428	594	719	969
Cash and bank balances	453	614	872	1,073
Less: Bank overdrafts	(2,287)	(2,528)	(2,456)	(2,715)
	(1,834)	(1,914)	(1,584)	(1,642)

The deposits with licensed banks are pledged to banks as securities for credit facilities granted to HHG.

6.5.9 Share capital

	Number of ordinary shares of RM1 each '000	Amount RM'000
As at 31 December 2006 to 2008 and 30 September 2009		
Authorised	5,000	5,000
Issued and fully paid up	4,300	4,300

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.10 Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

HHG did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, HHG may utilise the credit in the 108 balance as at 30 September 2009 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 30 September 2009, subject to agreement with the Inland Revenue Board, HHG has tax exempt account available for distribution amounting to approximately RM8,261,000 and tax credit under Section 108 of the Income Tax Act 1967 to frank the payment of dividends amounting to RM12,984,000 out of its retained earnings. If the balance of the retained earnings were to be distributed as dividends, HHG may distribute such dividends under the single tier system.

6.5.11 Borrowings

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
Short term borrowings				
Secured:				
Bank overdrafts	2,287	2,528	2,456	2,715
Bankers acceptances	4,233	6,962	8,409	8,409
Trust receipts	611	328	63	34
Term loans	366	466	639	646
Hire purchase payables	168	8	-	-
	<u>7,665</u>	<u>10,292</u>	<u>11,567</u>	<u>11,804</u>
Long term borrowings				
Secured:				
Term loans	3,421	3,649	4,320	3,778
Hire purchase payables	21	-	-	-
	<u>3,442</u>	<u>3,649</u>	<u>4,320</u>	<u>3,778</u>

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.11 Borrowings (continued)

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
Total borrowings				
Bank overdrafts	2,287	2,528	2,456	2,715
Bankers acceptances	4,233	6,962	8,409	8,409
Trust receipts	611	328	63	34
Term loans	3,787	4,115	4,959	4,424
Hire purchase payables	189	8	-	-
	<u>11,107</u>	<u>13,941</u>	<u>15,887</u>	<u>15,582</u>

The borrowings are secured by first legal charge over certain assets of HHG as disclosed in Note 6.5.1, Note 6.5.2, Note 6.5.3 and Note 6.5.8 respectively.

6.5.12 Deferred tax liabilities

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,094	1,218	1,343	1,504
Recognised in the income statement	124	125	161	(70)
At 31 December / 30 September	<u>1,218</u>	<u>1,343</u>	<u>1,504</u>	<u>1,434</u>

The deferred taxation provided represents the temporary differences between the amounts attributed to property, plant and equipment for tax purposes and their carrying amount in the financial statements.

6.5.13 Trade payables

The normal trade credit terms granted to HHG range from 30 to 90 days.

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.14 Capital commitment

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
Property, plant and equipment:				
- Approved and contracted for	124	111	-	3,398
- Approved but not contracted for	-	-	3,300	1,423

6.5.15 Contingent liabilities

As at 30 September 2009, HHG has contingent liabilities amounting to RM995,000 for an unsecured corporate guarantee given to financial institution in respect of credit facility granted to a company in which certain directors of HHG have interest.

6.5.16 Revenue

Revenue of HHG represents invoiced value of sales net of discounts.

6.5.17 Finance costs

	12 months ended 31 December			9 months ended	
	2006	2007	2008	2008 *	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Bankers' acceptance interest	235	259	422	296	234
Banks interest	145	219	205	154	139
Hire purchase interest	26	10	-	-	-
Loan interest	180	298	264	173	157
Trust receipt interest	31	25	17	17	3
	617	811	908	640	533

12. ACCOUNTANT REPORT (Cont'd)



6. Hock Heng Granite Sdn. Bhd. (continued)

6.5 Notes to the financial statements (continued)

6.5.18 Income tax expense

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Income tax:					
Current year / period	904	737	725	322	836
Underprovided in prior years	46	25	111	-	-
	<u>950</u>	<u>762</u>	<u>836</u>	<u>322</u>	<u>836</u>
Deferred tax:					
Relating to origination and reversal of temporary differences	143	155	167	188	(49)
Relating to reduction in tax rate	(102)	(162)	(54)	(55)	-
(Over)/underprovided in prior years	83	132	48	50	(21)
	<u>124</u>	<u>125</u>	<u>161</u>	<u>183</u>	<u>(70)</u>
	<u>1,074</u>	<u>887</u>	<u>997</u>	<u>505</u>	<u>766</u>
Income tax is calculated at the statutory tax rate as set out below:					
Statutory tax rate	<u>28%</u>	<u>27%</u>	<u>26%</u>	<u>26%</u>	<u>25%</u>

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd.

7.1 Balance sheets

	Note	As at 30			
		← As at 31 December →		September	
		2006	2007	2008	2009
		RM'000	RM'000	RM'000	RM'000
Assets					
Non-current asset					
Property, plant and equipment	7.5.1	532	624	610	533
Current assets					
Trade receivables	7.5.2	6,453	11,118	10,330	9,984
Other receivables	7.5.3	795	760	238	255
Cash and bank balances	7.5.5	148	7	412	248
Tax recoverable		22	-	-	2
		<u>7,418</u>	<u>11,885</u>	<u>10,980</u>	<u>10,489</u>
Total assets		7,950	12,509	11,590	11,022
Equity and liabilities					
Equity attributable to equity holders of the company					
Share capital	7.5.6	200	200	200	200
Retained earnings	7.5.7	1,239	2,363	3,771	4,403
Total equity		1,439	2,563	3,971	4,603
Non-current liabilities					
Borrowings	7.5.8	427	389	300	228
Deferred tax liabilities	7.5.9	6	34	48	46
		<u>433</u>	<u>423</u>	<u>348</u>	<u>274</u>
Current liabilities					
Trade payables	7.5.10	5,866	8,433	6,454	5,807
Other payables	7.5.11	144	648	297	244
Borrowings	7.5.8	68	192	213	94
Tax payable		-	250	307	-
		<u>6,078</u>	<u>9,523</u>	<u>7,271</u>	<u>6,145</u>
Total liabilities		6,511	9,946	7,619	6,419
Total equity and liabilities		7,950	12,509	11,590	11,022
Ratios					
Net assets ("NA") (RM'000)		1,439	2,563	3,971	4,603
NA per share (RM)		7.20	12.82	19.86	23.02
Current ratio (times)		1.22	1.25	1.51	1.71
Profit after tax on shareholders' fund ⁽¹⁾ (%)		16.96	43.85	35.46	[^] 18.31

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.1 Balance sheets (continued)

Note

⁽ⁱ⁾ Profit after tax for the year
Shareholders' funds

[^] Results for the FPE 30 September 2009 had been extrapolated into 12 months results.

7.2 Income statements

	Note	12 months ended 31 December			9 months ended 30 September	
		2006	2007	2008	2008 *	2009
		RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	7.5.13	13,313	17,449	30,025	24,078	11,714
Cost of sales	7.5.14	(12,014)	(13,955)	(26,349)	(21,248)	(9,405)
Gross profit		1,299	3,494	3,676	2,830	2,309
Other income		55	24	2	-	7
Operating and administrative expenses		(1,040)	(1,921)	(1,726)	(1,260)	(1,445)
Operating profit		314	1,597	1,952	1,570	871
Finance costs	7.5.15	(6)	(36)	(30)	(22)	(18)
Profit before tax		308	1,561	1,922	1,548	853
Income tax expense	7.5.16	(64)	(437)	(514)	(412)	(221)
Profit after tax		244	1,124	1,408	1,136	632

* The income statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

Earnings before interest, depreciation,
tax and amortisation ("EBIDTA")
(RM'000)

356 1,696 2,072 1,659 966

Number of ordinary
shares of RM1.00 each ('000)

200 200 200 200 200

Weighted average number of
ordinary shares of RM1.00 each ('000)

73 200 200 200 200

Earnings per share

Gross ⁽ⁱ⁾ (RM) 4.22 7.81 9.61 [^] 10.32 [^] 5.69

Net ⁽ⁱⁱ⁾ (RM) 3.34 5.62 7.04 [^] 7.57 [^] 4.21

Gross profit margin (%) 9.76 20.02 12.24 11.75 19.71

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.2 Income statement (continued)

	12 months ended 31 December			9 months ended 30 September	
	2006	2007	2008	2008 *	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Net profit margin (%)	1.83	6.44	4.69	4.72	5.40
EBIDTA margin (%)	2.67	9.72	6.90	6.89	8.25
Effective tax rate (%)	20.78	27.99	26.74	26.61	25.91
Trade receivables turnover period (months)	5.82	7.65	4.13	n/a	^ 7.67
Trade payables turnover period (months)	5.86	7.25	2.94	n/a	^ 5.56

Notes:

(i) $\frac{\text{Profit before tax for the year}}{\text{Weighted average number of ordinary shares}}$

(ii) $\frac{\text{Profit after tax for the year}}{\text{Weighted average number of ordinary shares}}$

n/a: Not applicable

^ Results for the 9 months period had been extrapolated into 12 months results.

7.3 Statements of changes in equity

	Share capital RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2006	*	995	995
issue of share capital	200	-	200
Profit for the year	-	244	244
At 31 December 2006	200	1,239	1,439
Profit for the year	-	1,124	1,124
At 31 December 2007	200	2,363	2,563
Profit for the year	-	1,408	1,408
At 31 December 2008	200	3,771	3,971
Profit for the period	-	632	632
At 30 September 2009	200	4,403	4,603

* This represents share capital of RM4.00.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.4 Cash flow statements

	12 months ended 31 December			9 months ended 30 September	
	2006	2007	2008	2008 *	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash (used in)/from operating activities	(105)	(36)	580	935	45
Net cash used in investing activities	(91)	(111)	(106)	(59)	(19)
Net cash from/(used in) financing activities	287	(102)	(84)	(63)	(67)
Net increase/(decrease) in cash and cash equivalents	91	(249)	390	813	(41)
Cash and cash equivalents at the beginning of year/period	57	148	(101)	(101)	289
Cash and cash equivalents at end of year/period	148	(101)	289	712	248
Cash and cash equivalents comprise of:					
Cash on hand and at banks	148	7	212	362	48
Deposits with licensed banks	-	-	200	350	200
Cash and bank balances	148	7	412	712	248
Less: Bank overdrafts	-	(108)	(123)	-	-
	148	(101)	289	712	248

* The cash flow statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements

7.5.1 Property, plant and equipment

	Accumulated Cost depreciation		Net carrying amount
	RM'000	RM'000	RM'000
As at 31 December 2006			
Motor vehicles	469	(12)	457
Furniture, fittings & office equipment	74	(23)	51
Other assets	37	(13)	24
	<u>580</u>	<u>(48)</u>	<u>532</u>
As at 31 December 2007			
Motor vehicles	637	(94)	543
Furniture, fittings & office equipment	83	(30)	53
Other assets	49	(21)	28
	<u>769</u>	<u>(145)</u>	<u>624</u>
As at 31 December 2008			
Motor vehicles	670	(194)	476
Furniture, fittings & office equipment	135	(40)	95
Other assets	71	(32)	39
	<u>876</u>	<u>(266)</u>	<u>610</u>
As at 30 September 2009			
Motor vehicles	670	(269)	401
Furniture, fittings & office equipment	141	(50)	91
Other assets	82	(41)	41
	<u>893</u>	<u>(360)</u>	<u>533</u>

(a) Other assets comprise computers, renovation and electrical installation.

(b) Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

	← As at 31 December →			As at 30 September
	2006	2007	2008	2009
	RM'000	RM'000	RM'000	RM'000
Motor vehicles	404	415	341	286

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.2 Trade receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Trade receivables	4,578	6,894	7,078	6,183
Due from companies in which certain directors have interests	-	111	-	-
Due from customers on contracts (Note 7.5.4)	1,046	2,653	1,507	1,934
Retention sum on contract (Note 7.5.4)	957	1,588	1,873	1,995
	<u>6,581</u>	<u>11,246</u>	<u>10,458</u>	<u>10,112</u>
Less: Provision for doubtful debts	(128)	(128)	(128)	(128)
	<u>6,453</u>	<u>11,118</u>	<u>10,330</u>	<u>9,984</u>

HHMKL's normal credit term ranges from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

As at 30 September 2009, HHMKL has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors other than amounts due from two (31.12.2008: two) debtors which collectively accounted for 28% (31.12.2008: 33%) of the total trade receivables.

7.5.3 Other receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Due from companies in which certain directors have interests	668	481	-	-
Due from a director	25	-	-	-
Deposits and prepayment	60	254	125	144
Deposit for purchase of property, plant and equipment	-	-	111	111
Sundry receivables	42	25	2	-
	<u>795</u>	<u>760</u>	<u>238</u>	<u>255</u>

The amounts due from a director and companies in which certain directors of HHMKL have interests are unsecured, interest-free and repayable on demand.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.4 Due from/(to) customers on contracts

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
	RM'000	RM'000	RM'000	RM'000
Contract costs incurred to date	6,828	12,273	4,005	5,415
Attributable profits	132	2,560	1,137	1,490
	<u>6,960</u>	<u>14,833</u>	<u>5,142</u>	<u>6,905</u>
Less: Progress billings	(5,914)	(12,180)	(3,649)	(4,971)
	<u>1,046</u>	<u>2,653</u>	<u>1,493</u>	<u>1,934</u>
Due from customers on contracts (Note 7.5.2)	1,046	2,653	1,507	1,934
Due to customers on contracts (Note 7.5.10)	-	-	(14)	-
	<u>1,046</u>	<u>2,653</u>	<u>1,493</u>	<u>1,934</u>
Retention sums on contracts, included within trade receivables (Note 7.5.2)	957	1,588	1,873	1,995
Contract costs recognised as an expense	<u>8,209</u>	<u>8,824</u>	<u>15,927</u>	<u>2,688</u>

7.5.5 Cash and bank balances

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
	RM'000	RM'000	RM'000	RM'000
Cash on hand and at banks	148	7	212	48
Deposits with licensed banks	-	-	200	200
Cash and bank balances	<u>148</u>	<u>7</u>	<u>412</u>	<u>248</u>
Less: Bank overdrafts	-	(108)	(123)	-
	<u>148</u>	<u>(101)</u>	<u>289</u>	<u>248</u>

The deposits with licensed banks are pledged to banks as securities for bank guarantee facilities granted to HHMKL.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.6 Share capital

	Number of ordinary shares of RM1 each '000	Amount RM'000
As at 31 December 2006 to 2008 and 30 September 2009		
Authorised	500	500
Issued and fully paid up	200	200

7.5.7 Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

HHMKL did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, HHMKL may utilise the credit in the 108 balance as at 30 September 2009 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 30 September 2009, HHMKL has tax credit under Section 108 of the Income Tax Act 1967 to frank the payment of dividends amounting to RM1,416,000 out of its retained earnings. If the balance of the retained earnings were to be distributed as dividends, HHMKL may distribute such dividends under the single tier system.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.8 Borrowings

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009 RM'000
Short term borrowings				
Secured:				
Bank overdrafts	-	108	123	-
Term loans	14	15	17	19
Hire purchase payables	54	69	73	75
	<u>68</u>	<u>192</u>	<u>213</u>	<u>94</u>
Long term borrowings				
Secured:				
Term loans	186	172	156	140
Hire purchase payables	241	217	144	88
	<u>427</u>	<u>389</u>	<u>300</u>	<u>228</u>
Total borrowings				
Bank overdrafts	-	108	123	-
Term loans	200	187	173	159
Hire purchase payables	295	286	217	163
	<u>495</u>	<u>581</u>	<u>513</u>	<u>322</u>

The borrowings are secured by third party charge over properties owned by HHG.

7.5.9 Deferred tax liabilities

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009 RM'000
At 1 January	6	6	34	48
Recognised in the income statement	-	28	14	(2)
At 31 December / 30 September	<u>6</u>	<u>34</u>	<u>48</u>	<u>46</u>

The deferred taxation provided represents the temporary differences between the amounts attributed to property, plant and equipment for tax purposes and their carrying amount in the financial statements.

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.10 Trade payables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Trade payables	1,414	698	1,138	583
Due to companies in which the directors have interests	4,452	7,735	5,302	5,224
Due to customers on contracts (Note 7.5.4)	-	-	14	-
	<u>5,866</u>	<u>8,433</u>	<u>6,454</u>	<u>5,807</u>

The normal trade credit terms granted to HHMKL range from 30 to 60 days.

7.5.11 Other payables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Sundry payables	73	412	141	91
Accruals	71	161	156	135
Due to companies in which the directors have interests	-	-	-	18
Due to a director	-	75	-	-
	<u>144</u>	<u>648</u>	<u>297</u>	<u>244</u>

The amounts due to a director and companies in which certain directors of HHMKL have interests are unsecured, interest-free and repayable on demand.

7.5.12 Capital commitment

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Approved and contracted for: Property, plant and equipment	-	-	1,363	1,363

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.13 Revenue

Revenue of HHMKL consists of the following:

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Sales of goods	4,457	7,031	11,666	7,301	8,440
Contract revenue	8,856	10,418	18,359	16,777	3,274
	<u>13,313</u>	<u>17,449</u>	<u>30,025</u>	<u>24,078</u>	<u>11,714</u>

7.5.14 Cost of sales

Cost of sales consists of cost of goods sold and the proportionate cost and expenses incurred in relation to the contract revenue recognised.

7.5.15 Finance costs

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Bank interest	-	7	3	2	2
Hire purchase interest	6	14	15	9	7
Term loan interest	-	15	12	11	9
	<u>6</u>	<u>36</u>	<u>30</u>	<u>22</u>	<u>18</u>

12. ACCOUNTANT REPORT (Cont'd)



7. Hock Heng Marketing (KL) Sdn. Bhd. (continued)

7.5 Notes to the financial statements (continued)

7.5.16 Income tax expense

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Income tax:					
Current year / period	64	399	500	404	223
Underprovided in prior years	-	10	-	-	-
	<u>64</u>	<u>409</u>	<u>500</u>	<u>404</u>	<u>223</u>
Deferred tax:					
Relating to origination and reversal of temporary differences	-	15	5	(4)	-
Relating to reduction in tax rate	-	(1)	(2)	(1)	-
Under/(over)provided in prior years	-	14	11	13	(2)
	<u>-</u>	<u>28</u>	<u>14</u>	<u>8</u>	<u>(2)</u>
	<u>64</u>	<u>437</u>	<u>514</u>	<u>412</u>	<u>221</u>

Income tax is calculated at the statutory tax rate as set out below:

Statutory tax rate	<u>28%</u>	<u>27%</u>	<u>26%</u>	<u>26%</u>	<u>25%</u>
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12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd.

8.1 Balance sheets

	Note	← As at 31 December →			As at 30
		2006 RM'000	2007 RM'000	2008 RM'000	September 2009 RM'000
Assets					
Non-current assets					
Property, plant and equipment	8.5.1	753	2,268	2,751	3,121
Investment property	8.5.2	435	594	579	577
		<u>1,188</u>	<u>2,862</u>	<u>3,330</u>	<u>3,698</u>
Current assets					
Inventories	8.5.3	118	102	243	846
Trade receivables	8.5.4	4,185	4,229	3,527	2,663
Other receivables	8.5.5	708	962	267	615
Cash and bank balances		46	49	288	62
Tax recoverable		51	-	85	154
		<u>5,108</u>	<u>5,342</u>	<u>4,410</u>	<u>4,340</u>
Total assets		<u>6,296</u>	<u>8,204</u>	<u>7,740</u>	<u>8,038</u>
Equity and liabilities					
Equity attributable to equity holders of the company					
Share capital	8.5.6	450	1,000	1,000	1,000
Retained earnings	8.5.7	1,474	1,895	2,171	2,467
Total equity		<u>1,924</u>	<u>2,895</u>	<u>3,171</u>	<u>3,467</u>
Non-current liabilities					
Borrowings	8.5.8	529	1,851	1,977	1,941
Deferred tax liabilities	8.5.9	45	42	54	105
		<u>574</u>	<u>1,893</u>	<u>2,031</u>	<u>2,046</u>
Current liabilities					
Trade payables	8.5.10	2,462	1,873	1,474	962
Other payables	8.5.11	1,218	1,214	546	738
Borrowings	8.5.8	118	273	518	825
Tax payable		-	56	-	-
		<u>3,798</u>	<u>3,416</u>	<u>2,538</u>	<u>2,525</u>
Total liabilities		<u>4,372</u>	<u>5,309</u>	<u>4,569</u>	<u>4,571</u>
Total equity and liabilities		<u>6,296</u>	<u>8,204</u>	<u>7,740</u>	<u>8,038</u>
Ratios					
Net assets ("NA") (RM'000)		1,924	2,895	3,171	3,467
NA per share (RM)		4.28	2.90	3.17	3.47
Current ratio (times)		1.34	1.56	1.74	1.72
Profit after tax on shareholders' fund ⁽¹⁾ (%)		29.31	14.54	8.70	^ 11.38

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.1 Balance sheets (continued)

Note

⁽ⁱ⁾ Profit after tax for the year
Shareholders' funds

^ Results for the FPE 30 September 2009 had been extrapolated into 12 months results.

8.2 Income statements

	Note	12 months ended 31 December			9 months ended 30 September	
		2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Revenue	8.5.12	8,760	9,288	9,607	7,185	6,028
Cost of sales		(7,005)	(7,213)	(7,900)	(5,740)	(4,628)
Gross profit		1,755	2,075	1,707	1,445	1,400
Other income		66	41	122	27	13
Operating and administrative expenses		(1,037)	(1,460)	(1,437)	(1,026)	(943)
Operating profit		784	656	392	446	470
Finance costs	8.5.13	(29)	(38)	(40)	(56)	(79)
Profit before tax		755	618	352	390	391
Income tax expense	8.5.14	(191)	(197)	(76)	(36)	(95)
Profit after tax		564	421	276	354	296

* The income statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

Earnings before interest, depreciation,
tax and amortisation ("EBIDTA")

(RM'000)	865	785	533	577	631
Number of ordinary shares of RM1.00 each ('000)	450	1,000	1,000	1,000	1,000
Weighted average number of ordinary shares of RM1.00 each ('000)	450	986	1,000	1,000	1,000
Earnings per share					
Gross ⁽ⁱ⁾ (RM)	1.68	0.63	0.35	^ 0.52	^ 0.52
Net ⁽ⁱⁱ⁾ (RM)	1.25	0.43	0.28	^ 0.47	^ 0.39

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.2 Income statements (continued)

	12 months ended 31 December			9 months ended 30 September	
	2006	2007	2008	2008 *	2009
Gross profit margin (%)	20.03	22.34	17.77	20.11	23.22
Net profit margin (%)	6.44	4.53	2.87	4.93	4.91
EBIDTA margin (%)	9.87	8.45	5.55	8.03	10.47
Effective tax rate (%)	25.30	31.88	21.59	9.23	24.30
Trade receivables turnover period (months)	5.73	5.46	4.41	n/a	^ 3.98
Trade payables turnover period (months)	4.22	3.12	2.24	n/a	^ 1.87
Inventories turnover period (months)	0.20	0.17	0.37	n/a	^ 1.65

Notes:

⁽ⁱ⁾ Profit before tax for the year
Weighted average number of ordinary shares

⁽ⁱⁱ⁾ Profit after tax for the year
Weighted average number of ordinary shares

n/a: Not applicable

^ Results for the 9 months period had been extrapolated into 12 months results.

8.3 Statements of changes in equity

	Share capital RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2006	450	910	1,360
Profit for the year	-	564	564
At 31 December 2006	450	1,474	1,924
Issue of share capital	550	-	550
Profit for the year	-	421	421
At 31 December 2007	1,000	1,895	2,895
Profit for the year	-	276	276
At 31 December 2008	1,000	2,171	3,171
Profit for the period	-	296	296
At 30 September 2009	1,000	2,467	3,467

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.4 Cash flow statements

	12 months ended 31 December			9 months ended 30 September	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 * RM'000	2009 RM'000
Net cash (used in)/from operating activities	(158)	658	-	(119)	32
Net cash from/(used in) investing activities	101	(1,804)	(369)	(92)	(529)
Net cash (used in)/from financing activities	(89)	1,149	608	336	271
Net (decrease)/increase in cash and cash equivalents	(146)	3	239	125	(226)
Cash and cash equivalents at the beginning of year/period	192	46	49	49	288
Cash and cash equivalents at end of year/period	46	49	288	174	62

* The cash flow statement for the FPE 30 September 2008 is unaudited and is included for comparison purposes only.

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.5 Notes to the financial statements

8.5.1 Property, plant and equipment

	Accumulated Cost depreciation		Net carrying amount
	RM'000	RM'000	RM'000
As at 31 December 2006			
Plant, machinery and factory equipment	5	(4)	1
Motor vehicles	1,144	(483)	661
Other assets	155	(64)	91
	<u>1,304</u>	<u>(551)</u>	<u>753</u>
As at 31 December 2007			
Capital work in progress	1,598	-	1,598
Plant, machinery and factory equipment	5	(4)	1
Motor vehicles	1,174	(588)	586
Other assets	158	(75)	83
	<u>2,935</u>	<u>(667)</u>	<u>2,268</u>
As at 31 December 2008			
Capital work in progress	1,746	-	1,746
Plant, machinery and factory equipment	347	(6)	341
Motor vehicles	1,087	(566)	521
Other assets	229	(86)	143
	<u>3,409</u>	<u>(658)</u>	<u>2,751</u>
As at 30 September 2009			
Land and buildings	2,054	(15)	2,039
Plant, machinery and factory equipment	415	(33)	382
Motor vehicles	1,111	(660)	451
Other assets	350	(101)	249
	<u>3,930</u>	<u>(809)</u>	<u>3,121</u>

(a) Other assets comprise office equipment, furniture, fittings, renovation and electrical installation.

(b) The land and buildings have been pledged to bank for banking facilities obtained by HHMSR.

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.5 Notes to the financial statements (continued)

8.5.1 Property, plant and equipment (continued)

(c) Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Motor vehicles	599	470	385	321
Plant and machinery	-	-	151	316
	<u>599</u>	<u>470</u>	<u>536</u>	<u>637</u>

8.5.2 Investment property

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
At cost	458	630	630	637
Accumulated depreciation	(23)	(36)	(51)	(60)
Net carrying amount	<u>435</u>	<u>594</u>	<u>579</u>	<u>577</u>

The investment property represents a leasehold land and building rented to HHSEC and is pledged to a bank for banking facilities obtained by HHMSR.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. The fair value of the investment property as at 30 September 2009 is approximately RM550,000.

8.5.3 Inventories

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
At cost:				
Raw materials	-	-	-	630
Finished goods	118	102	243	216
	<u>118</u>	<u>102</u>	<u>243</u>	<u>846</u>

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.5 Notes to the financial statements (continued)

8.5.4 Trade receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Third parties	4,061	4,281	3,779	2,931
Companies in which certain directors have interests	124	102	17	1
	<u>4,185</u>	<u>4,383</u>	<u>3,796</u>	<u>2,932</u>
Less: Provision for doubtful debts	-	(154)	(269)	(269)
	<u>4,185</u>	<u>4,229</u>	<u>3,527</u>	<u>2,663</u>

HHMSR's normal credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

As at 30 September 2009, HHMSR has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors other than amount due from one (31.12.2008: nil) debtor which accounted for 19% (31.12.2008: nil) of the total trade receivables.

8.5.5 Other receivables

	← As at 31 December →			As at 30
	2006	2007	2008	September
	RM'000	RM'000	RM'000	2009
				RM'000
Due from companies in which certain directors have interests	142	18	93	118
Deposits and prepayment	4	4	33	25
Deposits paid to sub-contractors	-	-	-	230
Deposits paid to suppliers	-	-	49	193
Due from directors	205	898	-	-
Sundry receivables	357	42	92	49
	<u>708</u>	<u>962</u>	<u>267</u>	<u>615</u>

The amounts due from directors and companies in which certain directors of HHMSR have interests are unsecured, interest-free and repayable on demand.

As at 30 September 2009, HHMSR has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors except for four (31.12.2008: one) debtors which collectively accounted for 71% (31.12.2008: 35%) of total other receivables.

12. ACCOUNTANT REPORT (Cont'd)



8. Hock Heng Marketing (Southern Region) Sdn. Bhd. (continued)

8.5 Notes to the financial statements (continued)

8.5.6 Share capital

	Number of ordinary shares of RM1 each '000	Amount RM'000
As at 31 December 2006		
Authorised	500	500
Issued and fully paid up	<u>450</u>	<u>450</u>
As at 31 December 2007 to 2008 and 30 September 2009		
Authorised	1,000	1,000
Issued and fully paid up	<u>1,000</u>	<u>1,000</u>

8.5.7 Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

HHMSR did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, HHMSR may utilise the credit in the 108 balance as at 30 September 2009 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 30 September 2009, HHMSR has sufficient tax credit under Section 108 of the Income Tax Act 1967 to frank the payment of dividends out of its entire retained earnings.