STONE

STONE ELECTRONIC TECHNOLOGY LIMITED

四通電子技術有限公司

2002

INTERIM REPORT

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, 2002 with the comparative figures for the corresponding period in 2001 as follows:

		Unaudited Six months ended 30th June,	
		2002	2001
	Note	***HK$'000***	*HK$'000*
Turnover	*2*	**470,333**	403,842
Cost of sales		**(408,577)**	(357,858)
Gross profit		**61,756**	45,984
Other revenue		**3,345**	28,306
		65,101	74,290
Distribution costs		**(27,261)**	(22,096)
Administrative expenses		**(49,344)**	(35,826)
Other operating expenses		**(8,384)**	(8,784)
(Loss)/profit from operations		**(19,888)**	7,584
Non-operating expenses		**(3,597)**	(56,369)
Finance costs		**(1,030)**	(2,193)
Share of profits less losses of associates		**650**	4,873
Loss from ordinary activities before taxation	*3*	**(23,865)**	(46,105)
Taxation	*4*	**(293)**	(3,258)
Loss from ordinary activities after taxation		**(24,158)**	(49,363)
Minority interests		**7,590**	(462)
Loss for the period attributable to shareholders		**(16,568)**	(49,825)
Loss per share	*5*		
— Basic		**(1.38) cents**	(4.59) cents

The notes on pages 5 to 11 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity for the six months ended 30th June, 2002

	Note	Six months ended 30th June, 2002 HK$'000	2001 HK$'000
Total equity balance at 1st January		**867,294**	805,778
Surplus on revaluation of investments in securities	*12*	**430**	—
Exchange differences			
— on translation of the financial statements of foreign entities	*12*	**3,944**	597
— upon disposal of an associate		**—**	(1,500)
Net gain/(loss) not recognised in the income statement		**4,374**	(903)
Net loss for the period		**(16,568)**	(49,825)
Realisation of goodwill on disposal of an associate and a subsidiary	*12*	**9**	54,891
Issue of share capital		**—**	104,857
Total equity balance at 30th June		**855,109**	914,798

The notes on pages 5 to 11 form part of this interim financial report.

Unaudited Consolidated Balance Sheet at 30th June, 2002

	Note	30th June, 2002 HK$'000		31st December, 2001 HK$'000	
Non-current assets					
Fixed assets					
— Investment properties			**68,065**		68,065
— Property, plant and equipment			**54,986**		55,846
			123,051		123,911
Goodwill			**22,419**		7,722
Interest in associates	6		**308,429**		261,305
Other financial assets	7		**125,401**		111,754
			579,300		504,692
Current assets					
Inventories	8	**172,169**		185,670	
Trade and other receivables	9	**194,083**		238,707	
Pledged deposits		**4,064**		53,392	
Cash and cash equivalents		**301,324**		284,979	
		671,640		762,748	
Current liabilities					
Bank loans and overdrafts		**28,873**		73,718	
Trade and other payables	10	**205,933**		191,894	
Taxation		**15,266**		17,998	
		250,072		283,610	
Net current assets			**421,568**		479,138
Total assets less current liabilities			**1,000,868**		983,830
Non-current liabilities					
Bank loans			**16,000**		—
Minority interests			**129,759**		116,536
NET ASSETS			**855,109**		867,294
CAPITAL AND RESERVES					
Share capital	11		**119,856**		119,856
Reserves	12		**735,253**		747,438
			855,109		867,294

The notes on pages 5 to 11 form part of this interim financial report.

Unaudited Condensed Consolidated Cash Flow Statement for the six months ended 30th June, 2002

	Six months ended 30th June,	
	2002	2001
	HK$'000	*HK$'000*
Net cash from/(used in) operating activities	**75,829**	(37,371)
Net cash used in investment activities	**(29,427)**	(13,396)
Net cash used in financing activities	**(30,057)**	(40,688)
Net increase/(decrease) in cash and cash equivalents	**16,345**	(91,455)
Effect of foreign exchange rates changes	—	(291)
Cash and cash equivalents at 1st January	**284,979**	331,371
Cash and cash equivalents at 30th June	**301,324**	239,625
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**301,324**	239,869
Bank overdrafts	—	(244)
	301,324	239,625

The notes on pages 5 to 11 form part of this 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 12.

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.

The financial information relating to the financial year ended 31st December, 2001 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, 2001 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 24th April, 2002.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial report. The Group has adopted the new and revised Statements of Standard Accounting Practice ("SSAP") which became effective on 1st January, 2002 including SSAP 1 (revised) "Presentation of financial statements", SSAP 15 (revised) "Cash flow statements", and SSAP 34 "Employee benefits". The adoption of these new and revised SSAPs has no material effect on the Group's financial results for the six months ended 30th June, 2002.

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 2001 annual accounts.

2. Segment information

The Group is principally engaged in the activities of manufacturing, distribution and sale of electronic and electrical products, and the provision of technology-based value-added services and media-related services.

An analysis of the Group's turnover and contribution from operations by business segments for the six months ended 30th June, 2002 is set out below:

	Group turnover Six months ended 30th June,		**Contribution to (loss)/ profit from operations Six months ended 30th June,**	
	2002	2001	**2002**	2001
Principal activities	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Manufacturing, distribution and sale of electronic and electrical products	**441,000**	394,858	**998**	17,889
Technology-based value-added services	**27,469**	8,984	**(3,025)**	(2,129)
Media-related business	**1,864**	—	**(10,404)**	—
	470,333	403,842	**(12,431)**	15,760
Unallocated corporate expenses			**(7,457)**	(8,176)
			(19,888)	7,584

2. Segment information *(Cont'd)*

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the People's Republic of China (the "PRC") and less than 10 per cent of the Group's turnover and contribution from operations were derived from activities conducted outside the PRC.

3. Loss from ordinary activities before taxation

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

	Six months ended 30th June,	
	2002	2001
	HK$'000	*HK$'000*
Interest on borrowings	**789**	2,007
Amortisation of negative goodwill	**(7,676)**	—
Amortisation of positive goodwill	**1,641**	663
Amortisation of other intangible assets	**—**	509
Depreciation	**4,462**	4,936
Cost of inventories	**408,577**	357,858
Provision for write down in value of obsolete inventories	**1,103**	5,205
Provision for bad and doubtful debts	**2,308**	1,588
(Gain)/loss on disposal of property, plant and equipment	**(19)**	64
Compensation on termination of product distribution rights	**—**	(22,620)
Net unrealized loss on equity securities	**—**	41,172
Net loss on disposal of interest in associates	**462**	15,197

4. Taxation

	Six months ended 30th June,	
	2002	2001
	HK$'000	*HK$'000*
Hong Kong profits tax	**—**	—
Income tax outside Hong Kong in the PRC ("PRC income tax")	**155**	3,211
Share of associates' PRC income tax	**138**	47
	293	3,258

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.

5. Loss per share

(a) Basic loss per share

The calculation of the basic loss per share is based on the loss for the period attributable to shareholders of HK$16,568,000 (2001: HK$49,825,000) and on the weighted average number of 1,198,564,406 ordinary shares (2001: 1,086,630,423 shares) in issue during the period.

5. Loss per share *(Cont'd)*

(b) Diluted loss per share

Diluted loss per share is not presented because there were no dilutive potential ordinary shares in existence during the period or the prior period.

6. Interest in associates

	At 30th June, 2002	At 31st December, 2001
	HK$'000	*HK$'000*
Share of net assets		
— Listed outside Hong Kong	**179,327**	187,059
— Unlisted	**139,681**	94,516
Goodwill	**(10,579)**	(20,270)
	308,429	261,305
Market value of a listed associate	**129,355**	116,759

7. Other financial assets

	At 30th June, 2002	At 31st December, 2001
	HK$'000	*HK$'000*
Non-trading securities — equity securities		
— Listed in Hong Kong	**47,300**	46,870
— Unlisted	**62,801**	64,884
	110,101	111,754
Loan receivable	**15,300**	—
	125,401	111,754
Market value of listed securities	**47,300**	46,870

Included in unlisted equity securities is an equity interest in China Cable Information Network Company Limited ("China Cable") with a carrying value of approximately HK$58,388,000 at 30th June, 2002 (at 31st December, 2001: HK$58,388,000). This investment is held in trust on behalf of the Group by Stone Group Corporation.

Pursuant to a series of organisation restructuring steps undertaken by China Cable during the period, additional assets were injected into China Cable in return for equity issued to new shareholders, and the Group's equity interest in China Cable has thereby been diluted from 25% at 31st December, 2001 to 9.51% as at 30th June, 2002.

Loan receivable is the amount advanced to the founders of an associate, East.net Technology Investments Limited ("East.net") which is secured by the 51% equity interest in East.net owned by these founders. Loan receivable is interest bearing at the prevailing lending rate of The Hongkong and Shanghai Banking Corporation Limited and is not expected to be settled within the next twelve months.

8. Inventories

Included in inventories are raw materials, work in progress and finished goods carried at net realisable value of HK$58,263,000 (at 31st December, 2001: HK$41,616,000).

9. Trade and other receivables

	At 30th June, 2002 HK$'000	At 31st December, 2001 HK$'000
Debtors, prepayments and other receivables	**144,157**	200,947
Gross amount due from customers for contract work	**15,283**	5,902
Amounts due from associates	**12,909**	8,272
Amounts due from related companies	**21,734**	23,586
	194,083	238,707

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

	At 30th June, 2002 HK$'000	At 31st December, 2001 HK$'000
Current	**72,811**	39,851
Due over 6 months but within 12 months	**7,866**	5,507
Due over 12 months but within 24 months	**1,200**	1,218
	81,877	46,576

Most of the Group's sales are cash sales. For credit sales, a credit period of 60 days to 90 days is granted. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

10. Trade and other payables

	At 30th June, 2002 HK$'000	At 31st December, 2001 HK$'000
Creditors, accruals and other payables	**177,428**	160,984
Amounts due to associates	**41**	11,506
Amounts due to related companies	**28,464**	19,404
	205,933	191,894

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

	At 30th June, 2002 HK$'000	At 31st December, 2001 HK$'000
Due within 6 months or on demand	**80,068**	72,626
Due after 6 months but within 12 months	**3,072**	5,789
Due after 12 months but within 24 months	**13,833**	12,616
	96,973	91,031

The credit terms of the suppliers of the Group range from 30 days to 90 days.

11. Share capital

Ordinary shares of HK$0.1 each	Number of shares (’000)	Amount HK$’000
Authorised:		
At 1st January and 30th June 2002	**2,000,000**	200,000
Issued and fully paid:		
At 1st January and 30th June 2002	**1,198,565**	119,856

At 30th June, 2002, the outstanding options were as follows:

Date of options granted	Period during which options exercisable	Exercise price HK$	Number of options outstanding
29th February, 2000	29th August, 2000 to 22nd July, 2003	2.796	11,500,000
15th August, 2001	15th February, 2002 to 22nd July, 2003	0.7264	14,151,000
22nd May, 2002	22nd August, 2002 to 21st August, 2012	0.792	59,481,000
22nd May, 2002	22nd August, 2003 to 21st August, 2012	0.792	20,125,000
22nd May, 2002	22nd August, 2004 to 21st August, 2012	0.792	20,125,000
22nd May, 2002	22nd August, 2005 to 21st August, 2012	0.792	20,125,000

12. Reserves

	Capital redemption reserve HK$’000	Share premium HK$’000	Capital reserve HK$’000	Investment revaluation reserve HK$’000	Exchange fluctuation reserve HK$’000	Accumulated losses HK$’000	Total HK$’000
At 1st January, 2002	151	1,022,607	15,267	(48,480)	(7,188)	(234,919)	747,438
Unrealised gain on revaluation of investments in securities	—	—	—	430	—	—	430
Capital reserve released on disposal of an associate and a subsidiary	—	—	9	—	—	—	9
Exchange differences arising on consolidation	—	—	—	—	3,944	—	3,944
Loss for the period	—	—	—	—	—	(16,568)	(16,568)
At 30th June, 2002	151	1,022,607	15,276	(48,050)	(3,244)	(251,487)	735,253

13. Material Related Party Transactions

(a) Transactions with and amounts paid to or received from Stone Group Corporation, a minority shareholder of the Group:

	Six months ended 30th June, 2002 HK$'000	2001 HK$'000
Sale of traded products	**10,529**	12,198
Management fees paid in relation to training, secretarial and general administrative services on cost reimbursement basis *(Note 1)*	**1,301**	864
(b) Purchase of traded products and component parts from a minority shareholder of a subsidiary	**29,984**	61,488
(c) Transactions with associates of the Group:		
Sale of traded products	**2,898**	2,857
Purchase of lighting products	**4,848**	9,764
(d) Sale of GSM and GPS modules to an affiliated company of the Group *(Note 2)*	**6,443**	—

(e) The Group placed deposits totalling HK$7,815,000 as at 30th June, 2002 (31st December, 2001: HK$7,087,000) with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

(f) On 18th January, 2002, the Company entered into a conditional agreement with Stone Group Corporation to acquire from Stone Group Corporation the remaining 12.5% equity interest in Beijing Stone Electronic Technology Company Limited ("Beijing Stone Electronic") for a cash consideration of Rmb18,000,000 (equivalent to approximately HK$16,965,000). Beijing Stone Electronic became a wholly-owned subsidiary of the Company upon completion of this transaction on 30th January, 2002.

(g) In January 2001, Beijing Stone Electronic and Stone Group Corporation entered into an agreement (the "hold on behalf agreement") pursuant to which Stone Group Corporation holds in trust for Beijing Stone Electronic, the equity investment in China Cable. Stone Group Corporation agreed to reimburse the Company for any loss, to be capped at the original investment cost of HK$108,388,000, arising in the event that the Group's beneficial ownership in China Cable is restricted due to PRC regulatory reasons.

Notes:

1. In August 1998, the Company entered into a five year 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.

13. Material Related Party Transactions *(Cont'd)*

Notes: (Cont'd)

2. In April 2002, an equity joint venture company was established between the Company, Beijing Centek Data Communication Technology Co. Ltd. ("Beijing Centek") and a venture fund. A wholly-owned subsidiary of the Company from time to time sold GSM and GPS modules to Beijing Yizhou Qicheng Information Technology Co. Ltd., a subsidiary of Beijing Centek.

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

14. Contingent Liabilities

As at 30th June, 2002, the Group had contingent liabilities in respect of counter guarantee for a bank loan of approximately HK$55.5 million (at 31st December, 2001: HK$57.9 million) granted to an associate.

15. Comparative figures

Certain comparative figures for the analysis of expenses and liabilities in the unaudited consolidated income statement and balance sheet have been reclassified to conform with the current period's 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 11.

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. 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.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

KPMG
Certified Public Accountants

Hong Kong, 25th September, 2002

INTERIM DIVIDEND

The Board of Directors resolved not to pay an interim dividend for the six months ended 30th June, 2002 (2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded an unaudited turnover of HK$470.3 million for the six months ended 30th June, 2002, representing an increase of 16.5% as compared to the same period in 2001. The net loss attributable to shareholders for the six months ended 30th June, 2002 decreased significantly by HK$33.2 million or 66.7% to HK$16.6 million from HK$49.8 million for the same period of 2001.

Turnover analysis by operations:

	Six months ended 30th June,		
	2002	2001	
	HK$ million	*HK$ million*	% +/(-)
Manufacture and distribution business (by major products)			
Industrial controllers	**167.8**	175.9	(4.6)
Stone-OKI invoice printers	**83.0**	84.7	(2.0)
Electrical lighting products	**10.3**	28.8	(64.2)
Anti-counterfeit tax control machine	**10.1**	16.0	(36.9)
Computer parts and non-branded computers	**52.9**	25.7	105.8
Other products	**116.9**	63.7	83.5
	441.0	394.8	
Fee income from technology-based value-added services (including system integration) and media-related business	**29.3**	9.0	225.6
	470.3	403.8	

Electronic Products Manufacture and Distribution

During the period, the global economy was volatile and the commodity price in the PRC continued to decline. Together with the increasing market competition arising from China's entry to the WTO in November 2001, the Group's manufacture and distribution business was affected.

Sales performance of individual electronic products varied in the first half of the year, while turnover from industrial controllers and Stone OKI invoice printers, two of the Group's key products, recorded a slight decline of 4.6% and 2.0% respectively. The Group believes that by streamlining operations, implementing stringent cost controls, strengthening logistics management and expanding sales channels, these two products will continue to be the main revenue sources and profit contributors.

The Group launched its lighting products under the "Stone" brand in 2001. The sales performance of the branded lighting products have been improving since they were launched into the market. The decrease in sales for the six months period ended 30th June, 2002 over the same period in 2001 was principally attributable to the termination of the distribution rights of Matsushita Electric Works Ltd.'s products in the first half of 2001.

The improvements in Anti-counterfeiting Tax Control Machine ("ATCM") by the State Taxation Bureau were still in progress. It is expected that the Bureau will complete the improvement process by the end of 2002. The Group believes that by then a steady growth in sales of the ATCM will be achieved.

In view of the low penetration rate of computer products in China, the Group recently began distributing computer parts and non-branded computer products. A strong increase of 105.8% in these sales was recorded. In addition, the Group formed a joint venture with Achieva Investment Pte Ltd, a listed company in Singapore, for the production and distribution of branded computer products in China in March 2002. The joint venture, in which the Group holds 51% interest, will concentrate on brand name management and product design. Computer products will be produced on OEM basis. The Group believes that this new business will offer sound growth potential in the years ahead.

The turnover of other products increased by HK$53.2 million or 83.5% for the six months ended 30th June, 2002 to HK$116.9 million compared to the same period in 2001. Other products included power suppliers, semi-conductors and other electrical products.

Mitsubishi Stone Semiconductor Company Limited ("MSSC"), in which the Group has a stake of 25%, achieved satisfactory performance during the first half of 2002. Despite of the global slowdown in the semi-conductors market, MSSC managed to contribute an attributable profit of HK$2.6 million to the Group as compared to HK$1.9 million in the same period in 2001.

Technology-based Value-added Services

In an effort to broaden the revenue base, the Group has actively taken necessary steps to develop the technology-based value-added business that offers growth potential. Reaping the fruits from this strategic move, revenue from technology-based value-added business increased by 204.4% over the same period in 2001.

During the period, Shanghai Centek Communication Industry Company Limited, a subsidiary owned as to 52% by the Company, was established in Shanghai for the provision of satellite positioning services in Shanghai in April 2002. This business is still in development stage.

In addition to maintaining the established Geographic Information System ("GIS") market share in the PRC's utilities segment, the Group, through its subsidiary Shanghai Stone-MTI Computer Engineering Company Limited, actively explored the potential of the GIS market in other segments during the period under review.

In the first half of 2002, the Group also provided training and installation services to ATCM users in Beijing. The revenue from the provision of these technology-based value-added services amounted to HK$4.0 million for the six months ended 30th June, 2002. The Group is confident of the prospects of the ATCM technology-based value-added business.

Media-related Business

Through its subsidiary company, Sun Stone New Media Limited ("Sun Stone"), the Group is engaged in media-related business in China. It holds an indirect equity stake of 20.6% in Sina.com, a company listed on Nasdaq. Since the market for media-related business in China is still immature, the Group has faced certain difficulties in this business development. The Group has decided to slow down the speed of media-related business development and will implement stringent cost controls in the second half of 2002.

Gross Profit

Gross profit increased by HK$15.8 million or 34.3% to HK$61.8 million for the first half of 2002 as compared with the same period in 2001. The gross profit margin increased to 13.1% for the first half of 2002 from 11.4% for the same period in 2001. This was principally attributable to the clearance of slow moving inventories during the period under review, of which significant provisions had been made in prior years against these inventories.

Distribution Costs, Administrative Expenses and Other Operating Expenses

Distribution costs increased by HK$5.2 million or 24.0 % to HK$27.3 million for the first half of 2002 compared to HK$22.1 million for the same period in 2001. As a percentage of the turnover, distribution costs increased slightly from 5.5% to 5.8 %. This was principally attributable to the increase in marketing and promotion expenses and number of salemen.

Administrative expenses increased by HK$13.5 million or 38.0% to HK$49.3 million for the first half of 2002 compared to HK$35.8 million for the same period in 2001. As a percentage of the turnover, administrative expenses increased to 10.5% for the first half of 2002 from 8.9% for same period in 2001. This was principally attributable to administration and business development expenses incurred by the media-related business.

Other operating expenses decreased negligibly by HK$0.4 million or 4.5% to HK$8.4 million for the first half of 2002 compared to HK$8.8 million for the same period in 2001.

Operating Loss

The Group recorded an operating loss of HK$19.9 million during the period under review, as compared to an operating profit of HK$7.6 million during the same period last year. The significant change was principally attributable to an one-off gain of HK$22.6 million accrued from the termination of the distribution rights of Matsushita products in the first half of 2001.

Liquidity and Capital Resources

The Company's primary liquidity needs are to fund daily operations and direct investments. At 30th June, 2002, the Company had working capital of HK$421.6 million, which included a cash balance of HK$305.4 million including restricted cash of HK$4.1 million, compared to working capital of HK$479.1 million, which included a cash balance of HK$338.4 million including restricted cash of HK$53.4 million at 31st December, 2001.

The current ratio was 2.7 times at 30th June, 2002 which is same as that at 31st December, 2001. The decrease in cash and cash equivalents by HK$33.0 million was due principally to (i) cash used in financing the acquisition of 30% interest in Censoft Company Ltd; and (ii) general working capital requirement.

Inventories decreased by HK$13.5 million to HK$172.2 million at 30th June, 2002 when compared to 31st December, 2001 and the inventory turnover in terms of month improved from 2.9 months at 31st December, 2001 to 2.5 months at the end of the reporting period. The improvement was mainly attributable to better inventories and procurement controls.

The Company had available banking facilities of HK$116.7 million in total with various banks at 30th June, 2002. Of the total facilities, HK$96.7 million was for letter of credit arrangement, overdraft and other facilities commonly used for manufacturing and distribution company, and HK$20 million was a term loan. The working capital facilities bear interest at floating rates generally based on prime lending rates, and are subject to periodic review and the term loan was on HIBOR basis repayable in 3 years. At 30th June, 2002, the Company utilized approximately HK$73.1 million of its credit facilities.

The Company believes that funds to be generated from internal operations and the existing banking facilities will enable the Company to meet anticipated future cash flow requirements.

Financial Position

The Group continues to maintain a strong financial position with cash and cash equivalents of HK$301.3 million and bank borrowing of HK$44.9 million as at 30th June, 2002. At the end of the reporting period, the gearing ratio was approximately 5.3% as compared to 8.5% at 31st December, 2001.

Details of Charges on Group Assets

As at 30th June, 2002, a property with carrying value of HK$13.3 million was pledged with a bank as collateral against a loan to a subsidiary. In addition, fixed deposits amounting to HK$3.4 million were pledged in respect of a bank guarantee issued to a customer of a subsidiary.

Contingent Liabilities

As at 30th June, 2002, the Company had provided a counter guarantee for a bank loan of approximately HK$55.5 million granted to an associate.

Hedging

As the Group makes its purchases substantially from overseas, it is the Group's policy to enter into foreign exchange forward contract to hedge against foreign exchange fluctuation whenever necessary.

Employees

At 30th June, 2002, the Group employed a total of 1,073 (2001: 1,102) employees, of which 1,044 (2001: 1,072) were employed in the PRC and 29 (2001: 30) were in Hong Kong. Out of 1,044 employed in the PRC, 67 were temporary employees. In addition to receiving salaries and bonus, employees are also entitled to other benefits, including medical subsidies and employer's contributions to mandatory provident fund for Hong Kong staff, and Central Pension Scheme for PRC staff. Share options are made available to certain employees of the Group.

Outlook

Following China's entry to the WTO and the subsequent lowering of import tariff, the market competition in China will be fiercer than ever before. Together with deflation in China, it is expected that the Group will continue to face an adverse economic situation.

While the Group will continue to strengthen its inventory management and cost controls, it will use its best endeavours to maintain its performance in the manufacture and distribution of electronic products business. Riding on the Group's solid financial position, the Group will continue to develop its core businesses, namely the manufacture and distribution of electronic products and the provision of technology-based value-added business. As it will gradually strengthen its revenue base with the official launch of a range of technology-based value-added services, the Group will be able to reap the benefits, contributing to its long-term growth.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 30th June, 2002 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	—	—	—

Notes: 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 42.3% by Stone Jiu Guang New Technology Development (Holdings) Company Limited ("Stone Jiu Guang"), 6.7% by Stone Group Corporation and 51% by the Beijing Stone Investment Company Limited Employees' Shareholding Society ("Employees' Shareholding Society"). Stone Jiu Guang is owned as to 36% by Stone Group Corporation. In addition, Stone Group Corporation indirectly holds 92,374,413 shares of the Company. Messrs, Duan Yongji, Shen Guojun, Li Wenjun, Zhu Xiduo and Chen Xiaotao (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, 2002, the following corporations were interested in 10% or more of the Company's issued share capital:

	Notes	**Number of Shares**
Stone Investment	*1*	407,110,053
Employees' Shareholding Society	*2*	407,110,053
Stone Jiu Guang	*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 42.3% by Stone Jiu Guang, 6.7% by Stone Group Corporation and 51% by Employees' Shareholding Society which are accordingly deemed to be interested in the said 407,110,053 shares. In addition, Stone Group Corporation indirectly holds 92,374,413 shares of the Company.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company and recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as at 30th June, 2002.

SHARE OPTION SCHEMES

The share option scheme which was adopted by the Company on 23rd July, 1993 ("Old Scheme") was originally due to expire on 22nd July, 2003. Owing to the recent changes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in relation to the share option schemes with effect from September, 2001, the directors proposed and the shareholders in general meeting approved on 12th April, 2002 early termination of the Old Scheme and adoption of a new share option scheme. After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme and in respect of all the outstanding options granted under the Old Scheme, the provisions of the Old Scheme shall remain in force.

At 30th June, 2002, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30th June, 2002 is HK$0.75). Each option gives the holder the right to subscribe for one ordinary share.

	No. of options outstanding at the beginning of the period	No. of options exercised during the period	No. of options outstanding at the period end	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share at date of grant of options
						HK$	*HK$*
Mr. Duan Yongji	7,500,000	—	7,500,000	29-02-2000	29-08-2000 to 22-07-2003	2.796	3.575
Mr. Li Wenjun	4,000,000	—	4,000,000	29-02-2000	29-08-2000 to 22-07-2003	2.796	3.575
Mr. Duan Yongji	8,000,000	—	8,000,000	15-08-2001	15-02-2002 to 22-07-2003	0.7264	0.98
Mr. Shen Guojun	4,000,000	—	4,000,000	15-08-2001	15-02-2002 to 22-07-2003	0.7264	0.98
Mr. Li Wenjun	2,151,000	—	2,151,000	15-08-2001	15-02-2002 to 22-07-2003	0.7264	0.98
Mr. Duan Yongji	—	—	3,900,000	22-05-2002	22-08-2002 to 21-08-2012*	0.792	0.78
Mr. Shen Guojun	—	—	4,000,000	22-05-2002	22-08-2002 to 21-08-2012*	0.792	0.78
Mr. Li Wenjun	—	—	3,000,000	22-05-2002	22-08-2002 to 21-08-2012*	0.792	0.78

	No. of options outstanding at the beginning of the period	No. of options exercised during the period	No. of options outstanding at the period end	Date granted	Period during which options exercisable	Price per share on exercise of options *HK$*	Market value per share at date of grant of options *HK$*
Mr. Zhu Xiduo	—	—	3,000,000	22-05-2002	22-08-2002 to 21-08-2012*	0.792	0.78
Mr. Chen Xiaotao	—	—	8,000,000	22-05-2002	22-08-2002 to 21-08-2012**	0.792	0.78
Contracted employees	—	—	97,956,000	22-05-2002	22-08-2002 to 21-08-2012***	0.792	0.78

* Options shall be exercisable in the following four batches ("Vesting Period").

(i) Not more than 25% of options granted exercisable between 22-08-2002 to 21-08-2003;

(ii) Not more than 50% of options granted exercisable between 22-08-2003 to 21-08-2004;

(iii) Not more than 75% of options granted exercisable between 22-08-2004 to 21-08-2005;

(iv) Free to exercise between 22-08-2005 to 21-08-2012.

** 4,000,000 options are free to exercise between 22-08-2002 to 21-08-2012 and remaining 4,000,000 options are subject to the Vesting Period.

*** 35,356,000 options are free to exercise between 22-08-2002 to 21-08-2012 and remaining 62,600,000 options are subject to the Vesting period.

The consideration paid by each of the above directors for the share options granted was HK$1.00.

During the period, no options was exercised, lapsed or cancelled.

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2001 and 2002 estimated at the date of grant using the Black-Scholes pricing model was HK$0.562 and HK$0.551 respectively. The weighted average assumptions used are as follows:

	2002	2001
Risk-free interest rate	**5.0%**	5.8%
Expected life *(in years)*	**5**	2
Volatility	**0.87**	0.88
Expected dividend per share	**HK$Nil**	HK$Nil

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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, 2002. The interim financial report for the period ended 30th June, 2002 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 Listing Rules, at any time during the six months ended 30th June, 2002.

By Order of the Board
Duan Yongji
Chairman

Hong Kong, 25th September, 2002