



HOCK HENG STONE INDUSTRIES BHD.

(Company No. : 840040-H)

(Incorporated in Malaysia)

**Interim Financial Report
For the second quarter ended
30 June 2011**

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statements of Comprehensive Income
For the second quarter ended 30 June 2011
(The figures have not been audited)

	Note	Individual quarter		Cumulative quarter	
		Current year quarter ended 30.6.2011 RM'000	Preceding year corresponding quarter ended 30.6.2010 RM'000	Current year- to-date 30.6.2011 RM'000	Preceding year corresponding period 30.6.2010 RM'000
Continuing operations					
Revenue		11,403	9,018	22,078	16,530
Cost of sales		(8,927)	(6,700)	(17,152)	(12,045)
Gross profit		2,476	2,318	4,926	4,485
Other income		56	34	103	82
Administrative, general and selling expenses		(1,669)	(1,440)	(3,220)	(2,863)
Operating profit		863	912	1,809	1,704
Finance costs		(342)	(227)	(675)	(443)
Profit before tax		521	685	1,134	1,261
Income tax expense	21	(127)	(179)	(299)	(346)
Profit for the period		394	506	835	915
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		394	506	835	915
Profit attributable to:					
Equity holders of the Company		393	504	831	912
Non-controlling interests		1	2	4	3
		394	506	835	915
Total comprehensive income attributable to:					
Equity holders of the Company		393	504	831	912
Non-controlling interests		1	2	4	3
		394	506	835	915
Earnings per share attributable to equity holders of the Company:					
Basic, for the period (sen)	30	0.49	0.70	1.04	1.27
Diluted, for the period (sen)	30	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached to this interim financial report.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
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Condensed Consolidated Statement of Financial Position
As at 30 June 2011

	Note	Unaudited As at 30.6.2011 RM'000	Audited As at 31.12.2010 RM'000
Assets			
Non-current assets			
Property, plant and equipment		25,586	25,641
Investment properties		1,794	1,962
Land use rights		2,573	2,602
Development expenditure		379	379
		<u>30,332</u>	<u>30,584</u>
Current assets			
Inventories		23,090	21,898
Trade receivables and other receivables		18,631	19,652
Other current assets		4,684	5,398
Income tax receivable		58	204
Cash and bank balances		5,156	5,633
		<u>51,619</u>	<u>52,785</u>
Total assets		<u>81,951</u>	<u>83,369</u>
Equity and liabilities			
Current liabilities			
Income tax payable		234	132
Loan and borrowings	25	12,885	14,515
Trade payables and other payables		6,608	9,193
Other current liability		21	106
		<u>19,748</u>	<u>23,946</u>
Net current assets		<u>31,871</u>	<u>28,839</u>
Non-current liabilities			
Deferred tax liabilities		1,189	1,412
Loan and borrowings	25	11,197	9,029
		<u>12,386</u>	<u>10,441</u>
Total liabilities		<u>32,134</u>	<u>34,387</u>
Equity attributable to equity holders of the Company			
Share capital		40,000	40,000
Retained earnings	31	9,760	8,929
		<u>49,760</u>	<u>48,929</u>
Non-controlling interests		57	53
Total equity		<u>49,817</u>	<u>48,982</u>
Total equity and liabilities		<u>81,951</u>	<u>83,369</u>
Net assets per share attributable to ordinary equity holders of the Company (sen)		<u>62.20</u>	<u>61.16</u>

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached to this interim financial report.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
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Condensed Consolidated Statement of Changes in Equity
For the second quarter ended 30 June 2011
(The figures have not been audited)

	Attributable to equity holders of the Company					
	Share capital RM'000	Non-distributable Share premium RM'000	Distributable Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
As at 1 January 2010	32,329	-	7,525	39,854	63	39,917
Effect of FRS 139	-	-	(146)	(146)	-	(146)
	<u>32,329</u>	<u>-</u>	<u>7,379</u>	<u>39,708</u>	<u>63</u>	<u>39,771</u>
Total comprehensive income for the period	-	-	912	912	3	915
Transactions with owners						
Public issue of RM0.55 per share	7,671	767	-	8,438	-	8,438
Share issue expenses	-	(767)	(974)	(1,741)	-	(1,741)
Transactions with owners	<u>7,671</u>	<u>-</u>	<u>(974)</u>	<u>6,697</u>	<u>-</u>	<u>6,697</u>
As at 30 June 2010	<u>40,000</u>	<u>-</u>	<u>7,317</u>	<u>47,317</u>	<u>66</u>	<u>47,383</u>
As at 1 January 2011	40,000	-	8,929	48,929	53	48,982
Total comprehensive income for the period	-	-	831	831	4	835
As at 30 June 2011	<u>40,000</u>	<u>-</u>	<u>9,760</u>	<u>49,760</u>	<u>57</u>	<u>49,817</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached to this interim financial report.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
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Condensed Consolidated Statement of Cash Flows
For the second quarter ended 30 June 2011
(The figures have not been audited)

	Current year- to-date 30.6.2011 RM'000	Preceding year corresponding period 30.6.2010 RM'000
Cash flows from operating activities		
Profit before tax	1,134	1,261
Adjustment for:		
Non-cash items	1,065	1,037
Non-operating items	636	426
Operating profit before changes in working capital	2,835	2,724
Changes in working capital:		
Increase in inventories	(1,192)	(2,558)
Decrease/(increase) in receivables	1,021	(1,219)
Decrease/(increase) in other current assets	714	(2,051)
(Decrease)/increase in payables	(2,585)	1,737
Decrease in other current liabilities	(85)	(34)
Cash generated from/(used in) operations	708	(1,401)
Income tax paid	(275)	(568)
Interest paid	(675)	(443)
Net cash used in operating activities	(242)	(2,412)
Cash flows from investing activities		
Purchase of property, plant and equipment	(929)	(1,420)
Proceeds from disposal of property, plant and equipment	-	40
Proceeds from disposal of investment properties	176	-
Interest received	39	17
Net cash used in investing activities	(714)	(1,363)
Cash flows from financing activities		
(Decrease)/increase of short term borrowings	(2,056)	1,932
Drawdown of term loans	2,700	-
Repayment of term loans	(428)	(295)
Repayment of obligation under finance leases	(226)	(176)
Repayment to shareholders prior to acquisition of subsidiaries	-	(450)
Proceeds from issuance of ordinary shares	-	8,438
Payment of share issue expenses	-	(1,741)
Net cash (used in)/from financing activities	(10)	7,708
Net (decrease)/increase in cash and cash equivalents	(966)	3,933
Cash and cash equivalents at beginning of period	3,008	(1,077)
Cash and cash equivalents at end of period	2,042	2,856
Cash and cash equivalents at the end of the financial period comprise the following:		
Cash and bank balances	5,156	4,763
Less: Bank overdrafts	(3,114)	(1,907)
	2,042	2,856

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 and the accompanying explanatory notes attached to this interim financial report.

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Hock Heng Stone Industries Bhd.
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Notes to the Interim Financial Report for the second quarter ended 30 June 2011

Part A - Explanatory notes pursuant to Financial Reporting Standard 134

1. Basis of preparation

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 of Bursa Malaysia Securities Berhad for the Main Market.

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010. These explanatory notes attached to this interim financial report provide an explanation of the events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2010.

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 those used in the preparation of the audited financial statements for the year ended 31 December 2010.

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

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

Effective for financial periods beginning on or after 1 March 2010

- Amendments to FRS 132: *Classification of Rights Issues*

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)*
- Amendments to FRS 2: *Share-based Payment*
- Amendments to FRS 5: *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 127: *Consolidated and Separate Financial Statements*
- Amendments to FRS 138: *Intangible Assets*
- Amendments to IC Interpretation 9: *Reassessment of Embedded Derivatives*
- IC Interpretation 12: *Service Concession Arrangements*
- IC Interpretation 16: *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17: *Distributions of Non-cash Assets to Owners*

Effective for financial periods beginning on or after 1 January 2011

- Amendments to FRS 1: *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
- Amendments to FRS 1: *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2: *Group Cash-settled Share-based Payment Transactions*

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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 IC Interpretations (continued)

Effective for financial periods beginning on or after 1 January 2011 (continued)

- Amendments to FRS 7: *Improving Disclosures about Financial Instruments*
- Improvements to FRSs (2010)
- IC Interpretation 4: *Determining Whether an Arrangement contains a Lease*
- IC Interpretation 18: *Transfer of Assets from Customers*
- TR i - 4: *Shariah Compliant Sale Contracts*

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

2.2 Standards and interpretations issued but not yet effective

The following new and amended FRS and IC 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 2011

- IC Interpretation 19: *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14: *Prepayments of a Minimum Funding Requirement*

Effective for financial periods beginning on or after 1 January 2012

- FRS 124: *Related Party Disclosures (Revised)*
- IC Interpretation 15: *Agreements for the Construction of Real Estate*

3. Auditors' report

The auditors' report on the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2010 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.

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

6. Changes in estimates

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

7. Debt and equity securities

There have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review.

8. Acquisition and disposal of property, plant and equipment

Acquisitions

Below are the property, plant and equipment acquired by the Group during the period under review:

	Cost RM'000
Plant, machinery and factory equipment	61
Motor vehicles	79
Other assets *	110
Building-in-progress	739
	<u>989</u>

* Other assets comprise of office equipment, furniture and fittings, electrical installation, computers and cabin.

Disposals

There is no disposal of property, plant and equipment by the Group during the period under review.

9. Dividends paid

There were no dividends paid during the current quarter under review.

10. Segment information

The segment information in respect of the Group's operating segments are as follows:

- (i) Sales of goods - manufacture and sales of dimension stones and related products and is completed within 6 months.
- (ii) Construction - supply and installation of dimension stones and related products for projects secured and is completed over a period of more than 6 months.
- (iii) Others - investment holding.

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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

10. Segment information (continued)

	Sales of goods RM'000	Construction RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Period ended 30.6.2011					
Revenue:					
External customers	12,432	9,646	-	-	22,078
Inter-segment	14,721	-	740	(15,461)	-
	<u>27,153</u>	<u>9,646</u>	<u>740</u>	<u>(15,461)</u>	<u>22,078</u>
Results:					
Interest income	16	-	23	-	39
Finance costs	668	7	-	-	675
Depreciation and amortisation	1,028	65	-	-	1,093
Segment profit	<u>1,281</u>	<u>443</u>	<u>668</u>	<u>(1,258)</u>	<u>1,134</u>
Assets					
Capital expenditure	882	107	-	-	989
Segment assets	<u>65,407</u>	<u>13,603</u>	<u>2,941</u>	<u>-</u>	<u>81,951</u>
Segment liabilities	<u>32,062</u>	<u>21</u>	<u>51</u>	<u>-</u>	<u>32,134</u>
	Sales of goods RM'000	Construction RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Period ended 30.6.2010					
Revenue:					
External customers	10,157	6,373	-	-	16,530
Inter-segment	11,530	-	-	(11,530)	-
	<u>21,687</u>	<u>6,373</u>	<u>-</u>	<u>(11,530)</u>	<u>16,530</u>
Results:					
Interest income	14	-	3	-	17
Finance costs	436	7	-	-	443
Depreciation and amortisation	1,022	40	-	-	1,062
Segment profit/(loss)	<u>1,232</u>	<u>349</u>	<u>(50)</u>	<u>(270)</u>	<u>1,261</u>
Assets					
Capital expenditure	1,332	146	-	-	1,478
Segment assets	<u>62,193</u>	<u>11,061</u>	<u>2,557</u>	<u>-</u>	<u>75,811</u>
Segment liabilities	<u>28,391</u>	<u>-</u>	<u>38</u>	<u>-</u>	<u>28,429</u>

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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

11. 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.

12. Capital commitments

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

	As at 30.6.2011 RM'000	As at 31.12.2010 RM'000
Property, plant and equipment:		
- Approved and contracted for	337	820
- Approved but not contracted for	-	544
	<u>337</u>	<u>1,364</u>

13. Material events subsequent to the end of period reported

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

14. Changes in composition of the Group

There were no changes in the composition of the Group in the current quarter under review.

15. Changes in contingent liabilities and contingent assets

There were no changes in contingent liabilities or contingent assets since the end of the last annual balance sheet date.

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Part A - Explanatory notes pursuant to Financial Reporting Standard 134 (continued)

16. 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 EMP:

- EMP Design Sdn. Bhd. ("EMP") (formerly known as Eternal Memorial Park Sdn. Bhd.)

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2011 RM'000	Preceding year corresponding quarter ended 30.6.2010 RM'000	Current year- to-date 30.6.2011 RM'000	Preceding year corresponding period 30.6.2010 RM'000
Rental paid to LBS	21	21	42	42
Sales of dimension stone products to EMP	743	268	1,121	531

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

17. Review performance of the Group

	Individual quarter		Cumulative quarter	
	Current quarter ended 30.6.2011 RM'000	Preceding quarter ended 30.6.2010 RM'000	Current year-to-date RM'000	Preceding year corresponding period RM'000
Revenue	11,403	9,018	22,078	16,530
Profit before tax	521	685	1,134	1,261

The Group revenue for current quarter ("2Q2011") and current year-to-date ("6M2011") ended 30 June 2011 has increased by RM2.39 million or 26.4% to RM11.40 million and by RM5.55 million or 33.6% to RM22.08 million respectively, as compared to corresponding quarter and period in the preceding year. The increase in revenue was attributed to the increase in both sales of goods and construction segments.

The profit before tax for 2Q2011 and 6M2011 has declined by RM0.16 million or 23.9% to RM0.52 million and by RM0.13 million or 10.1% to RM1.13 million respectively, in comparison with the corresponding quarter and period in the preceding year. The decrease in the profit before tax is mainly due to lower operating margin as well as higher finance costs, administrative, general and selling expenses in the current quarter and period under review.

18. Material changes in the profit before tax as compared to the immediate preceding quarter

	Individual quarter	
	Current quarter ended 30.6.2011 RM'000	Preceding quarter ended 31.3.2011 RM'000
Revenue	11,403	10,675
Profit before tax	521	613

The Group recorded a profit before tax of RM0.52 million for the current quarter under review as compared to RM0.61 million in the immediate preceding quarter, representing a decrease of RM0.09 million or 15.0%. The decrease of profit before tax is due to lower operating margin and slight increase in administrative, general and selling expenses in current quarter as compared to immediate preceding quarter.

19. Commentary on prospects

Barring any unforeseen circumstances, the Directors believe that the Group's prospects for the remaining periods of the financial year ending 31 December 2011 will remain favourable.

20. Profit forecast or profit guarantee

The Group has not issued any profit forecast or profit guarantee for the current quarter under review and hence this information is not applicable.

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

21. Income tax expense

Major components of income tax expense includes the following:

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2011 RM'000	Preceding year corresponding quarter ended 30.6.2010 RM'000	Current year- to-date 30.6.2011 RM'000	Preceding year corresponding period 30.6.2010 RM'000
Current tax:				
Malaysian income tax	184	166	523	398
Deferred tax:				
Relating to origination and reversal of temporary differences	(21)	7	(156)	(63)
(Over)/underprovided in prior years	(36)	6	(68)	11
	(57)	13	(224)	(52)
Total income tax expense	127	179	299	346

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.

22. 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.

23. 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.

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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)

24. Status of corporate proposals

(a) 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	Revised Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance RM'000
Construction of a secondary processing plant	Within 12 months ^	524	524	-
Operating of quarry	Within 18 months	2,120	-	2,120
Working capital	Within 18 months ^	4,264	4,264	-
Defraying listing expenses	Within 6 months	1,530	* 1,741	-
		<u>8,438</u>	<u>6,529</u>	<u>2,120</u>

* Deficit was paid through internally generated fund.

^ On 21 March 2011, the Company has announced that the Board had resolved to vary part of the proposed utilisation of proceeds of approximately RM0.26 million that was initially allocated for construction of a secondary processing plant to working capital. The Board also resolved to extend the timeframe for utilisation of the revised proceeds from twelve (12) months period to eighteen (18) months period until 25 September 2011.

25. Borrowings and debts securities

There were no foreign currency denominated borrowings as at 30 June 2011.

	As at 30.6.2011 RM'000	As at 31.12.2010 RM'000
Short term borrowings		
Secured:		
Bank overdrafts	3,114	2,625
Banker acceptances	8,868	10,924
Obligation under finance leases	360	431
Term loans	543	535
	<u>12,885</u>	<u>14,515</u>
Long term borrowings		
Secured:		
Obligation under finance leases	719	814
Term loans	10,478	8,215
	<u>11,197</u>	<u>9,029</u>
Total borrowings	<u>24,082</u>	<u>23,544</u>

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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)

26. Off balance sheet financial instruments

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

27. Derivatives

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

28. Material litigation

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

29. Dividend

At the Second Annual General Meeting held on 10 June 2011, the Final Single Tier Dividend of 1 sen net per ordinary share, which amounting to RM0.80 million in respect of the financial year ended 31 December 2010, was approved by the shareholders of the Company and paid on 15 July 2011 to members registered in the Record of Depositors at the close of business on 1 July 2011.

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

30. 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 30.6.2011	Preceding year corresponding quarter ended 30.6.2010	Current year- to-date 30.6.2011	Preceding year corresponding period 30.6.2010
Profit for the period attributable to ordinary equity holders of the Company (RM '000)	393	504	831	912
Weighted average number of ordinary shares in issue ('000)	80,000	71,876	80,000	71,876
Basic earnings per share (sen)	<u>0.49</u>	<u>0.70</u>	<u>1.04</u>	<u>1.27</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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Part C - Disclosure of realised and unrealised profits or losses

31. Retained earnings

The breakdown of realised and unrealised retained earnings is as follows:

	Realised RM'000	Unrealised RM'000	Total retained earnings RM'000
For the quarter ended 30 June 2011			
Total retained earnings of the Company and its subsidiaries	11,670	(1,518)	10,152
Less: Consolidation adjustments			(392)
Retained earnings of the Group			<u>9,760</u>
For the quarter ended 31 December 2010			
Total retained earnings of the Company and its subsidiaries	10,834	(1,534)	9,300
Less: Consolidation adjustments			(371)
Retained earnings of the Group			<u>8,929</u>

32. 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 22 August 2011.