



HOCK HENG STONE INDUSTRIES BHD.

(Company No. : 840040-H)

(Incorporated in Malaysia)

**Interim Financial Report
For the second quarter ended
30 June 2010**

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statement of Comprehensive Income
For the second quarter ended 30 June 2010
(The figures have not been audited)

	Note	Individual quarter		Cumulative quarter	
		Current year quarter ended 30.6.2010 RM'000	Preceding year corresponding quarter ended 30.6.2009 RM'000	Current year- to-date 30.6.2010 RM'000	Preceding year corresponding period 30.6.2009 RM'000
Continuing operations					
Revenue		9,018	N/A	16,530	N/A
Cost of sales		(6,700)	N/A	(12,045)	N/A
Gross profit		2,318	N/A	4,485	N/A
Other income		34	N/A	82	N/A
Administrative, general and selling expenses		(1,440)	N/A	(2,863)	N/A
Operating profit		912	N/A	1,704	N/A
Finance costs		(227)	N/A	(443)	N/A
Profit before tax		685	N/A	1,261	N/A
Income tax expense	20	(179)	N/A	(346)	N/A
Profit for the period		506	N/A	915	N/A
Other comprehensive income		-	N/A	-	N/A
Total comprehensive income for the period		506	N/A	915	N/A
Profit attributable to:					
Equity holders of the Company		504	N/A	912	N/A
Non-controlling interests		2	N/A	3	N/A
		506	N/A	915	N/A
Total comprehensive income attributable to:					
Equity holders of the Company		504	N/A	912	N/A
Non-controlling interests		2	N/A	3	N/A
		506	N/A	915	N/A
Earnings per share attributable to equity holders of the Company:					
Basic, for the period (sen)	29	0.70	N/A	1.27	N/A
Diluted, for the period (sen)	29	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable

- (a) The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 in the Prospectus dated 9 March 2010 and the accompanying explanatory notes attached to this interim financial report.
- (b) No comparative figures for the preceeding year's corresponding period are available as this is the second interim financial report being announced in compliance with the listing requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the Main Market ("Listing Requirements").

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statement of Financial Position
As at 30 June 2010

	Note	Unaudited As at 30.6.2010 RM'000	Audited As at 31.12.2009 RM'000
Assets			
Non-current assets			
Property, plant and equipment		22,932	N/A
Investment properties		1,981	N/A
Prepaid land lease payments		2,632	N/A
Exploration, evaluation and development expenditure		379	N/A
		<u>27,924</u>	<u>N/A</u>
Current assets			
Inventories		21,584	N/A
Trade receivables		20,042	N/A
Other receivables		1,771	N/A
Tax recoverable		164	N/A
Cash and bank balances		4,763	N/A
		<u>48,324</u>	<u>N/A</u>
Total assets		<u>76,248</u>	<u>N/A</u>
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		40,000	N/A
Retained earnings		7,694	N/A
		<u>47,694</u>	<u>N/A</u>
Non-controlling interests		53	N/A
Total equity		<u>47,747</u>	<u>N/A</u>
Non-current liabilities			
Borrowings	24	6,037	N/A
Deferred tax liabilities		1,557	N/A
		<u>7,594</u>	<u>N/A</u>
Current liabilities			
Borrowings	24	13,700	N/A
Trade payables		4,934	N/A
Other payables		1,981	N/A
Tax payable		292	N/A
		<u>20,907</u>	<u>N/A</u>
Total liabilities		<u>28,501</u>	<u>N/A</u>
Total equity and liabilities		<u>76,248</u>	<u>N/A</u>
Net assets per share attributable to ordinary equity holders of the Company (sen)		<u>59.62</u>	<u>N/A</u>

Notes:

N/A Not applicable

- (a) The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 in the Prospectus dated 9 March 2010 and the accompanying explanatory notes attached to this interim financial report.
- (b) No comparative figures are available as this is the second interim financial report being announced in compliance with the Listing Requirements.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statement of Changes in Equity
For the second quarter ended 30 June 2010
(The figures have not been audited)

	Attributable to equity holders of the Company					
	Share capital	Non-distributable Share premium	Distributable Retained earnings	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2010	1	-	(6)	(5)	-	(5)
Issuance of ordinary shares pursuant to the acquisition of subsidiaries	32,328	-	-	32,328	-	32,328
Arising from acquisition of subsidiaries	-	-	34,193	34,193	50	34,243
Merger deficit set off	-	-	(26,431)	(26,431)	-	(26,431)
Public issue of RM0.55 per share	7,671	767	-	8,438	-	8,438
Share issue expenses	-	(767)	(974)	(1,741)	-	(1,741)
Total comprehensive income for the period	-	-	912	912	3	915
As at 30 June 2010	40,000	-	7,694	47,694	53	47,747

Notes:

- (a) The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 in the Prospectus dated 9 March 2010 and the accompanying explanatory notes attached to this interim financial report.
- (b) No comparative figures are available as this is the second interim financial report being announced in compliance with the Listing Requirements.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statement of Cash Flows
For the second quarter ended 30 June 2010
(The figures have not been audited)

	Current year- to-date 30.6.2010	Preceding year corresponding period 30.6.2009
Cash flows from operating activities		
Profit before tax	1,261	N/A
Adjustment for:		
Non-cash items	1,463	N/A
Operating profit before changes in working capital	<u>2,724</u>	<u>N/A</u>
Changes in working capital:		
Increase in inventories	(2,558)	N/A
Increase in receivables	(3,270)	N/A
Increase in payables	1,703	N/A
Cash used in operations	<u>(1,401)</u>	<u>N/A</u>
Income tax paid	(568)	N/A
Interest paid	(443)	N/A
Net cash used in operating activities	<u>(2,412)</u>	<u>N/A</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,420)	N/A
Proceeds from disposal of property, plant and equipment	40	N/A
Interest received	17	N/A
Net cash used in investing activities	<u>(1,363)</u>	<u>N/A</u>
Cash flows from financing activities		
Increase of short term borrowings	1,932	N/A
Repayment of term loans	(295)	N/A
Repayment of hire purchase payables	(176)	N/A
Repayment to shareholders	(450)	N/A
Proceeds from issuance of ordinary shares	8,438	N/A
Payment of listing expenses	(1,741)	N/A
Net cash from financing activities	<u>7,708</u>	<u>N/A</u>
Net increase in cash and cash equivalents	3,933	N/A
Cash and cash equivalents at beginning of period	(1,077)	N/A
Cash and cash equivalents at end of period	<u>2,856</u>	<u>N/A</u>
Cash and cash equivalents at the end of the financial period comprise the following:		
Cash and bank balances	4,763	N/A
Less: Bank overdrafts	(1,907)	N/A
	<u>2,856</u>	<u>N/A</u>

Notes:

N/A Not applicable

- (a) The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 in the Prospectus dated 9 March 2010 and the accompanying explanatory notes attached to this interim financial report.
- (b) No comparative figures are available as this is the second interim financial report being announced in compliance with the Listing Requirements.

Company No. : 840040-H

**Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)**

Notes to the Interim Financial Report for the second quarter ended 30 June 2010

Part A - Explanatory notes pursuant to Financial Reporting Standard 134

1. Basis of preparation

The Company was listed on the Main Market of Bursa Securities on 26 March 2010.

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRSs") 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements. This is the second interim financial report on the second quarter ended 30 June 2010 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding period.

The interim financial report should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 in the Prospectus dated 9 March 2010 and the accompanying explanatory notes attached to this interim financial report.

The accounting policies and methods of computation adopted by the Group in the interim financial report are in compliance with the new and revised FRSs issued by MASB.

2. Summary of significant accounting policies

The significant accounting policies adopted are consistent with the Proforma Consolidated Financial Information and the Accountants' Report for the financial period ended 30 September 2009 as disclosed in the Prospectus dated 9 March 2010.

2.1 Changes in accounting policies and effects arising from adoption of new and revised FRSs, amendments to FRSs and Interpretations

At beginning of the current financial period, the Group had adopted the following new and revised FRSs, amendments to FRSs and Interpretations:

Effective for financial periods beginning on or after 1 July 2009

- FRS 8: Operating Segments

Effective for financial periods beginning on or after 1 January 2010

- FRS 4: Insurance Contracts
- FRS 7: Financial Instruments: Disclosures
- FRS 101: Presentation of Financial Statements (revised)
- FRS 123: Borrowing Costs
- FRS 139: Financial Instruments: Recognition and Measurement
- Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

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Hock Heng Stone Industries Bhd.
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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

2. Summary of significant accounting policies (continued)

2.1 Changes in accounting policies and effects arising from adoption of new and revised FRSs, amendments to FRSs and Interpretations (continued)

Effective for financial periods beginning on or after 1 January 2010 (continued)

- Amendments to FRS 2: Share-based Payment - Vesting Conditions and Cancellations
- Amendments to FRS 5: Non-current Assets Held For Sale and Discontinued Operations
- Amendments to FRS 8: Operating Segments
- Amendments to FRS 107: Cash Flow Statements
- Amendments to FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to FRS 110: Events after the Reporting Period
- Amendments to FRS 116: Property, Plant and Equipment
- Amendments to FRS 117: Leases
- Amendments to FRS 118: Revenue
- Amendments to FRS 119: Employee Benefits
- Amendments to FRS 120: Accounting for Government Grants and Disclosure of Government Assistance
- Amendments to FRS 123: Borrowing Costs
- Amendments to FRS 127: Consolidated and Separate Financial Statements
- Amendments to FRS 128: Investment in Associates
- Amendments to FRS 129: Financial Reporting in Hyperinflationary Economies
- Amendments to FRS 131: Interests in Joint Ventures
- Amendments to FRS 132: Financial Instruments: Presentation
- Amendments to FRS 134: Interim Financial Reporting
- Amendments to FRS 136: Impairment of Assets
- Amendments to FRS 138: Intangible Assets
- Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives
- Amendments to FRS 140: Investment Property
- Amendments to FRSs 'Improvements to FRSs (2009)'
- IC Interpretation 9: Reassessment of Embedded Derivatives
- IC Interpretation 10: Interim Financial Reporting and Impairment
- IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions
- IC Interpretation 13: Customer Loyalty Programmes
- IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- TR i - 3: Presentation of Financial Statements of Islamic Financial Institutions

The adoption of these new and revised FRSs, amendments to FRSs and Interpretations do not have any significant impact on the interim financial report of the Group.

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**Hock Heng Stone Industries Bhd.
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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

2. Summary of significant accounting policies (continued)

2.2 Standards and interpretations issued but not yet effective

The following new FRSs, amendments to FRSs and Interpretations were issued but not yet effective and have not been applied by the Group:

Effective for financial periods beginning on or after 1 July 2010

- FRS 1: First-time Adoption of Financial Reporting Standards
- FRS 3: Business Combinations (revised)
- FRS 127: Consolidated and Separate Financial Statements (amended)
- Amendments to FRS 2: Share-based Payment
- Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 138: Intangible Assets
- Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- IC Interpretation 12: Service Concession Arrangements
- IC Interpretation 15: Agreements for the Construction of Real Estate
- IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17: Distributions of Non-cash Assets to Owners

3. Auditors' report

The auditors' report on the audited financial statements of the Company for the financial period ended 31 December 2009 and its subsidiaries for the financial year ended 31 December 2009 were not subject to any qualification.

4. Seasonal or cyclical factors

The business operations of the Group are not materially affected by any seasonal or cyclical factors.

5. Unusual items

There were no unusual items because of their nature, size or incidence that has affected the assets, liabilities, equity, net income or cash flows of the Group during the current quarter under review.

6. Changes in estimates

There were no changes in estimates that have had a material effect in the current quarter results.

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Hock Heng Stone Industries Bhd.
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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

7. Debt and equity securities

Save as disclosed in interim financial report for the first quarter ended 31 March 2010 dated on 21 May 2010, there have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review.

8. Dividends paid

No dividend was paid during the current quarter under review.

9. Segmental reporting

The segmental reporting is not prepared as the Group is principally involved in manufacturing and trading of dimension stone products which is predominantly carried out in Malaysia.

10. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current quarter under review, as the Group does not adopt a revaluation policy on its property, plant and equipment.

11. Capital commitments

Capital commitments as at end of the current quarter are as follows:

	As at 30.6.2010 RM'000	As at 31.12.2009 RM'000
Property, plant and equipment:		
- Approved and contracted for	3,250	N/A
- Approved but not contracted for	1,111	N/A
	<u>4,361</u>	<u>N/A</u>

12. Material events subsequent to the end of period reported

There were no material events subsequent to the end of the current quarter.

13. Changes in composition of the Group

There were no changes in the composition of the Group in the current quarter under review save as disclosed in interim financial report for the first quarter ended 31 March 2010 dated on 21 May 2010.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

14. Changes in contingent liabilities and contingent assets

There were no changes in contingent liabilities or contingent assets as at the end of the current quarter except as disclosed below.

As stated under Section 11.4.8 of the Prospectus dated on 9 March 2010, the Company's subsidiary, Hock Heng Granite Sdn. Bhd. ("HHG") has previously given corporate guarantee (prior to the acquisition of HHG by the Company) to a financial institution amounting to RM1.7 million for credit facility granted to Menang Mulia Sdn. Bhd. ("Menang Mulia"), a company in which certain directors, Low Kim Hock, Low Kim Joo, Low Kim Chung and a major shareholder, Low Kim Ong have deemed interested by virtue of their interests in LBS Realty Sdn. Bhd. which in turn holds 70% equity interest in Menang Mulia, of which RM0.87 million was outstanding as at 30 June 2010.

15. Related party transactions

The Group had the following transactions with related parties during the current quarter under review and current year-to-date:

- (i) Company in which certain directors, Low Kim Hock, Low Kim Joo, Low Kim Chung and a major shareholder, Low Kim Ong have interest:

- LBS Realty Sdn. Bhd. ("LBS")

- (ii) Company in which certain directors, Low Kim Hock, Low Kim Joo, Low Kim Chung and a major shareholder, Low Kim Ong have deemed interested by virtue of their interests in LBS which in turn holds 70% equity interest in Eternal:

- Eternal Memorial Park Sdn. Bhd. ("Eternal")

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2010 RM'000	Preceding year corresponding quarter ended 30.6.2009 RM'000	Current year- to-date 30.6.2010 RM'000	Preceding year corresponding period 30.6.2009 RM'000
Rental paid to LBS	21	N/A	42	N/A
Sales of dimension stone products to Eternal	268	N/A	531	N/A

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established under terms no less favourable than those transacted with unrelated parties.

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Part B - Explanatory notes pursuant to Appendix 9B of the Listing Requirements

16. Review performance of the Group

For the current quarter under review, the Group has recorded a revenue and profit before tax of approximately RM9.02 million and RM0.69 million respectively.

For the financial year-to-date, the Group has recorded a revenue and profit before tax of approximately RM16.53 million and RM1.26 million respectively.

17. Material changes in the quarterly results as compared to the results of the immediate preceding quarter

The Group recorded a revenue of RM9.02 million for the current quarter under review, representing an increase of RM1.51 million or 20.1% from RM7.51 million in the preceding quarter due to increase in demand for the dimension stone products of the Group. The Group's profit before tax was RM0.69 million for the current quarter under review as compared to RM0.58 million in the preceding quarter, representing an increase of RM0.11 million or 19.0% due to higher revenue generated.

18. Prospects for the current financial year

Barring any unforeseen circumstances, the Directors believe that the Group's prospects for the remaining periods of the financial year ending 31 December 2010 will remain favourable.

19. Profit forecast or profit guarantee

The Group has not issued any profit forecast or profit guarantee for the current quarter or in its Prospectus dated 9 March 2010 and hence this information is not applicable.

20. Income tax expense

Major components of income tax expense includes the following:

	Individual quarter		Cumulative quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year- to-date	Preceding year corresponding period
	30.6.2010	30.6.2009	30.6.2010	30.6.2009
	RM'000	RM'000	RM'000	RM'000
Current tax:				
Malaysian income tax	166	N/A	398	N/A

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Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Part B - Explanatory notes pursuant to Appendix 9B of the Listing Requirements (continued)

20. Income tax expense (continued)

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2010 RM'000	Preceding year corresponding quarter ended 30.6.2009 RM'000	Current year- to-date 30.6.2010 RM'000	Preceding year corresponding period 30.6.2009 RM'000
Deferred tax:				
Relating to origination and reversal of temporary differences	7	N/A	(63)	N/A
Underprovided in prior years	6	N/A	11	N/A
	<u>13</u>	<u>N/A</u>	<u>(52)</u>	<u>N/A</u>
Total income tax expense	<u>179</u>	<u>N/A</u>	<u>346</u>	<u>N/A</u>

The effective tax rate of the Group was higher than the statutory tax rate mainly due to certain expenses which are not deductible for tax purposes.

21. Sale of unquoted investments and/or properties

There were no sales of unquoted investments and/or properties held by the Group for the current quarter under review and current year-to-date.

22. Purchase or disposal of quoted securities

There was no purchase or disposal of quoted securities for the current quarter under review and current year-to-date.

23. Status of corporate proposals

(a) Flotation exercise

On 9 March 2010, the Company issued a Prospectus for the Public Issue up to 15,342,000 new Hock Heng Shares at an issue price of RM0.55 per ordinary share payable in full on application in conjunction with its listing on the Main Market of Bursa Securities.

The listing and quotation of the Company's entire enlarged issued and paid-up share capital of RM40,000,000 comprising of 80,000,000 ordinary shares on the Main Market of Bursa Securities on 26 March 2010.

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Hock Heng Stone Industries Bhd.
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Part B - Explanatory notes pursuant to Appendix 9B of the Listing Requirements (continued)

23. Status of corporate proposals (continued)

(b) Utilisation of proceeds

As at the end of the current quarter and current year-to-date, the total gross proceeds of RM8.438 million from Public Issue have been utilised in the following manner:

Details of the utilisation of proceeds	Estimated timeframe for utilisation from the date of Listing	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance RM'000
Construction of a secondary processing plant	Within 6 months	788	524	264
Operating of quarry	Within 18 months	2,120	-	2,120
Working capital	Within 12 months	4,000	3,840	160
Defraying listing expenses	Within 6 months	1,530	1,741	* (211)
		8,438	6,105	2,333

* Deficit was paid through internally generated fund.

24. Borrowings and debts securities

	As at 30.6.2010 RM'000	As at 31.12.2009 RM'000
Short term borrowings		
Secured:		
Bank overdrafts	1,907	N/A
Banker acceptances	10,687	N/A
Trust receipts	30	N/A
Term loans	725	N/A
Hire purchase payables	351	N/A
	13,700	N/A
Long term borrowings		
Secured:		
Term loans	5,412	N/A
Hire purchase payables	625	N/A
	6,037	N/A
Total borrowings	19,737	N/A

25. Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this interim financial report.

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Part B - Explanatory notes pursuant to Appendix 9B of the Listing Requirements (continued)

26. Derivatives

There were no outstanding derivatives as at the date of this interim financial report.

27. Material litigation

There were no pending material litigations at the date of this interim financial report.

28. Dividend payable

No interim dividend has been recommended for the current quarter under review.

29. Earnings per share

(a) Basic

Basic earnings per share amounts is calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2010 RM'000	Preceding year corresponding quarter ended 30.6.2009 RM'000	Current year- to-date 30.6.2010 RM'000	Preceding year corresponding period 30.6.2009 RM'000
Profit for the period attributable to ordinary equity holders of the Company (RM '000)	504	N/A	912	N/A
Weighted average number of ordinary shares in issue ('000)	71,876	N/A	71,876	N/A
Basic earnings per share (sen)	<u>0.70</u>	<u>N/A</u>	<u>1.27</u>	<u>N/A</u>

(b) Diluted

There is no diluted earnings per share as the Company does not have any dilutive potential ordinary shares for the current quarter under review and current year-to-date.

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**Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)**

Part B - Explanatory notes pursuant to Appendix 9B of the Listing Requirements (continued)

30. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Board on 23 August 2010.