Stone Electronic Technology Limited

四 通 電 子 技 術 有 限 公 司

Interim Report 2001

INTERIM RESULTS

The Board of Directors of Stone Electronic Technology Limited ("the Company") announces the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30th June, 2001 with the comparative figures for the corresponding period in 2000 as follows:

		Unaudited	
		Six months ended 30th June,	
	Notes	**2001**	2000
		HK$'000	*HK$'000*
Turnover		**403,842**	471,964
Cost of sales		**(357,858)**	(411,140)
Gross profit		**45,984**	60,824
Other revenue		**28,306**	11,491
		74,290	72,315
Distribution costs		**(22,096)**	(29,215)
Administrative expenses		**(35,826)**	(30,406)
Other operating expenses		**(1,991)**	(5,857)
		14,377	6,837
Provision for write down in value of obsolete inventories		**(5,205)**	—
Provision for bad and doubtful debts		**(1,588)**	—
Profit from operations		**7,584**	6,837
Net loss on disposal of interest in associated companies	*3*	**(15,197)**	—
Net unrealized (loss)/gain on equity securities		**(41,172)**	362,741
Finance cost		**(2,193)**	(3,930)
Share of profits less losses of associated companies		**4,873**	667
(Loss)/profit from ordinary activities before taxation	*4*	**(46,105)**	366,315
Taxation	5	**(3,258)**	(53,241)
(Loss)/profit from ordinary activities after taxation		**(49,363)**	313,074
Minority interests		**(462)**	(26,961)
(Loss)/profit attributable to shareholders		**(49,825)**	286,113
(Loss)/earnings per share	*6*		
— Basic		**(4.59) cents**	27.52 cents
— Diluted		**N/A**	27.49 cents

The notes on pages 5 to 12 form part of this interim financial report.

Consolidated Statement of Recognised Gains and Losses

	Six months ended 30th June,	
	2001	2000
	HK$'000	*HK$'000*
Exchange differences		
— on translation of the financial statements of foreign entities	**597**	206
— upon disposal of an associated company	**(1,500)**	—
Net (loss)/gains not recognised in the income statement	**(903)**	206
Net (loss)/profit for the period	**(49,825)**	286,113
Total recognised (losses)/gains	**(50,728)**	286,319
Goodwill released on disposal of an associated/a subsidiary company	**54,891**	(100)
	4,163	286,219

The notes on pages 5 to 12 form part of this interim financial report.

Consolidated Balance Sheet

	Notes	30th June, 2001 HK$'000	31st December, 2000 HK$'000
Non-current assets			
Intangible asset		**7,719**	8,220
Property, plant and equipment		**72,314**	75,214
Investment properties		**78,738**	79,323
Interest in associated companies		**142,238**	128,739
Unlisted investments	8	**109,974**	1,584
		410,983	293,080
Current assets			
Current investments		**74,739**	78,301
Inventories	9	**242,850**	280,247
Trade and other receivables	10	**225,748**	185,805
Loan receivable		**43,000**	—
Pledged deposits		**40,103**	49,495
Cash and cash equivalents		**239,869**	335,953
		866,309	929,801
Current liabilities			
Bank loans and overdrafts		**39,130**	53,458
Trade and other payables	11	**263,215**	300,041
Taxation		**18,331**	17,036
		320,676	370,535
Net current assets		**545,633**	559,266
Total assets less current liabilities		**956,616**	852,346
Non-current liabilities			
Interest-bearing bank loans		**150**	5,388
Minority interests		**41,668**	41,180
Net assets		**914,798**	805,778
Capital and reserves			
Share capital	12	**113,356**	105,551
Reserves	13	**801,442**	700,227
		914,798	805,778

The notes on pages 5 to 12 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2001 *HK$'000*
Net cash outflow from operating activities	**(61,909)**
Net cash inflow from returns on investments and servicing of finance	**28**
Tax paid	**(1,915)**
Net cash outflow from investing activities	**(13,396)**
Net cash outflow before financing	**(77,192)**
Net cash outflow from financing	**(14,263)**
Decrease in cash and cash equivalents	**(91,455)**
Effect of foreign exchange rates	**(291)**
Cash and cash equivalents at 1st January, 2001	**331,371**
Cash and cash equivalents at 30th June, 2001	**239,625**
Analysis of the balances of cash and cash equivalents	
Cash at bank and in hand	**239,869**
Bank loans and overdrafts repayable within three months	**(244)**
	239,625

Major non-cash transactions

On 18th April 2001, the Company acquired from the Stone Group Corporation a 25% interest in Mitsubishi Stone Semiconductor Co., Ltd., satisfied by the issuance of 76,464,267 new shares of the Company. Details of the issue are disclosed in note 14 of the unaudited interim financial report.

Notes on the unaudited interim financial report

1. Basis of preparation

This interim financial report is unaudited but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 13.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31st December, 2000 included in the interim financial report does not constitute the company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31st December 2000 are available from the company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 20th April, 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except for the change in accounting policy in connection with the adoption of Statement of Standard Accounting Practice 30 "Business combinations" and Statement of Standard Accounting Practice 31 "Impairment of assets" issued by the HKSA, which are effective for accounting periods commencing on or after 1st January, 2001. The nature and effects of this change in accounting policy are discussed in note 7.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2000 annual accounts.

2. Segment information

The Group is principally engaged in the activities of manufacturing, distribution and sale of electronic and electrical products, office equipment and software development and integration.

The Group's turnover and profit are almost entirely attributable to manufacturing, distribution and sale of electronic and electrical products and office equipment in the People's Republic of China ("PRC"). Turnover and contributions to the Group's profit from Hong Kong activities are insignificant. Accordingly, no analysis by principal activities and geographical areas are provided.

3. Net loss on disposal of interest in associated companies

The Group disposed of its entire 35% equity interest in Beijing Stone Matsushita Electric Works Limited to one of the venture parties, Matsushita Electric Works Limited for HK$135,330,000 and recorded a loss of HK$17,289,000.

The Group also disposed of its entire 37.5% equity interest in Beijing Stone Instruments Co. Ltd. for a nominal value of HK$1 to the Stone Group Corporation resulting in a profit of HK$2,092,000.

4. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30th June,	
	2001	2000
	HK$'000	*HK$'000*
Interest on borrowings	**2,007**	3,698
Amortisation and depreciation	**6,107**	6,676
Cost of inventories	**363,063**	411,140
Loss on disposal of property, plant and equipment	**64**	16
Compensation on termination of dealership rights	**(22,620)**	—
Unrealized loss/(gain) on equity securities	**41,172**	(362,741)

5. Taxation

	Six months ended 30th June,	
	2001	2000
	HK$'000	*HK$'000*
Hong Kong profits tax	**—**	—
Income tax outside Hong Kong in the PRC ("PRC income tax")	**3,211**	698
Share of associated companies' PRC income tax	**47**	41
Deferred taxation	**—**	52,502
	3,258	53,241

No provision for Hong Kong profits tax has been made in the accounts for the period as the Hong Kong companies of the Group sustained losses for taxation purposes during the period. PRC income tax is calculated at the applicable rates on the estimated taxable income outside Hong Kong in the PRC.

Deferred taxation for 2000 was calculated at the applicable rate of 33% relating to a PRC subsidiary's proportionate share of unrealized gain on equity securities for the period.

6. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss attributable to ordinary shareholders of HK$49,825,000 (2000: profit of HK$286,113,000) and on the weighted average number of 1,086,630,423 ordinary shares (2000: 1,039,599,993 shares) in issue during the period.

(b) Diluted (loss)/earnings per share

Diluted loss per share for six months ended 30th June, 2001 is not presented because there were no dilutive potential ordinary shares in existence during the period. The calculation of the diluted earnings per share for six months ended 30th June, 2000 was based on the profit attributable to ordinary shareholders of HK$286,113,000 and on the weighted average number of 1,040,643,376 shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2000 Number of ordinary shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,039,599,993
Deemed issue of ordinary shares for no consideration	1,043,383
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,040,643,376

7. **Change in accounting policy**

Recognition and amortisation of goodwill

Following the requirements of Statement of Standard Accounting Practice 30 "Business Combinations", goodwill arising after 1st January, 2001, on the acquisition of subsidiaries and associated companies being the excess of the cost of investments in these companies over the fair value of the group's share of the separable net assets acquired, is amortised on a straight-line basis to the consolidated profit and loss account over its estimated useful economic life.

Impairment loss on goodwill

Following the requirements of Statement of Standard Accounting Practice 31 "Impairment of assets", the directors have assessed the recoverable amount of the purchased goodwill and consider that there was an impairment loss of HK$16,616,000, which has been charged as an expense in the profit and loss account as a prior year adjustment, according to the transitional provisions under Statement of Standard Accounting Practice 30 "Business combinations". The Group's results for the six months ended 30th June, 2000 and 2001 are not affected as the directors consider that the impairment arose in the year prior to 1st January, 2000. The Group's net assets at the period end are not affected as the goodwill has already been set-off against reserves on acquisition.

8. **Unlisted investments**

Unlisted investments comprise mainly the 25% equity interest in China Cable Information Network Company Limited ("China Cable") which amounted to approximately HK$108,388,000. This investment was acquired and held in trust by Stone Group Corporation during the period on behalf of the Group.

9. **Inventories**

Included in inventories are raw materials, work in progress and finished goods of HK$212,689,000 (at 31st December, 2000: HK$250,115,000), stated net of a general provision made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in the amount of inventories recognised as an expense during the period, is HK$1,806,000.

10. **Trade and other receivables**

	At 30th June, 2001	At 31st December, 2000
	HK$'000	*HK$'000*
Debtors, prepayments and other receivables	**160,819**	128,579
Gross amount due from customers for contract work	**16,823**	9,046
Amounts due from associated companies	**3,684**	2,104
Amounts due from related companies	**44,422**	46,076
	225,748	185,805

10. Trade and other receivables *(Cont'd)*

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30th June, 2001 *HK$'000*	At 31st December, 2000 *HK$'000*
Current	**24,566**	29,913
Due over 6 months but within 12 months	**7,477**	2,711
Due over 12 months but within 24 months	**4,658**	6,224
Due over 24 months but within 36 months	**—**	—
Due over 36 months	**14,760**	14,760
	51,461	53,608

Included in trade debtors are debts of HK$14,760,000 (31st December, 2000: HK$14,760,000) guaranteed by Stone Group Corporation.

11. Trade and other payables

	At 30th June, 2001 *HK$'000*	At 31st December, 2000 *HK$'000*
Creditors, accruals and other payables	**214,676**	274,097
Amounts due to associated companies	**284**	5,616
Amounts due to related companies	**48,255**	20,328
	263,215	300,041

Included in the Group's creditors, accruals and other payables are trade creditors and bills payable with the following ageing analysis:

	At 30th June, 2001 *HK$'000*	At 31st December, 2000 *HK$'000*
Due within 6 months or on demand	**114,847**	186,360
Due after 6 months but within 12 months	**15,490**	6,397
Due after 12 months but within 24 months	**3,878**	2,692
	134,215	195,449

12. Share capital

	2001 Number of shares *('000)*	*HK$'000*
Authorised		
Ordinary shares of HK$0.1 each	**2,000,000**	200,000
Issued and fully paid		
At 1st January	**1,055,511**	105,551
Shares issued upon acquisition of an associate	**76,464**	7,646
Shares issued under share option scheme	**1,590**	159
	1,133,565	113,356

On 18th April, 2001, 76,464,267 new shares of the Company were allotted and issued to Stone Group Corporation at a price of HK$1.3587 per share for a consideration of HK$103,892,000 for the acquisition from Stone Group Corporation of a 25% interest in Mitsubishi Stone Semiconductor Co., Ltd. ("MSSC"). The new shares rank pari passu with the then existing shares in all respects.

At 30th June, 2001, the number of share options outstanding were:

Date of Grant	**Subscription price per share *(HK$)***	**Number of shares to be issued upon the exercise of share options**
29/02/2000	2.796	11,500,000

13. Reserves

	Capital redemption reserve HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Profit and loss account HK$'000	Total HK$'000
Group						
At 1st January, 2001	151	873,971	(74,841)	(3,980)	(95,074)	700,227
Prior year adjustment *(Note 7)*	—	—	16,616	—	(16,616)	—
At 1st January, 2001 after adjustment (restated)	151	873,971	(58,225)	(3,980)	(111,690)	700,227
Share premium on issue of shares	—	97,052	—	—	—	97,052
Goodwill released on disposal of associated company	—	—	54,891	—	—	54,891
Exchange fluctuation reserve realized upon disposal of an associated company	—	—	—	(1,500)	—	(1,500)
Exchange differences arising on consolidation	—	—	—	597	—	597
Loss for the period	—	—	—	—	(49,825)	(49,825)
At 30th June, 2001	151	971,023	(3,334)	(4,883)	(161,515)	801,442
Attributable to:						
The Company and subsidiaries	151	971,023	(3,334)	(7,314)	(160,367)	800,159
Associated companies	—	—	—	2,431	(1,148)	1,283
	151	971,023	(3,334)	(4,883)	(161,515)	801,442

No dividend was declared or paid in the current or prior period.

14. Material Related Party Transactions

(a) Transactions with and amounts paid to or received from Stone Group Corporation, which owns 49% equity interest in the Company's immediate holding company and its subsidiaries:

		Six months ended 30th June,	
		2001	2000
		HK$'000	*HK$'000*
	Sale of traded products	**12,198**	7,951
	Purchase of lighting fixtures *(Note 1)*	**9,764**	3,107
	Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services *(Note 2)*	**864**	653
(b)	Purchases of traded products and component parts from a minority shareholder of a subsidiary	**61,488**	55,219
(c)	Transactions with associated companies of the Group		
	Sale of traded products	**2,857**	13,982
	Purchase of traded products and component parts	**—**	809

(d) Stone Group Corporation guarantees the settlement of certain debtors of a non-wholly owned subsidiary of the Group amounting to HK$14,760,000 (31st December, 2000: HK$14,760,000).

(e) The Group placed deposits totalling HK$6,023,000 (31st December, 2000: HK$5,019,000), as at 30th June 2001 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

(f) The Group also disposed of its entire 37.5% equity interest in Beijing Stone Instruments Co. Ltd. for a consideration of HK$1 to Stone Group Corporation. A gain on disposal of associated company amounting to HK$2,092,000 was recorded.

(g) In September 2000, the Company entered into a conditional agreement with Stone Group Corporation (the "Acquisition Agreement") to acquire from Stone Group Corporation 25% interest in MSSC for a consideration to be satisfied by way of the issue and allotment of 76,464,267 new shares of HK$0.1 each in the Company to Stone Group Corporation. Details of the acquisition were set out in the circular dated 9th October, 2000 issued to the shareholders.

Pursuant to the Acquisition Agreement, the Company issued a counter guarantee to Mitsui & Co Ltd ("Mitsui") and Mitsubishi Electric Corporation ("Mitsubishi") in respect of 25% guarantee given by Mitsui and Mitsubishi of the loans advanced by a certain bank to MSSC ("Counter Guarantee"). Stone Group Corporation undertook in the Acquisition Agreement to indemnity the Company for all claims against the Company under the Counter Guarantee in respect of loans which had been advanced by the bank to MSSC up to and including the date of completion on 18th April, 2001.

Notes:

1. During the period, Beijing New Technology had from time to time purchased lighting fixtures from Shanghai Stone Hu Guang Electric Shareholding Company Limited, which is a 51% owned subsidiary of Stone Group Corporation.

2. In August 1998, the Company entered into a management contract with Stone Group Corporation, pursuant to which Stone Group Corporation agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed HK$2,750,000 per annum for a term of five years commencing from 23rd July, 1998.

3. Sale of traded products and component parts by the Group's wholly-owned subsidiaries to non-wholly owned subsidiaries and their year end trade balances thereof have been eliminated on consolidation.

15. Contingent Liabilities

As at 30th June, 2001, the Group had contingent liabilities in respect of counter guarantee for bank loan of approximately HK$76.6 million (at 31st December, 2000: Nil) given to an associated company.

16. Post balance sheet event

On 4th July, 2001 a private placement to individual investors of a total of 65,000,000 new shares of HK$0.10 each in the Company at a price of HK$1.2 per share was arranged. The shares were issued on 16th July, 2001. These new shares rank pari passu with the then existing shares in all respects.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's accounts presentation.

Independent review report to the board of directors of Stone Electronic Technology Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 1 to 12.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited because the company's interim financial report for the six months ended 30th June, 2000 was neither reviewed in accordance with SAS 700 nor audited and consequently we were unable to perform a review of the comparatives in accordance with SAS 700.

Modified review conclusion arising from limitation of review scope

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments to the information for the comparative period ended 30th June, 2000 that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2001.

KPMG
Certified Public Accountants
Hong Kong, 24th September, 2001

INTERIM DIVIDEND

The Board of Directors resolved not to pay an interim dividend for the six months ended 30th June, 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Unaudited turnover of the Group for the six months ended 30th June, 2001 was HK$403,842,000, representing a drop of 14% over the corresponding period last year. Profits from operation was HK$7,584,000, up 11% from the same period last year. The growth in profits from operation reflected the achievement of the Group in better allocation of resources to existing operations and effective cost control through continued pursue of business consolidation. While intentionally reducing the scale of certain operations, the Group successfully expanded its core electronic and lighting products distribution operations in various extents. As a result of the Group's implementation of reinforcement in cost control and tight inventory management during the period, operating expenses decreased as compared to the corresponding period last year.

Recent development of the core businesses of electronic and lighting products distribution during the period was as follows:

- Sales of industrial controllers in the first half of 2001 were satisfactory with a turnover of HK$170,000,000, representing a 10% increase from the same period last year. With an expanded product portfolio and the introduction of the Siemens frequency converters, we are confident that the strong growth of this operation will be maintained;

- Turnover of the OKI invoice printers during the period was HK$83,000,000. Despite a slight decrease in turnover, gross profits margin of this operation managed to record a growth as a result of the Group's dedicated cost control measures and reorganization of sales channels.

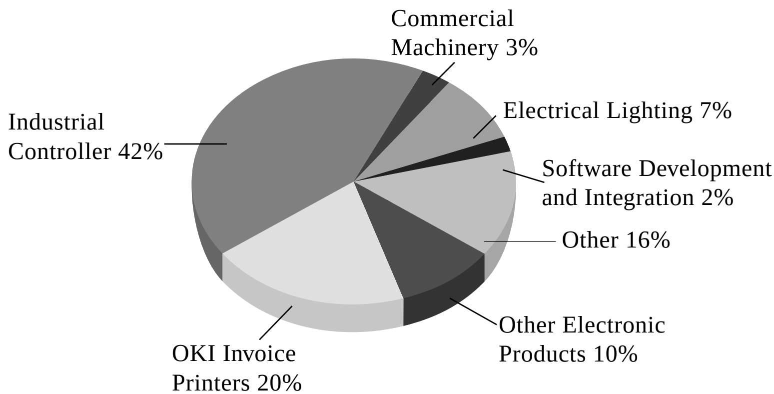
- Sales Tax electronic cash registers and Value Added Tax ("VAT") invoice processors are designated by the PRC Government as approved products for "Gold Tax Project" (金稅工程). Due to an enhancement to an important component of the anti-counterfeit control system of VAT invoice processors by the State Taxation Bureau since early 2001, sale of the VAT invoice processors of the Group during the period was affected and behind management's estimation. Nevertheless, the Group continued its efforts for the promotion and launched application training in major cities of the PRC. Sale of the Group's VAT invoice processors is expected to recover and grow steadily after the completion of the said enhancement in the fourth quarter of 2001.

- The lighting products distribution operation faced new challenges this year. The Group adjusted its distributed product portfolio during the period and faded out the Group's role as the distributor of Stone Matsushita products. In the meantime, the Group aggressively expanded the lighting product line manufactured by Stone Hu Guang, a subsidiary of Stone Group Corporation, which offers comprehensive and quality proven products at competitive prices. Results of such efforts were satisfactory. This operation is believed to develop into a key growth point of the Group in the second half of the year.

As for the technology-enabled value-added business, operations of Stone-MTI Computer System Engineering Company Limited ("SMTI"), in which the Group holds 71% equity interests, developed steadily. In addition to the development of new products, SMTI further sharpened its technology edge which lay down a strong foundation for its business development in the future.

As for the investment business, the value of 10% equity interests in Sina.com held by the Group was booked mark to market as at 30th June, 2001 pursuant to the accounting standards adopted by the Group. An unrealized loss of HK$41,170,000 was resulted.

Turnover analysis by major products



Acquisitions and disposals

The Group completed its acquisition of the 25% equity interests in Mitsubishi Stone Semiconductor Company Ltd. during the period, thereby strengthening its technology-enabled value-added arm of operation. In April 2001, the Group completed the disposal of 35% equity interests in Beijing Stone Matsushita Electric Works, Ltd. and a cash consideration of US$17,350,000 (approximately equivalent to HK$135,000,000) was received. A loss on disposal of HK$17,290,000 was recorded in the interim results.

Liquidity and financing resources

At 30th June, 2001, the Group's total shareholders' funds amounted to HK$915 million compared with HK$806 million at 31st December, 2000. At 30th June, 2001, bank borrowing for the Group was HK$39 million while cash and cash equivalents was HK$240 million. The gearing ratio (as defined as the total of bank borrowing as a percentage of the total equity interests) as at 30th June, 2001 was approximately 4.3%. The Group's major bank borrowings are in Renminbi and cash and cash equivalents are in Hong Kong Dollars and Renminbi.

Contingent liabilities

As at 30th June, 2001, the Company had contingent liabilities in respect of counter guarantee for bank loan of approximately HK$76.6 million given to an associated company.

Future Prospect

In the second half of 2001, the Group will continue the consolidation of its existing operations of distribution of electronic and lighting products. In order to achieve a higher degree of balance, the Group further expands the technology-enabled value-added business which the management believes possessing a significant development potential.

It is the intention of the Group to pursue positive expansion in the following technology-enabled value-added businesses:

1. Software business: to ally with internationally renowned software developers and leading PRC IT companies in the engagement of software development and application business. Positive development is expected in the fourth quarter;

2. Wireless data communication business: to engage in aggressive development of value-added business based on wireless data communication technologies;

3. Broadcasting network-related business: to engage in the development of value-added and enabling businesses relating to broadcasting network, which will be consolidated with other related resources of the Group for maximized synergy; and

4. e-commerce business: to engage in the development of e-commerce solution and services business tailor-made for the financial sector and big corporations.

Employees

As at 30th June, 2001, the Group employs a total of 1102 employees, of which 1072 are employed in the PRC and 30 are in Hong Kong. In addition to receiving salaries and bonus, employees are also entitled to other benefits, including medical subsidies and a retirement scheme contribution. Share options are made available to certain employees of the Group.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 30th June, 2001 had the following interests in the issued share capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) at that date as recorded in the register of directors' interests under Section 29 of the SDI Ordinance:

	Ordinary Shares of HK$0.1 each of the Company			
	Personal interests	**Family interests**	**Corporate interests**	**Other interests**
Mr. Duan Yongji	2,790,000	—	—	—

Note: Beijing Stone Investment Company Limited ("Stone Investment") together with its associates (as defined in the Listing Rules) holds a total of 407,110,053 shares of the Company. Stone Investment is owned as to 49% by Stone Group Corporation and 51% by the Beijing Stone Investment Company Limited Employees' Shareholding Society ("Employees' Shareholding Society"). Messrs. Shen Guojun, Duan Yongji, Li Wenjun, and Zhu Xiduo are directors and members of Employees' Shareholding Society. In addition, Messrs. Shen Guojun , Duan Yogji, Li Wenjun and Zhu Xiduo (collectively as "the said Directors") are also employees of Stone Group Corporation. So long as the said Directors remain as employees of Stone Group Corporation, each of them together with the other employees collectively own interests in the assets of Stone Group Corporation but none of them has any specific interest in Stone Group Corporation.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

	Notes	**Shares held**
Stone Investment	*1*	407,110,053
Employees' Shareholding Society	*2*	407,110,053
Stone Group Corporation	*2*	499,484,466

Notes:

1. The shareholding of 407,110,053 share comprises the combined shareholdings of Stone Investment and its associates (as defined in the Listing Rules).

2. Stone Investment is owned as to 49% by Stone Group Corporation and 51% by Employees' Shareholding Society which are accordingly deemed to be interested in the said 407,110,053 shares. Stone Group Corporation also indirectly holds 92,374,413 shares.

ARRANGEMENT TO PURCHASE SHARES

Pursuant to an ordinary resolution passed on 23rd July, 1993, a share option scheme was adopted whereby the directors of the Company, at their discretion, are authorised to invite employees of any member of the Group, including directors of any member of the Group, to take up options to subscribe for shares not exceeding 10% of the issued share capital of the Company. The share option scheme will remain in force for a period of 10 years commencing on 23rd July, 1993. The options are exercisable for a period up to 3 years commencing on the expiry of 6 months after the date on which the option is accepted or to the expiry date of the Scheme, whichever is earlier.

The following share options which were granted to the directors of the Company under the share option scheme were outstanding at 30th June, 2001 are as follows:

			Number of options		
	Date of grant	Subscription price per share *(HK$)*	Outstanding as at 1st January, 2001	Exercised	Outstanding as at 30th June, 2001
Mr. Duan Yongji	29-02-2000	2.796	7,500,000	—	7,500,000
Mr. Li Wenjun	29-02-2000	2.796	4,000,000	—	4,000,000
Mr. Yang Hongru	21-10-2000	0.632	1,590,000	1,590,000	—

The consideration paid by each above director for the share options granted was HK$1. No new share option was granted to any director during the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, the Company and all of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a general review of the unaudited financial statements for the six months ended 30th June, 2001. The interim financial report for the period ended 30th June, 2001 is unaudited, but has been reviewed in accordance with statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, by KPMG, whose review report is included in the interim report sent to Shareholders.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at any time during the six months ended 30th June, 2001.

By Order of the Board
SHEN Guojun
Chairman

Hong Kong, 24th September, 2001.