



HOCK HENG STONE INDUSTRIES BHD.

(Company No. : 840040-H)

(Incorporated in Malaysia)

**Condensed Consolidated
Interim Financial Statements
For the second quarter ended
30 June 2012**

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 2012
(The figures have not been audited)

	Note	Individual quarter		Cumulative quarter	
		Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Continuing operations					
Revenue		8,003	11,403	15,534	22,078
Cost of sales		(5,643)	(8,927)	(10,976)	(17,152)
Gross profit		2,360	2,476	4,558	4,926
Other income		38	56	87	103
Administrative, general and selling expenses		(1,484)	(1,669)	(2,995)	(3,220)
Operating profit		914	863	1,650	1,809
Finance costs		(318)	(342)	(626)	(675)
Profit before tax	24	596	521	1,024	1,134
Income tax expense	25	(222)	(127)	(335)	(299)
Profit for the period		374	394	689	835
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		374	394	689	835
Profit attributable to:					
Owners of the parent		371	393	686	831
Non-controlling interests		3	1	3	4
		374	394	689	835
Total comprehensive income attributable to:					
Owners of the parent		371	393	686	831
Non-controlling interests		3	1	3	4
		374	394	689	835
Earnings per share attributable to owners of the parent:					
Basic, for the period (sen)	34	0.46	0.49	0.86	1.04
Diluted, for the period (sen)	34	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable

These Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statements of Financial Position
As at 30 June 2012

	Note	Unaudited As at 30.6.2012 RM'000	Unaudited As at 31.12.2011 RM'000 (restated)	Unaudited As at 1.1.2011 RM'000 (restated)
Assets				
Non-current assets				
Property, plant and equipment	8	33,472	31,871	32,081
Investment properties		1,499	1,513	1,962
Land use rights		2,513	2,543	2,602
Development expenditure		379	379	379
		<u>37,863</u>	<u>36,306</u>	<u>37,024</u>
Current assets				
Inventories	9	27,937	25,396	21,898
Trade receivables and other receivables		20,824	19,795	19,652
Other current assets		4,462	4,560	5,398
Income tax receivable		48	52	204
Cash and bank balances	10	3,045	4,664	5,633
		<u>56,316</u>	<u>54,467</u>	<u>52,785</u>
Total assets		<u>94,179</u>	<u>90,773</u>	<u>89,809</u>
Equity and liabilities				
Current liabilities				
Income tax payable		319	258	132
Borrowings	27	14,146	13,000	14,515
Trade payables and other payables		9,329	8,456	9,193
Other current liability		228	271	106
		<u>24,022</u>	<u>21,985</u>	<u>23,946</u>
Net current assets		<u>32,294</u>	<u>32,482</u>	<u>28,839</u>
Non-current liabilities				
Deferred tax liabilities		931	1,150	1,412
Borrowings	27	11,687	10,785	9,029
		<u>12,618</u>	<u>11,935</u>	<u>10,441</u>
Total liabilities		<u>36,640</u>	<u>33,920</u>	<u>34,387</u>
Equity attributable to owners of the parent				
Share capital		40,000	40,000	40,000
Retained earnings	35	17,481	16,795	15,369
		<u>57,481</u>	<u>56,795</u>	<u>55,369</u>
Non-controlling interests		58	58	53
Total equity		<u>57,539</u>	<u>56,853</u>	<u>55,422</u>
Total equity and liabilities		<u>94,179</u>	<u>90,773</u>	<u>89,809</u>
Net assets per share attributable to ordinary equity holders of the Company (sen)		<u>71.85</u>	<u>70.99</u>	<u>69.21</u>

These Condensed Consolidated Statements of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statements of Changes in Equity
For the second quarter ended 30 June 2012
(The figures have not been audited)

	Attributable to equity holders of the parent		Total equity attributable to owners of the parent RM'000	Non- controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Distributable Retained earnings RM'000			
Opening balance at 1 January 2011	40,000	15,369	55,369	53	55,422
Total comprehensive income for the period	-	831	831	4	835
Closing balance at 30 June 2011	40,000	16,200	56,200	57	56,257
Opening balance at 1 January 2012	40,000	16,795	56,795	58	56,853
Total comprehensive income for the period	-	686	686	3	689
Transactions with owners					
Acquisition of subsidiary	-	-	-	(3)	(3)
Closing balance at 30 June 2012	40,000	17,481	57,481	58	57,539

These Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Condensed Consolidated Statements of Cash Flows
For the second quarter ended 30 June 2012
(The figures have not been audited)

	Note	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Cash flows from operating activities			
Profit before tax		1,024	1,134
Adjustment for:			
Amortisation of land use rights		30	30
Depreciation of property, plant and equipment		1,039	1,044
Depreciation of investment properties		14	19
Gain on disposal of property, plant and equipment		(41)	-
Gain on disposal of investment properties		-	(27)
Property, plant and equipment written off		-	1
Goodwill written off		5	-
Unrealised gain on foreign exchange		4	-
Interest expense		626	675
Interest income		(29)	(39)
Operating profit before changes in working capital		<u>2,672</u>	<u>2,837</u>
Changes in working capital:			
Increase in inventories		(2,541)	(1,192)
(Increase)/decrease in receivables		(1,029)	1,021
Decrease in other current assets		98	714
Increase/(decrease) in payables		862	(2,585)
Decrease in other current liabilities		(43)	(85)
Cash generated from operations		<u>19</u>	<u>710</u>
Income tax paid		(490)	(277)
Interest paid		(626)	(675)
Net cash used in operating activities		<u>(1,097)</u>	<u>(242)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(2,236)	(929)
Proceeds from disposal of property, plant and equipment		63	-
Proceeds from disposal of investment properties		-	176
Acquisition of subsidiary	17	(1)	-
Interest received		29	39
Net cash used in investing activities		<u>(2,145)</u>	<u>(714)</u>
Cash flows from financing activities			
Increase/(decrease) of short term borrowings		477	(2,056)
Drawdown of term loans		1,126	2,700
Repayment of term loans		(310)	(428)
Repayment of obligation under finance leases		(163)	(226)
Net cash from/(used in) financing activities		<u>1,130</u>	<u>(10)</u>
Net decrease in cash and cash equivalents		(2,112)	(966)
Cash and cash equivalents at beginning of period		2,195	3,008
Cash and cash equivalents at end of period		<u>83</u>	<u>2,042</u>

These Condensed Consolidated Statements of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Company No. : 840040-H

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

Notes to the Interim Financial Statements for the second quarter ended 30 June 2012

Part A - Explanatory notes pursuant to Malaysian Financial Reporting Standard 134

1. Corporate information

Hock Heng Stone Industries Bhd. is a public limited liability company incorporated and domiciled in Malaysia and is listed on Bursa Malaysia Securities Berhad.

2. First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRS").

The consolidated financial statements of the Group for the financial year ended 31 December 2011 which were prepared under FRS are available upon request from the Company registered office at Lot 1A, 6th Floor, Menara Pertam, Jalan BBP 2, Taman Batu Berendam Putra, Batu Berendam, 75350 Melaka.

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the financial year ending 31 December 2012. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of 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 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which also the date of transition), the Group had adjusted the amounts previously reported in the financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position is set out in Note 3.1 below. These notes include reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has no impact on the Group's financial performance and cash flows for the periods so presented.

3. Significant accounting policies

3.1 Application of MFRS 1

The audited financial statements of the Group for the financial year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2011 except as discussed below:

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

3. Significant accounting policies (continued)

3.1 Application of MFRS 1 (continued)

(a) Business combination

MFRS 1 provides the option to apply MFRS 3: *Business Combinations*, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combination prior to the date of transition.

Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition,

- (i) The classification of former business combination under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
- (iii) The carrying amount of goodwill recognised under FRS is not adjusted.

(b) Property, plant and equipment

At the date of transition to MFRS, the Group elected to regard fair value of freehold land at the date of transition as its deemed cost at that date. As at that date, an increase of RM6,440,000 (30 June 2011: RM6,440,000; 31 December 2011: RM6,440,000) was recognised in property, plant and equipment. The resulting adjustments were recognised against retained earnings.

(c) Estimates

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

3. Significant accounting policies (continued)

3.1 Application of MFRS 1 (continued)

(i) Reconciliation of equity as at 1 January 2011

	FRS as at 1.1.2011 RM'000	Note 3.1(b) Property, plant and equipment RM'000	MFRS as at 1.1.2011 RM'000
Assets			
Non-current assets			
Property, plant and equipment	25,641	6,440	32,081
Investment properties	1,962		1,962
Land use rights	2,602		2,602
Development expenditure	379		379
	<u>30,584</u>		<u>37,024</u>
Current assets			
Inventories	21,898		21,898
Trade receivables and other receivables	19,652		19,652
Other current assets	5,398		5,398
Income tax receivable	204		204
Cash and bank balances	5,633		5,633
	<u>52,785</u>		<u>52,785</u>
Total assets	<u>83,369</u>		<u>89,809</u>
Equity and liabilities			
Current liabilities			
Income tax payable	132		132
Borrowings	14,515		14,515
Trade payables and other payables	9,193		9,193
Other current liability	106		106
	<u>23,946</u>		<u>23,946</u>
Non-current liabilities			
Deferred tax liabilities	1,412		1,412
Borrowings	9,029		9,029
	<u>10,441</u>		<u>10,441</u>
Total liabilities	<u>34,387</u>		<u>34,387</u>
Equity attributable to owners of the parent			
Share capital	40,000		40,000
Retained earnings	8,929	6,440	15,369
	<u>48,929</u>		<u>55,369</u>
Non-controlling interests	53		53
Total equity	<u>48,982</u>		<u>55,422</u>
Total equity and liabilities	<u>83,369</u>		<u>89,809</u>

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

3. Significant accounting policies (continued)

3.1 Application of MFRS 1 (continued)

(ii) Reconciliation of equity as at 30 June 2011

	FRS as at 30.6.2011 RM'000	Note 3.1(b) Property, plant and equipment RM'000	MFRS as at 30.6.2011 RM'000
Assets			
Non-current assets			
Property, plant and equipment	25,586	6,440	32,026
Investment properties	1,794		1,794
Land use rights	2,573		2,573
Development expenditure	379		379
	<u>30,332</u>		<u>36,772</u>
Current assets			
Inventories	23,090		23,090
Trade receivables and other receivables	18,631		18,631
Other current assets	4,684		4,684
Income tax receivable	58		58
Cash and bank balances	5,156		5,156
	<u>51,619</u>		<u>51,619</u>
Total assets	<u>81,951</u>		<u>88,391</u>
Equity and liabilities			
Current liabilities			
Income tax payable	234		234
Borrowings	12,885		12,885
Trade payables and other payables	6,608		6,608
Other current liability	21		21
	<u>19,748</u>		<u>19,748</u>
Non-current liabilities			
Deferred tax liabilities	1,189		1,189
Borrowings	11,197		11,197
	<u>12,386</u>		<u>12,386</u>
Total liabilities	<u>32,134</u>		<u>32,134</u>
Equity attributable to owners of the parent			
Share capital	40,000		40,000
Retained earnings	9,760	6,440	16,200
	<u>49,760</u>		<u>56,200</u>
Non-controlling interests	57		57
Total equity	<u>49,817</u>		<u>56,257</u>
Total equity and liabilities	<u>81,951</u>		<u>88,391</u>

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

3. Significant accounting policies (continued)

3.1 Application of MFRS 1 (continued)

(iii) Reconciliation of equity as at 31 December 2011

	FRS as at 31.12.2011 RM'000	Note 3.1(b) Property, plant and equipment RM'000	MFRS as at 31.12.2011 RM'000
Assets			
Non-current assets			
Property, plant and equipment	25,431	6,440	31,871
Investment properties	1,513		1,513
Land use rights	2,543		2,543
Development expenditure	379		379
	<u>29,866</u>		<u>36,306</u>
Current assets			
Inventories	25,396		25,396
Trade receivables and other receivables	19,795		19,795
Other current assets	4,560		4,560
Income tax receivable	52		52
Cash and bank balances	4,664		4,664
	<u>54,467</u>		<u>54,467</u>
Total assets	<u>84,333</u>		<u>90,773</u>
Equity and liabilities			
Current liabilities			
Income tax payable	258		258
Borrowings	13,000		13,000
Trade payables and other payables	8,456		8,456
Other current liability	271		271
	<u>21,985</u>		<u>21,985</u>
Non-current liabilities			
Deferred tax liabilities	1,150		1,150
Borrowings	10,785		10,785
	<u>11,935</u>		<u>11,935</u>
Total liabilities	<u>33,920</u>		<u>33,920</u>
Equity attributable to owners of the parent			
Share capital	40,000		40,000
Retained earnings	10,355	6,440	16,795
	<u>50,355</u>		<u>56,795</u>
Non-controlling interests	58		58
Total equity	<u>50,413</u>		<u>56,853</u>
Total equity and liabilities	<u>84,333</u>		<u>90,773</u>

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

3. Significant accounting policies (continued)

3.2 MFRSs, Amendments to MFRSs and IC Interpretation issued but not yet effective

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:

Effective for financial periods beginning on or after 1 July 2012

- Amendments to MFRS 101: *Presentation of Items of Other Comprehensive Income*

Effective for financial periods beginning on or after 1 January 2013

- MFRS 10: *Consolidated Financial Statements*
- MFRS 11: *Joint Arrangements*
- MFRS 12: *Disclosure of Interests in Other Entities*
- MFRS 13: *Fair Value Measurement*
- MFRS 119: *Employee Benefits*
- MFRS 127: *Separate Financial Statements*
- MFRS 128: *Investments in Associate and Joint Ventures*
- Amendments to MFRS 7: *Disclosures - Offsetting Financial Assets and Financial Liabilities*
- IC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine*

Effective for financial periods beginning on or after 1 January 2014

- Amendments to MFRS 132: *Offsetting Financial Assets and Financial Liabilities*

Effective for financial periods beginning on or after 1 January 2015

- MFRS 9: *Financial Instruments* (IFRS 9 issued by IASB in November 2009 and October 2010)

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.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

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. Property, plant and equipment

Acquisitions

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

	30.6.2012 RM'000	30.6.2011 RM'000
Land	1,736	-
Factory buildings and extensions	3	-
Building-in-progress	68	739
Plant, machinery and factory equipment	70	61
Motor vehicles	624	79
Other assets *	161	110
	<u>2,662</u>	<u>989</u>

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

During the period under review, the Group acquired property, plant and equipment by mean of:

	30.6.2012 RM'000	30.6.2011 RM'000
Finance leases	426	60
Cash outflow	2,236	929
	<u>2,662</u>	<u>989</u>

Disposals

Below is the property, plant and equipment disposed by the Group during the period under review:

	Cost RM'000	Net carrying amount RM'000	Sales proceeds RM'000	Gain/(loss) on disposals RM'000
Motor vehicle	<u>102</u>	<u>22</u>	<u>63</u>	<u>41</u>

9. Inventories

During the current period ended 30 June 2012, there were no write-down of inventories.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

10. Cash and bank balances

	As at 30.6.2012 RM'000	As at 31.12.2011 RM'000	As at 1.1.2011 RM'000
Cash at banks and on hand	1,721	3,101	4,117
Short term deposits with licensed banks	1,324	1,563	1,516
Cash and bank balances	3,045	4,664	5,633
Less: Bank overdrafts	(2,962)	(2,469)	(2,625)
Total cash and cash equivalents	83	2,195	3,008

11. Fair value hierarchy

No transfers between any levels of the fair value hierarchy took place during the current interim period and the comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore represents the potential credit risk.

12. Provisions for cost of restructuring

There were no provision for, or reversal of, costs of restructuring during the reporting period.

13. Dividends paid

At the Third Annual General Meeting held on 28 June 2012, 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 2011, was approved by the shareholders of the Company and paid on 8 August 2012 to members registered in the Record of Depositors at the close of business on 13 July 2012.

14. Capital commitments

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

	As at 30.6.2012 RM'000	As at 31.12.2011 RM'000	As at 1.1.2011 RM'000
Property, plant and equipment:			
- Approved and contracted for	161	1,487	820
- Approved and not contracted for	-	-	544
	161	1,487	1,364

15. Contingent assets and liabilities

There were no contingent assets or liabilities since 31 December 2011.

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

16. 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 and others.

	Sales of goods RM'000	Construction RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Period ended 30.6.2012					
Revenue:					
External customers	13,952	1,582	-	-	15,534
Inter-segment	10,517	-	-	(10,517)	-
	<u>24,469</u>	<u>1,582</u>	<u>-</u>	<u>(10,517)</u>	<u>15,534</u>
Results:					
Interest income	22	1	6	-	29
Finance costs	621	5	-	-	626
Depreciation and amortisation	1,005	78	-	-	1,083
Segment profit	<u>1,532</u>	<u>157</u>	<u>(88)</u>	<u>(577)</u>	<u>1,024</u>
Assets					
Capital expenditure	1,873	789	-	-	2,662
Segment assets	<u>76,983</u>	<u>12,038</u>	<u>5,158</u>	<u>-</u>	<u>94,179</u>
Segment liabilities					
	<u>33,450</u>	<u>228</u>	<u>2,962</u>	<u>-</u>	<u>36,640</u>
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>

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

16. Segment information (continued)

	Sales of goods RM'000	Construction RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
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>

17. Changes in composition of the Group

On 16 January 2012, the Company has acquired 75,001 ordinary shares (equivalent to 75% equity interest) in Dunia Batu Alam Sdn. Bhd. ("DBA"), a company incorporated in Malaysia, for a total consideration of RM1,500. DBA has an authorised capital of RM500,000 and paid-up capital of RM100,002. On 15 June 2012, the Company disposed off its 15% equity interest, representing 15,000 ordinary shares of RM1.00 each in the capital of DBA for a total cash consideration of RM300.

The acquisition and disposal resulting DBA become a 60% owned subsidiary of the Company. The acquisition has been accounted for using the acquisition method. The condensed consolidated interim financial statements include the results of DBA from the date of acquisition.

The liabilities of DBA as at the date of acquisition are as follows:

	Fair value recognised on acquisition RM'000
Liabilities	
Payables	<u>(7)</u>
	<u>(7)</u>
Fair value of net liability	(7)
Less: Non-controlling interests	<u>3</u>
	(4)
Goodwill	<u>5</u>
Total cost of acquisition	<u>1</u>
Analysis of cash flows on acquisition:	
Cash paid	(1)
Cash and cash equivalents of subsidiary acquired	<u>-</u>
Net cash outflow	<u>(1)</u>

From the date of acquisition, DBA has contributed net loss of RM2,800 to the profit before tax of the Group. If the acquisition had taken place on 1 January 2012, DBA will contribute net loss of RM2,800 to the profit before tax of the Group. The goodwill has been written off during the current period.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

18. Events after the reporting period

There were no material events subsequent to the end of the current quarter other than as mentioned below:

The Company through a 60% owned subsidiary, Dunia Batu Alam Sdn. Bhd., had on 23 August 2012 entered into a Sale & Purchase Agreement with Wang Seng Sdn. Bhd. (non related party) to acquire a piece of land measuring approximately 40.5486 acres held under Geran 54223 (formerly Geran 13938), Lot No. 9195 (formerly Lot No. 3207 and new Lot No. 10511), Mukim Durian Tunggal, Daerah Alor Gajah, Negeri Melaka for a total purchase consideration of RM20,312,415.68.

19. Related party transactions

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

- (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")

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Rental paid to LBS	21	21	42	42
Sales of dimension stone products to EMP	898	743	1,129	1,121
	Amount owed by/(owed to) related parties			
	As at 30.6.2012 RM'000	As at 31.12.2011 RM'000	As at 1.1.2011 RM'000	
LBS	-	-	-	
EMP	13	-	170	

The transactions above were based on negotiated and mutually agreed terms and has been approved by the shareholders in the Annual General Meeting.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

20. Review performance of the Group

3 months ended 30.6.2012

	Individual quarter		Increase/(decrease)	
	Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	RM'000	%
Revenue	8,003	11,403	(3,400)	(29.8)
- Sales of goods segment	7,718	7,176	542	7.6
- Construction segment	285	4,227	(3,942)	(93.3)
Profit before tax	596	521	75	14.4

Revenue

The Group's revenue for current quarter ("2Q2012") ended 30 June 2012 has decreased by RM3.40 million or 29.8% to RM8.0 million as compared to corresponding quarter in the preceding year. The decrease in revenue for 2Q2012 was due to the decrease in construction segment by RM3.94 million but was partly offset by higher sales of goods segment which increase of RM0.54 million.

Profit before tax

The Group's profit before tax for 2Q2012 has slightly increased by RM75,000 or 14.4% to RM0.60 million in comparison with the corresponding quarter in the preceding year. The increase in profit before tax is mainly due to the decrease in administrative, general and selling expenses by RM185,000 but was partly offset by lower operating profit by RM116,000 resulted from lower revenue generated (as mentioned above) in the current quarter under review.

6 months ended 30.6.2012

	Cumulative quarter		Increase/(decrease)	
	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000	RM'000	%
Revenue	15,534	22,078	(6,544)	(29.6)
- Sales of goods segment	13,952	12,432	1,520	12.2
- Construction segment	1,582	9,646	(8,064)	(83.6)
Profit before tax	1,024	1,134	(110)	(9.7)

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

20. Review performance of the Group (continued)

6 months ended 30.6.2012 (continued)

Revenue

The Group's revenue for current year-to-date ("6M2012") ended 30 June 2012 has decreased by RM6.54 million or 29.6% to RM15.53 million as compared to corresponding period in the preceding year. The decrease in revenue for 6M2012 was due to the decrease in construction segment by RM8.06 million and was partly offset by the increase in sales of goods segment by RM1.52 million.

Profit before tax

The Group's profit before tax for 6M2012 has slightly declined by RM0.11 million or 9.7% to RM1.02 million in comparison with the corresponding period in the preceding year. The decrease in the profit before tax is mainly due to lower operating profit by RM0.37 million resulted from lower revenue in 6M2012 but was partly offset the decrease in administrative, general and selling expenses by RM0.23 million in the current period under review.

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

	Individual quarter		Increase/ (decrease) RM'000
	Current quarter ended 30.6.2012 RM'000	Preceding quarter ended 31.3.2012 RM'000	
Revenue	8,003	7,531	472
- Sales of goods segment	7,718	6,234	1,484
- Construction segment	285	1,297	(1,012)
Profit before tax	<u>596</u>	<u>428</u>	168

The Group recorded a profit before tax of RM0.60 million for the current quarter under review as compared to RM0.43 million in the immediate preceding quarter, representing an increase of RM0.17 million. The increase in profit before tax is mainly due to the increase in operating profit generated by RM0.16 million resulted from the increase in revenue from sales of goods segment by RM1.48 million and partly reduce by the decrease in revenue from construction segment by RM1.01 million in current quarter as compared to immediate preceding quarter.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

22. Commentary on prospects

The global economic outlook remains challenging following the weaker-than-expected United States (US) economic performance, deepening euro sovereign debt crisis, global supply chain disruptions resulting earthquake and tsunami in Japan as well as rising of global inflation.

Despite the uncertainties, the Malaysian economy is foracasted to grow between 5% to 6% in 2012 with construction sector as one of the key drivers. The construction sector is expected to grow at a stronger pace of 7% in 2012 (3.4% in 2011) as large infrastructure projects and property construction activities pick up. (Source: *Economic Report 2011/2012, Ministry of Finance, Malaysia*)

Barring any unforeseen circumstances and with the favourable outlook of construction sector in 2012, the Directors believe that the Group's prospects for the remaining periods of the financial year ending 31 December 2012 will remain favourable.

23. 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.

24. Profit before tax

Included in the profit before tax are the following items:

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Interest income	(13)	(19)	(29)	(39)
Other income (including investment income)	-	-	-	-
Interest expense	318	342	626	675
Depreciation of:				
- Property, plant and equipment	515	524	1,039	1,044
- Investment properties	7	9	14	19
Amortisation of land use rights	15	15	30	30
Impairment loss on trade receivables	-	-	-	-
Bad debts written off	-	-	-	-
Write-down of inventories	-	-	-	-
Inventories written off	-	-	-	-
(Gain)/Loss on disposal of quoted and unquoted investments	-	-	-	-
(Gain)/Loss on disposal of:				
- Property, plant and equipment	(41)	-	(41)	-
- Investment properties	-	(27)	-	(27)

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

24. Profit before tax (continued)

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Impairment of assets	-	-	-	-
Property, plant and equipment written off	-	-	-	1
Goodwill written off	-	-	5	-
(Gain)/Loss on foreign exchange:	-	-	-	-
- Realised	(1)	5	1	6
- Unrealised	31	-	4	-
(Gain)/Loss on derivative	-	-	-	-
Rental income	(8)	(9)	(15)	(19)

25. Income tax expense

Major components of income tax expense includes the following:

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2012 RM'000	Preceding year corresponding quarter ended 30.6.2011 RM'000	Current year- to-date 30.6.2012 RM'000	Preceding year corresponding period 30.6.2011 RM'000
Current tax:				
Malaysian income tax	310	184	554	523
Deferred tax:				
Relating to origination and reversal of temporary differences	(90)	(21)	(219)	(156)
Overprovided in prior periods	2	(36)	-	(68)
	(88)	(57)	(219)	(224)
Total income tax expense	222	127	335	299

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The effective tax rate of the Group for the current and previous corresponding quarter were higher than the statutory tax rate mainly due to certain expenses which are not deductible for tax purposes.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

26. Status of corporate proposals

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 30 months	[^] -	-	-
Working capital	Within 30 months	[^] 6,384	5,963	421
Defraying listing expenses	Within 6 months	1,530	* 1,741	-
		<u>8,438</u>	<u>8,228</u>	<u>421</u>

* Deficit was paid through internally generated fund.

[^] On 27 December 2011, the Company has announced that the Board had resolved to vary the proposed utilisation of proceeds of RM2.12 million that was allocated for the operation of the quarry to working capital. The Board also resolved to extend the timeframe for utilisation of the revised proceeds for another twelve (12) months period to thirty (30) months period until 25 September 2012.

27. Borrowings and debts securities

None of the below borrowings are denominated in foreign currencies.

	As at 30.6.2012 RM'000	As at 31.12.2011 RM'000	As at 1.1.2011 RM'000
Short term borrowings			
Secured:			
Bank overdrafts	2,962	2,469	2,625
Banker acceptances	10,120	9,643	10,924
Obligation under finance leases	409	319	431
Term loans	655	569	535
	<u>14,146</u>	<u>13,000</u>	<u>14,515</u>
Long term borrowings			
Secured:			
Obligation under finance leases	778	606	814
Term loans	10,909	10,179	8,215
	<u>11,687</u>	<u>10,785</u>	<u>9,029</u>
Total borrowings	<u>25,833</u>	<u>23,785</u>	<u>23,544</u>

Company No. : 840040-H

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

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

28. Material litigation

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

29. Dividend

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

30. Disclosure of nature of outstanding derivatives

There were no outstanding derivatives as at the end of the reporting period.

31. Rationale for entering into derivatives

The Group did not enter into any derivatives during the period ended 30 June 2012 or the previous financial year ended 31 December 2011.

32. Risks and policies of derivatives

The Group did not enter into any derivatives during the period ended 30 June 2012 or the previous financial year ended 31 December 2011.

33. Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit or loss as at 30 June 2012 or the previous financial year ended 31 December 2011.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

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

34. Earnings per share

(a) Basic

Basic earnings per share amounts is calculated by dividing profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial period.

	Individual quarter		Cumulative quarter	
	Current year quarter ended 30.6.2012	Preceding year corresponding quarter ended 30.6.2011	Current year- to-date 30.6.2012	Preceding year corresponding period 30.6.2011
Profit for the period attributable to ordinary equity holders of the Company (RM'000)	371	393	686	831
Weighted average number of ordinary shares in issue ('000)	80,000	80,000	80,000	80,000
Basic earnings per share (sen)	<u>0.46</u>	<u>0.49</u>	<u>0.86</u>	<u>1.04</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.

Company No. : 840040-H

Hock Heng Stone Industries Bhd.
(Incorporated in Malaysia)

Part C - Disclosure of realised and unrealised profits or losses

35. 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 2012			
Total retained earnings of the Company and its subsidiaries	19,450	(1,472)	17,978
Less: Consolidation adjustments			(497)
Retained earnings of the Group			<u>17,481</u>
Previous financial year ended 31 December 2011			
Total retained earnings of the Company and its subsidiaries	18,947	(1,564)	17,383
Less: Consolidation adjustments			(588)
Retained earnings of the Group			<u>16,795</u>

36. Auditors' report on the preceding annual financial statements

The auditors' report on the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2011 were not subject to any qualification.

37. Authorisation for issue

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 27 August 2012.