STONE GROUP HOLDINGS LIMITED

INTERIM REPORT 2004

INTERIM RESULTS

The Board of Directors of Stone Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 with comparative figures for the corresponding period in 2003 as follows:

	Note	**Unaudited Six months ended 30 June 2004** *HK$'000*	2003 *HK$'000*
Turnover	*3*	**695,103**	488,943
Cost of sales		**(537,223)**	(428,442)
Gross profit		**157,880**	60,501
Other revenue		**6,753**	3,032
Other net income		**34,130**	3
		198,763	63,536
Distribution costs		**(101,919)**	(29,904)
Administrative expenses		**(50,468)**	(32,222)
Other operating expenses		**(16,942)**	(15,569)
Profit/(loss) from operations	*3*	**29,434**	(14,159)
Non-operating income	*4*	**160,749**	871,439
Finance costs		**(6,227)**	(975)
Share of profits less losses of associates		**(10,006)**	(12,300)
Profit from ordinary activities before taxation	*5*	**173,950**	844,005
Income tax	*6*	**(4,371)**	(1,670)
Profit from ordinary activities after taxation		**169,579**	842,335
Minority interests		**(52,574)**	(455,684)
Profit for the period attributable to shareholders		**117,005**	386,651
Earnings per share			
Basic	*8(a)*	**8.25 cents**	32.26 cents
Diluted	*8(b)*	**5.31 cents**	N/A

The notes on pages 6 to 19 form part of this interim financial report.

Unaudited consolidated balance sheet at 30 June, 2004

	Note	At 30 June 2004 HK$'000	At 30 June 2004 HK$'000	At 31 December 2003 HK$'000	At 31 December 2003 HK$'000
Non-current assets					
Fixed assets					
– Investment properties			**84,428**		84,411
– Property, plant and equipment			**94,405**		96,189
			178,833		180,600
Goodwill			**1,141,454**		1,984
Other intangible assets	*9*		**35,995**		–
Interest in associates	*10*		**54,784**		169,956
Interest in jointly controlled entity	*11*		**186,148**		–
Other financial assets	*12*		**123,344**		43,042
Deferred tax assets			**5,982**		5,241
			1,726,540		400,823
Current assets					
Investments		**1,238,404**		1,680,690	
Inventories	*13*	**142,667**		156,674	
Trade and other receivables	*14*	**300,506**		408,896	
Pledged deposits		**–**		15,530	
Cash and cash equivalents		**502,107**		523,534	
		2,183,684		2,785,324	
Current liabilities					
Bank loans		**19,637**		31,093	
Other loan		**116,985**		116,475	
Trade and other payables	*15*	**234,859**		151,747	
Current taxation		**24,480**		15,228	
		395,961		314,543	
Net current assets			**1,787,723**		2,470,781
Total assets less current liabilities			**3,514,263**		2,871,604

Unaudited consolidated balance sheet at 30 June, 2004 *(Cont'd)*

	Note	At 30 June 2004 HK$'000	At 30 June 2004 HK$'000	At 31 December 2003 HK$'000	At 31 December 2003 HK$'000
Non-current liabilities					
Bank loans			**–**		4,000
Convertible notes	*16*		**851,955**		210,000
			851,955		214,000
Minority interests			**696,700**		882,984
NET ASSETS			**1,965,608**		1,774,620
CAPITAL AND RESERVES					
Share capital	*17*		**143,958**		121,805
Reserves	*18*		**1,821,650**		1,652,815
			1,965,608		1,774,620

The notes on pages 6 to 19 form part of this interim financial report.

Unaudited consolidated statement of changes in equity for the six months ended 30 June 2004

	Note	**2004 HK$'000**	2003 HK$'000
Shareholders' equity at 1 January		**1,774,620**	936,324
Deficit on revaluation of investments in securities	18	**(1,985)**	(12,900)
Exchange differences on translation of the financial statements of foreign entities	18	**2,109**	(567)
Net gains/(losses) not recognised in the income statement		**124**	(13,467)
Net profit for the period		**117,005**	386,651
Dividend approved and paid during the period		**(43,188)**	–
Realisation of investment revaluation reserve to income statement	18	**2,415**	36,980
Movements in share capital and share premium			
– shares issued upon conversion of convertible notes	17	**21,153**	–
– shares issued under share option scheme	17	**1,000**	–
– share premium received	18	**92,479**	–
Net increase in shareholders' equity arising from capital transactions with shareholders		**114,632**	–
Realisation of capital reserve on disposal of a subsidiary		**–**	(1,016)
Shareholders' equity at 30 June		**1,965,608**	1,345,472

The notes on pages 6 to 19 form part of this interim financial report.

Unaudited condensed consolidated cash flow statement
for the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Net cash (used in)/generated from operating activities	**(73,007)**	35,316
Net cash generated from investing activities	**141,825**	34,071
Net cash used in financing activities	**(91,783)**	(19,960)
Net (decrease)/increase in cash and cash equivalents	**(22,965)**	49,427
Effect on foreign exchange rate changes	**1,538**	–
Cash and cash equivalents at 1 January	**523,534**	213,692
Cash and cash equivalents at 30 June	**502,107**	263,119
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**274,064**	22,620
Cash at bank and in hand	**228,043**	240,499
	502,107	263,119

The notes on pages 6 to 19 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 Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 20.

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 HKICPA.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 April 2004.

Hong Kong Financial Reporting Standard 3 "Business combinations" ("HKFRS 3"), Hong Kong Accounting Standard 36 "Impairment of assets" ("HKAS 36") and Hong Kong Accounting Standard 38 "Intangible assets" ("HKAS 38") issued by the HKICPA have been applied before their effective dates in the preparation of the interim financial report. Details of the changes in accounting policies are set out in note 2 below.

Apart from the above, the same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

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 2003 annual financial statements.

2. Changes in accounting policies

(a) Business combinations

In prior years, positive goodwill arising from business combinations was amortised to the consolidated income statement on a straight line basis over its estimated useful life; negative goodwill, other than that relating to an expectation of future losses and expenses that were identified in the plan of acquisition, was recognised in the consolidated income statement over the weighted average useful life of the acquired non-monetary assets that are depreciable or amortisable.

The Group has changed its accounting policy for business combinations by early adopting the new HKFRS 3 "Business combinations" to goodwill existing at or acquired after, and to business combinations occurring from 1 January 2004, as permitted under the transitional provisions of HKFRS 3.

Under HKFRS 3:

(i) Goodwill acquired in a business combination:

- is measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities; and
- shall not be amortised and instead shall be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with HKAS 36 "Impairment of assets".

(ii) Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost shall be recognised immediately in profit or loss.

In respect of previously recognised positive goodwill, amortisation has been discontinued, the carrying amount of the related accumulated amortisation at 1 January 2004 has been eliminated with a corresponding decrease in goodwill, and the goodwill shall be tested for impairment in accordance with HKAS 36. Previously recognised negative goodwill has been derecognised at 1 January 2004.

As a result of the adoption of this accounting policy, the Group's profit for the period and the net assets as at the period end have been increased by HK$19,140,000.

(b) Impairment of assets and intangible assets

As required under HKFRS 3, upon the adoption of HKFRS 3 from 1 January 2004, the Group also applies HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets" prospectively from the same date. The adoption of these accounting policies has no significant impact on the Group's interim financial results for the six months ended 30 June 2004 and prior periods.

3. Segment information

The Group is principally engaged in the activities of distribution and sale of healthcare products, and manufacturing, distribution and sale of electronic and electrical products, office equipment, the provision of value-added technical services and media-related business.

An analysis of the Group's turnover and contribution from operations by business segments for the six months ended 30 June 2004 is set out below:

	Group turnover Six months ended 30 June		Contribution to profit/(loss) from operations Six months ended 30 June	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal activities				
Distribution and sale of healthcare products	**181,710**	–	**21,607**	–
Manufacturing, distribution and sale of electronic and electrical products and office equipment	**483,490**	465,561	**(17,868)**	(11,438)
Provision of value-added technical services	**29,201**	23,382	**3,786**	7,090
Media-related business	**702**	–	**(2,204)**	(202)
	695,103	488,943	**5,321**	(4,550)
Unallocated operating income and expenses			**24,113**	(9,609)
Profit/(loss) from operations			**29,434**	(14,159)

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.

4. Non-operating income

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Net realised/unrealised gain on equity securities	**77,557**	936,966
Write-back of provision/(provision) for impairment loss on non-trading securities	**83,188**	(36,980)
Gain on disposal of interest in subsidiaries	**681**	2,855
Gain on deemed disposal of an associate	**914**	–
Provision for diminution in value of a property held for sale	**–**	(16,022)
Impairment loss on goodwill	**(1,591)**	(10,026)
Provision for winding up of subsidiaries	**–**	(595)
Provision for loan receivable	**–**	(4,080)
Others	**–**	(679)
	160,749	871,439

5. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Interest on borrowings	**3,851**	700
Other borrowing costs	**2,376**	275
Amortisation of negative goodwill	**–**	(65)
Amortisation of positive goodwill	**–**	2,324
Amortisation of other intangible assets	**610**	–
Depreciation	**5,156**	4,085
Cost of inventories	**537,223**	428,442
Provision for write down in value of obsolete inventories	**5,205**	1,256
Provision for bad and doubtful debts	**6,020**	7,522
Gain on disposal of property, plant and equipment	**(33,268)**	(1)
Management fees	**1,650**	1,301

6. Income tax

	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Current tax		
Provision for Hong Kong Profits Tax	**–**	–
Income tax outside Hong Kong in the PRC ("PRC income tax")	**5,089**	1,666
Share of associates' PRC income tax	**23**	1
	5,112	1,667
Deferred tax		
Origination and reversal of temporary differences	**(741)**	3
	4,371	1,670

No provision for Hong Kong Profits Tax has been made 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.

7. Dividend

	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Special dividend in respect of the previous financial year, approved and paid during the period, of HK3 cents (2003: HK$Nil) per share	**43,188**	–

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK$117,005,000 (2003: HK$386,651,000) and the weighted average number of 1,418,564,000 ordinary shares (2003: 1,198,564,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary shareholders of HK$119,286,000 after adding back the interest expense on convertible notes, and the weighted average number of 2,244,554,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes and issued convertible notes. Diluted earnings per share for 2003 was not presented because the existence of outstanding options during the six months ended 30 June 2003 had an anti-dilutive effect on the calculation of diluted earnings per share for that period.

9. Other intangible assets

	Trademark and patent rights *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2004	–	10,178	10,178
Additions arising on acquisition of a subsidiary	36,605	–	36,605
At 30 June 2004	**36,605**	**10,178**	**46,783**
Accumulated amortisation/ impairment loss:			
At 1 January 2004	–	10,178	10,178
Amortisation for the period	610	–	610
At 30 June 2004	**610**	**10,178**	**10,788**
Carrying amount:			
At 30 June 2004	**35,995**	**–**	**35,995**
At 31 December 2003	–	–	–

The amortisation charge for the period is included in "Other operating expenses" in the consolidated income statement.

10. Interest in associates

	At 30 June 2004 ***HK$'000***	At 31 December 2003 *HK$'000*
Share of net assets of unlisted associates	**70,528**	144,276
Goodwill	**1,759**	43,183
	72,287	187,459
Impairment loss	**(17,503)**	(17,503)
	54,784	169,956

Following additional capital contributions made by the other shareholder of Renesas Stone Semiconductor (Beijing) Company Limited ("RSSC") in January 2004, the Group's equity interest in RSSC was diluted from 21.7% at 31 December 2003 to 17.9% at 30 June 2004. The directors therefore consider that the Group no longer has significant influence over RSSC. Accordingly, the carrying value of the investment in this associate of HK$106,725,000 has been reclassified as non-trading securities.

11. Interest in jointly controlled entity

	At 30 June 2004 ***HK$'000***	At 31 December 2003 *HK$'000*
Share of net assets	**15,552**	–
Amount due from jointly controlled entity	**170,596**	–
	186,148	–

During the period, for the purpose of investment in China Cable Information Network Company Limited ("China Cable"), the Group entered into a shareholders' agreement (the "Agreement") with Suntop Investments Limited ("Suntop"), an independent third party, to establish a jointly controlled entity, China Cable Media Group Limited ("CCMG"), to which the Group and Suntop will each contribute US$25,000,000 in return for a 50% interest therein. According to the Agreement, the Group's contribution will be satisfied by cash of US$10,000,000 and the remaining US$15,000,000 by its holding of 20,000,000 shares in China Cable (the "China Cable Shares"); while the contribution of Suntop will be satisfied wholly by cash.

During the period, each of the Group and Suntop injected US$2,000,000 into CCMG and in return 2,000,000 shares of CCMG of US$1 each were allotted and issued at par to each party. In addition, the Group has completed injection of a further US$8,000,000 and the China Cable Shares into CCMG in May 2004, but injection by Suntop as at 30 June 2004 amounted to US$5,000,000. As the contribution by Suntop has not been completed, the amount of contributions made by the Group and Suntop in excess of the value of shares allotted by CCMG has been treated as shareholders' loans as at 30 June 2004. The amount due from CCMG at 30 June 2004 is unsecured, interest free and has no fixed terms of repayment.

During the period, CCMG established two wholly owned foreign enterprises in the PRC via which investment in China Cable was made. As at 30 June 2004, CCMG owned approximately 13.77% equity interest in China Cable.

12. Other financial assets

		At 30 June 2004 HK$'000	At 31 December 2003 HK$'000
Non-trading securities – equity securities			
– Listed in Hong Kong		**12,159**	11,180
– Unlisted	*(a)*	**111,185**	31,862
		123,344	43,042
Loan receivable	*(b)*	**15,300**	15,300
Less: Provision		**(15,300)**	(15,300)
		–	–
		123,344	43,042
Market value of listed securities		**12,159**	11,180

(a) Included in unlisted equity securities as at 31 December 2003 was a 5.54% equity interest in (or 20,000,000 shares of) China Cable with a carrying value of HK$22,678,000. During the period, management reviewed the market demands and financial viability of the business in the foreseeable future and considered that the circumstances that led to the provision for impairment made in prior years have ceased to exist. Accordingly, provision for impairment loss in respect of China Cable of HK$85,603,000 has been written back. This investment was then transferred into a jointly controlled entity established during the period (note 11).

(b) Loan receivable is the amount advanced to the founders of an associate, Beijing East.net Information Technology Co. Ltd ("East.net"), which is secured by the 51% equity interest in East.net owned by these founders.

13. Inventories

Included in inventories are raw materials, work in progress and finished goods carried at net realisable value of HK$21,680,000 (31 December 2003: HK$21,168,000).

14. Trade and other receivables

	At 30 June 2004 HK$'000	At 31 December 2003 HK$'000
Debtors, prepayments and other receivables	**235,302**	360,610
Gross amount due from customers for contract work	**17,587**	10,897
Amounts due from associates	**12,598**	14,182
Amounts due from related companies	**35,019**	23,207
	300,506	408,896

A credit period of 30 days to 90 days is normally granted to trade customers. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

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

	At 30 June 2004 HK$'000	At 31 December 2003 HK$'000
Current	**117,508**	45,206
Due over 6 months but within 12 months	**448**	629
Due over 12 months but within 24 months	**227**	819
	118,183	46,654

15. Trade and other payables

	At 30 June 2004 HK$'000	At 31 December 2003 HK$'000
Creditors, accruals and other payables	**223,029**	141,877
Amounts due to associates	**1,048**	518
Amounts due to related companies	**10,782**	9,352
	234,859	151,747

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

	At 30 June 2004	At 31 December 2003
	HK$'000	*HK$'000*
Due within 6 months or on demand	**88,449**	53,700
Due after 6 months but within 12 months	**2,377**	2,697
Due after 12 months but within 24 months	**1,177**	1,153
Due after 24 months but within 36 months	**2,326**	1,173
	94,329	58,723

16. Convertible notes

	At 30 June 2004	At 31 December 2003
	HK$'000	*HK$'000*
Balance at 30 June/31 December	**851,955**	210,000

(a) Pursuant to an agreement entered into with a placing agent on 6 June 2003, additional convertible notes of HK$180 million (the "Original Notes") were issued during the period. The Original Notes bear interest at a rate of 3% per annum, payable annually in arrears with the first interest payment for each convertible note to be made on the date falling twelve months from the date of issue of such convertible note.

The Original Notes will be redeemed at 100% of the principal amount plus any accrued and unpaid interest on the maturity date. The Company can redeem in whole or in part the issued Original Notes prior to their maturity dates by serving at least seven calendar days written notice and payment of 100% of the principal amount plus an early redemption fee of 7% on the redeemed amount and any accrued and unpaid interest. The Original Note holders can, by written notice to the Company, within fourteen days immediately after the expiry of a six-month period following the date of issue of the respective Original Notes, require the Company to redeem the Original Notes at an amount equivalent to 100% of the principal amount of the Original Notes plus a 1.7% premium.

The Original Notes are convertible at any time on the day following 90 calendar days after the date of issue of the Original Notes up to the fourteenth days prior to and exclusive of the maturity date at a conversion price of HK$0.52 per share, subject to adjustments. The maturity date of each Original Note is the date falling sixty months from (and inclusive of) the date of issue of such convertible note.

During the period, HK$110 million convertible notes were converted into 211,538,447 ordinary shares of the Company.

(b) On 4 March 2004, convertible notes of HK$572 million (the "Notes") were issued to Ready Finance Limited as part of the consideration for the acquisition of a subsidiary. The Notes are non-interest bearing and will mature in 5 years after the issue date.

The Company has the right to redeem the Notes at 100% of the principal amount in amounts of HK$500,000 or integral multiples thereof prior to the maturity date by giving not less than seven business days written notice.

The Notes comprise Series A, Series B and Series C Notes in the principal amount of HK$190 million, HK$190 million and HK$192 million respectively, and are convertible at any time after 12 months, 15 months and 27 months respectively from the date of issue of the Notes at a conversion price of HK$0.76 per share, subject to adjustments.

17. Share capital

	2004	
	Number of shares *'000*	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	**5,000,000**	**500,000**
Issued and fully paid:		
At 1 January	**1,218,046**	**121,805**
Shares issued under share option scheme	**10,000**	**1,000**
Shares issued upon conversion of convertible notes	**211,538**	**21,153**
At 30 June	**1,439,584**	**143,958**

At 30 June 2004, the outstanding options were as follows:

Date granted	Exercisable period	Exercise price *HK$*	Number of options outstanding
22 May 2002	22 May 2002 to 21 May 2012	0.792	17,356,000
22 May 2002	22 August 2002 to 21 May 2012	0.792	18,950,000
22 May 2002	22 August 2003 to 21 May 2012	0.792	18,950,000
22 May 2002	22 August 2004 to 21 May 2012	0.792	18,950,000
22 May 2002	22 August 2005 to 21 May 2012	0.792	18,950,000
31 December 2002	31 December 2002 to 30 December 2012	0.476	103,856,000
			197,012,000

18. Reserves

	Capital redemption reserve *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004	151	1,030,815	14,257	–	1,565	606,027	1,652,815
Dividend approved and paid in respect of the previous financial year	–	–	–	–	–	(43,188)	(43,188)
Unrealised loss on revaluation of investments in securities	–	–	–	(1,985)	–	–	(1,985)
Impairment loss realised to consolidated income statement	–	–	–	2,415	–	–	2,415
Share premium on issue of shares							
– under share option scheme	–	3,756	–	–	–	–	3,756
– upon conversion of convertible notes	–	88,723	–	–	–	–	88,723
Exchange differences arising on consolidation	–	–	–	–	2,109	–	2,109
Profit for the period	–	–	–	–	–	117,005	117,005
At 30 June 2004	**151**	**1,123,294**	**14,257**	**430**	**3,674**	**679,844**	**1,821,650**

19. Material related party transactions

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

		Six months ended 30 June 2004 HK$'000	2003 HK$'000
(a)	Transactions with and amounts paid to or received from Stone Group Corporation, a minority shareholder of the Group:		
	– Sale of traded products	**12,213**	5,748
	– Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services	**1,650**	1,301
	– Handling fee	**62**	443
(b)	Purchase of traded products and component parts from a minority shareholder of a subsidiary	**7,040**	19,445
(c)	Transactions with associates of the Group:		
	– Sale of traded products	**315**	22
	– Purchase of traded products and component parts	**3,160**	–

(d) The Group placed deposits totalling HK$4,956,000 (31 December 2003: HK$4,933,000) as at 30 June 2004 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.

(e) One of the subsidiaries of Stone Group Corporation ("SGC Company") entered into an agreement with a wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company. A profit of Rmb275,000 (equivalent to approximately HK$259,000) was shared by the Group in this arrangement for the period ended 30 June 2004 (2003: HK$Nil).

(f) On 28 February 2004, Beijing Stone New Technology Industrial Company Limited, a wholly owned subsidiary of the Group, entered into a sale and purchase agreement with Mr Ji Guoming, a minority shareholder of Wuxi Stone New Electric Company Limited which is a 51% owned subsidiary of the Group, for the disposal of its property situated at Wuxi, the PRC to Mr Ji at a consideration of Rmb2,050,000 (equivalent to approximately HK$1,932,139). Details of the transaction were announced by the directors of the Company on 20 September 2004.

20. Contingent liabilities

	At 30 June 2004 *HK$'000*	At 31 December 2003 *HK$'000*
Counter guarantee for bank loans given to an investee company	**28,918**	–
Counter guarantee for bank loans given to an associate	**–**	36,363
	28,918	36,363

21. Post balance sheet event

On 10 August 2004, Stone Giant Life Sciences Development Limited ("Stone Giant"), a wholly owned subsidiary of the Group, entered into a sale and purchase agreement with Shanghai Heng Yin Group Limited and Mr Song Wei (the "Vendors") to acquire the entire equity capital of Shanghai Heng Shou Tang Pharmaceutical Company Limited. The purchase consideration is Rmb60,000,000 (equivalent to approximately HK$56,603,774) and will be satisfied by cash. Stone Giant has paid HK$2,827,521 to the Vendors for the period and the amount has been included in "Trade and other receivables" as at 30 June 2004. Details of the acquisition were set out in the circular dated 31 August 2004 issued to the shareholders.

Independent review report to the board of directors of Stone Group Holdings Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 19.

Respective responsibilities of directors and auditors

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 Institute of Certified Public Accountants ("HKICPA"). The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. 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 30 June 2004.

KPMG
Certified Public Accountants

Hong Kong, 20 September 2004

MANAGEMENT DISCUSSION AND REVIEW

The year 2004 is very special for Stone Group Holdings Limited ("Stone"), either from reviewing the history or looking forward the future prospect of the Group. In 2004, the brand name of Stone has been established in the PRC for twenty years. It represents the set up and the continuous development of a private-owned enterprise and is also one of the famous corporations in electronic and high technology industry in the PRC. Since March 2004, after having acquired Shanghai GoldPartner Biotech Co., Ltd., the principal businesses of the Group are not only manufacturing, distribution and sale of electronic and electrical products, office equipment ("electronic products business"), the provision of value-added technical services and media-related business, but also manufacturing, distribution and sale of healthcare products ("healthcare products business"). It seems that the strategy of entering into a new business is quite effective. The unaudited turnover of the Group for the six months ended 30 June 2004 was HK$695.1 million. It has been increased by 42.2% as compared with the corresponding period of last year. Moreover, there was profit from operations for the period instead of loss from operations as in previous few years. During the period, shares of SINA Corporation did not increase so rapidly as it had been in the corresponding period in last year, and therefore, the gain on this investment was only HK$77.8 million, a fall of HK$859 million when compared with the gain of HK$936.8 million in the same period of last year. Accordingly, the profit attributable to shareholders for the six months ended 30 June 2004 was significantly decreased to HK$117.0 million, while the corresponding period of 2003 was HK$386.7 million.

Business Review

Upon the completion of the acquisition of Shanghai GoldPartner Biotech Co., Ltd., the principal businesses of the Group include electronic products business, healthcare products business, the provision of value-added technical services and media-related business. Among electronic products business, it is further sub-divided into various types of products. During the period under review, the principal businesses and products can be categorized as follows:

	June 2004 *HK$'000*	**June 2003** *HK$'000*	**% Increase/ (decrease)**
Electronic products business			
Industrial controllers	265,582	219,812	20.8%
Stone printers	76,786	81,711	(6.0)%
Gold tax products	11,537	23,411	(50.7)%
UPS equipment	39,507	26,337	50.0%
Digital graphic products	34,280	36,113	(5.1)%
Computers	17,135	22,456	(23.7)%
Others	38,663	55,721	(30.6)%
Healthcare products business			
Naobaijin	81,229	N/A	N/A
GoldPartner	100,481	N/A	N/A
Provision of value-added technical services	29,201	23,382	24.9%
Media-related business	702	N/A	N/A
	695,103	488,943	

Electronic Products Business

During the period under review, after the acquisition of healthcare products business, the turnover of electronic products business was about 69.6% of the total turnover of the Group. Sale of industrial controllers was still the highest revenue generating section among this business sector, representing 38.2% of the total turnover. Due to the severe competition, the Group continued to adopt the sales driving price reduction policy. It resulted that the sales of industrial controllers has increased 20.8% during the first half of the year when compared with the same period of last year, amounting to HK$265.6 million. However, due to sales with low profit margin, the gross margin of industrial controllers has been decreased by 5.7% when compared with the same period of last year. Industrial controllers sold by the Group includes Fuji-branded transducers, products from Allen Bradley PLC, Siemen PLC, Omron and RKC, etc.

Another major product in electronic products business is Stone printer, representing 11.0% of the total turnover. There were some controversies about the right of selling printers in the first half of the year. Sales of printers have dropped by 6.0% as compared with the same period in the last year, amounting to HK$76.8 million. Besides, gross margin also decreased by 30.4%. However, through business negotiation, it was concluded that the patent right belonged to parties including the Group, and this has stabilized the future sale of printer. At the same time, management has kept on developing other products. It has planned that new products will be launched by the end of 2004 and will become a new source of income of the Group.

The turnover from the sale of the world famous Powerware UPS products was also a high revenue generating business sector. It was 5.7% of the total turnover. Since the Group was appointed by Powerware UPS as the first tier agent in the PRC in the second half of 2003, turnover of this sector has been increased by 50.0% as compared with the same period in the last year, amounting to HK$39.5 million. However, due to the special discount policy, gross margin of selling uninterrupted power supply has been decreased unavoidably by 16.2%.

Digital Graphic Products Division mainly sell products of Roland DG Corporation, including wide format inkjet printers, cutters, 3D scanners, etc. Sale of digital graphic products in the first half of the year was not so well. Turnover recorded was only HK$34.3 million, 5.1% lower than the turnover of last year. Gross margin has also been decreased by 21.6%.

The regulation for the non-acceptance of hand-written invoices and the requisite machine-printed invoices for tax return purposes was imposed on 1 July 2003. Before the official announcement was published, many enterprises began to use anti-counterfeiting tax control machine. Accordingly, the sale of the Gold Tax products increased dramatically during the six months ended 30 June 2003. However, the relevant authority of the government amended its tax control policy at the beginning of this year, many enterprises are no longer classified as normal tax payers. During the period under review, the sale of Gold Tax products of the Group was seriously affected by the policy. Turnover has been dropped by 50.7% when compared with the same period in the last year, amounting to HK$11.54 million. Anyway, the gross margin increased almost double that of the corresponding period of last year.

The electronic products business also includes sale of semi-conductors, manufacturing of electrical lighting equipment, electrical peripheral, healthcare equipment, control systems for automated doors and other electrical products. Turnover of all these products for the six months ended 30 June 2004 was about 5.6% of the Group's total turnover, amounting to HK$38.7 million.

Healthcare Products Business

The gross margin of healthcare products is comparatively higher than electronic products, almost 57.4%. It increased the average gross margin of the Group sharply during the period, from 12.4% last year to 22.7% this year. Sale of healthcare products also improved the operating and financial position of the Group to a very large extent. It resulted that the Group has turned-around from years of operational losses to operational profit during the period. The sale of Shanghai GoldPartner Biotech Co., Ltd. mainly consists of two healthcare products, namely, Naobaijin and GoldPartner. Since the completion of the acquisition in March 2004, the company contributed total turnover and gross margin of HK$181.7 million and over HK$100.0 million respectively to the Group for the four months, representing 26.1% of the total turnover of the Group. The turnover of Naobaijin and GoldPartner for the period were HK$81.2 million and HK$100.0 million respectively. The figures mentioned in the above were recorded from the low season of the company. According to the past experiences, the period from March to June is a off peak season of healthcare products. Accumulated sales for this period normally represent 15% to 20% of the annual turnover of the company. After deducting fixed cost and the allocated advertising expenditures, the net profit for this period becomes extremely thin. In this regard, the turnover and net profit of Shanghai GoldPartner Biotech Co., Ltd. recorded in the period under review did not actually reflect the actual selling and profit capacity of the company.

Provision of Value-Added Technical Services

The provision of value-added technical services is incidental to our electronic products business. It includes value-added services in intelligent transport system, training programmes and installation services for the use of ATC Machines, and in bundling the sale of hardware products with value-added technical services such as consultancy, technical support and customized software. The services enhanced the value of its products and increased its competitiveness. During the period under review, the turnover of the provision of value-added technical services increased by 24.9% when compared with last year, amounting to HK$29.20 million, but the gross margin decreased by 27.4%.

Media-Related Business

During the period under review, media-related business of the Group included holding shares of SINA Corporation, holding equity interests in China Cable Information Network Co., Ltd. (hereafter "China Cable") and the operation and development of internet cafe chain. The Group continued to reduce its holding of SINA shares during the period. The shareholding decreased from 13.3% at the beginning of the period to approximately 9.5% towards the end of the period. Sale of the shares realised about HK$100.8 million profit to the Group. As the market price of the shares at the period end was lower than the market price at the beginning of the period, the mark to market of the remaining shares held by the Group amounted to an unrealised loss of HK$23.0 million as at period end. On the other hand, China Cable, the equity investment of the Group, changed its business into direct service of cable and pay TV operations. It resulted that the prospect of the company becomes more promising. Up to 30 June 2004, the company's subscribers of cable TV reached to 1.35 million and China Cable became one of the few national cable TV operators. In this regard, during the period under review, the Group continued to increase its equity stake in China Cable, through a jointly controlled entity, equity interest in China Cable increased from 5.54% to 13.77%. In addition, the investment of internet cafe chain started to operate in Guangzhou during the period. The first flagship cafe was opened in Hai Zhu District in March and the second cafe also commenced operation in Bai Yun District in May. Even though there were a lot of problems at the beginning of the operations, under the effective guidance of the management and the cohesion of the staff, the operations of the cafes run smoothly very soon. The flagship cafe in Hai Zhu District recorded a highest turnover in June among the internet cafes in Guangdung Province. In addition, the cafe in Bai Yun District also commenced to make profit after the period end. Moreover, due to the effective management and the tidy environment of our cafes, they are now being named as the model cafes of Guangdong Province.

Liquidity and Financial Position

As at period end, the current ratio and quick ratio of the Group were 5.51 and 5.15 respectively. Cash and cash equivalents held was HK$502.1 million with net asset increased from HK$1,774.6 million at the beginning of the period to HK$1,965.6 million as at the period end. It reflected that the financial position of the Group was very healthy.

According to the Sale and Purchase Agreement of Shanghai GoldPartner Biotech Co., Ltd., the Group issued a total of HK$571,955,403 convertible notes on 4 March 2004 as the part of consideration for the completion of the acquisition. The conversion price of the convertible notes is HK$0.76, zero coupon and with a maturity date of 5 years from the date of issue. Besides, according to the Placing Agreement entered between the Company and First Shanghai Securities Limited on 6 June 2003 ("Placing Agreement"), the Group issued the third lot of convertible notes of principal amount of HK$180 million to independent placee investors on 20 May 2004. The conversion price of the convertible notes is HK$0.52, 3% interest per annum and with a maturity date of 5 years from the date of issue. Such that, the total amount of HK$400 million of convertible notes as specified in the Placing Agreement was fully issued. During the period under review, HK$110 million convertible notes were converted into 211,538,447 ordinary shares of the Company at the conversion price of HK$0.52.

Due to the issue of the above-mentioned convertible notes, the total of interest bearing bank loan and other loans of the Group increased to HK$988.6 million as at 30 June 2004, an increase of 173.4% as compared with the total as at the beginning of the period. The net debt gearing ratio increased to 24.7%.

As at 30 June 2004, the available banking facilities of the Group totalling to HK$85.4 million. They consist of letter of credit facilities, overdraft and other standby credit. The Group had utilized approximately HK$19.6 million of its credit facilities. The Group believes that the internal fund and the existing banking facilities are able to meet its anticipated future capital and operational cash flow requirements.

Charges on Assets

As at 30 June 2004, two properties with carrying value of HK$13.7 million were pledged with banks as collateral against banking facilities and a term loan granted to subsidiaries of the Group. In addition, some SINA shares held by the Group were pledged against a margin loan of US$15 million granted to the Group by a securities company.

Contingent Liabilities

As at 30 June 2004, the Group had provided a counter guarantee of approximately HK$28.9 million for bank loans granted to an investee company.

Hedging

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

Human Resources

As at 30 June 2004, the Group employed a total of 7,967 (2003: 875) employees, of which 7,939 (2003: 846) were employed in the PRC and 28 (2003: 29) were employed in Hong Kong. Out of the 7,939 employees in the PRC, 5,640 (2003: 24) were temporary employees.

In addition to basic salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and the benefit under the mandatory provident fund, and Central Pension Scheme and supplementary defined contribution retirement plans managed by independent insurance companies respectively for Hong Kong and PRC staff. Certain employees are also given share options as incentives.

OUTLOOK

After 20 years' operation in electronic products business, the management opined that the development for this business is very limited. Especially due to the uncertainty of those projects that co-operated with the government, that always confuses our decision about their future plans. So, the Group decided to enter into the healthcare products business at a high starting point, to do business directly with individual customers. After having acquired Shanghai GoldPartner Biotech Co., Ltd. at the beginning of the year, the Group entered into a sale and purchase agreement to acquire Shanghai Heng Shou Tang Pharmaceutical Company Limited ("HST") in August. The Group intended to expand its types of healthcare products in a short period of time and planned to use the extensive sales network of Shanghai GoldPartner Biotech Co., Ltd. to effectively launch HST's products nationwide. On the basis of the sales of Naobaijin and GoldPartner are not affected, it is also planned to launch one new product every year and extend our "service marketing" approach in order to increase the total sale of the Group. The management believes that contribution from healthcare products business will become more and more substantial to the Group in the near future. In addition to develop the distribution of healthcare products, the Group would continue to invest in cable TV and internet cafe chain in the PRC. Regarding electronic products business, the management will carry out procedural review in the second half of the year in order to save cost and develop new resources. Divisions that have made losses for many years might be closed down. We hope all these measures will enhance the profitability of the Group and increase the return of our shareholders.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 30 June, 2004 had the following interests in the shares, underlying shares and debentures of the Company or associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

		Long positions in the shares			
Name	**Nature of interest**	**Interest in shares**	**Interest in underlying shares pursuant to share options**	**Aggregate interest**	**Approximate shareholding percentage**
Duan Yongji	Personal *(Note 1)*	5,040,000	3,900,000	8,940,000	0.62
Shen Guojun	Personal *(Note 1)*	–	4,000,000	4,000,000	0.28
Chen Xiaotao	Personal *(Note 1)*	–	8,000,000	8,000,000	0.56
Zhang Disheng	Personal *(Note 1)*	–	10,400,000	10,400,000	0.72

Note:

1. Beijing Stone Investment Company Limited together with its associates (as defined in the Listing Rules) holds a total of 407,110,053 shares in the Company. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development (Holdings) Company Limited, 6.7% by Stone Group Corporation and 51% by the Beijing Stone Investment Company Limited Employees' Shareholding Society. In addition, Stone Group Corporation indirectly holds 92,374,413 shares in the Company. Messrs. Duan Yongji, Chen Xiaotao, Shen Guojun and Zhang Disheng (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 interests in Stone Group Corporation.

Save as disclosed herein, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 12 April 2002. Each option gives the holder the right to subscribe for one ordinary share. Movement of the share options (including share options granted to the directors) were as follows:

	Number of options									
Name	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period	Date of grant	Exercisable period	Exercise price *HK$*	Market value at date of grant *HK$*	Market value on exercise of options *HK$*	% of the total issued shares
Duan Yongji *(Note a)*	3,900,000	–	–	3,900,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.271
Shen Guojun *(Note a)*	4,000,000	–	–	4,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.278
Zhu Xiduo *(Note a & f)*	3,000,000	–	–	3,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.208
Chen Xiaotao *(Note b)*	8,000,000	–	–	8,000,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	0.556
Zhang Disheng *(Note c)*	10,400,000	–	–	10,400,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	0.722
Contracted employees *(Note d)*	63,106,000	–	2,250,000	60,856,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	4.227
Contracted employees *(Note a)*	3,000,000	–	–	3,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.208
Contracted employees *(Note e)*	113,856,000	10,000,000	–	103,856,000	31-12-2002	31-12-2002 to 30-12-2012	0.476	0.47	0.83	7.214

Notes:

(a) The options granted to these grantees shall be exercisable in the following four batches ("Vesting Period"):

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

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

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

  (iv) Free to exercise from 22-08-2005 to 21-05-2012.

(b) Free to exercise 4,000,000 options from 22-05-2002 to 21-05-2012 and the remaining 4,000,000 options are subject to the Vesting Period set out in Note (a).

(c) Free to exercise 5,000,000 options from 22-05-2002 to 21-05-2012 and the remaining 5,400,000 options are subjects to Vesting Period set out in Note (a).

(d) Free to exercise 8,356,000 options from 22-05-2002 to 21-05-2012 and the remaining 52,500,000 options are subjects to Vesting Period set out in Note (a).

(e) Free to exercise 103,856,000 options from 31-12-2002 to 30-12-2012.

(f) Mr. Zhu Xiduo resigned as a director of the Company on 26 March 2004. He has stayed at the Company as an employee.

The consideration paid by each of the above directors and employees for the share options granted was HK$1.

Except for options exercised and lapsed as mentioned above, no options were granted or cancelled during the period.

Apart from the foregoing, at no time during the period was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2004, to the best knowledge of the directors, the following parties were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

	Long positions in the shares				
Name	**Nature of interest**	**Interest in shares**	**Interest in underlying shares pursuant to the convertible notes**	**Aggregate interest**	**Approximate shareholding percentage**
Beijing Stone Investment Company Limited	Corporate *(Note 1)*	407,110,053	–	407,110,053	28.28
Beijing Stone Investment Company Limited Employees' Shareholding Society	Corporate *(Note 2)*	407,110,053	–	407,110,053	28.28
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Corporate *(Note 2)*	407,110,053	–	407,110,053	28.28
Shenyang Heguang Group Co. Ltd.	Corporate *(Note 2)*	407,110,053	–	407,110,053	28.28
Stone Group Corporation	Corporate *(Note 2)*	499,484,466	–	499,484,466	34.70
深圳發展銀行深圳人民橋支行	Corporate *(Note 3)*	230,000,000	–	230,000,000	15.98
Ready Finance Limited	Corporate *(Note 4)*	–	752,572,898	752,572,898	52.28

Notes:

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

2. Beijing Stone Investment Company Limited is owned as to 42.3% by Stone Jiu Guang New Technology Development Holdings Co. Ltd., 6.7% by Stone Group Corporation and 51% by Beijing Stone Investment Company Limited Employees' Shareholding Society which are accordingly deemed to be interested in the said 407,110,053 shares. Stone Jiu Guang New Technology Development Holdings Co. Ltd. is owned as to 56.14% by Shenyang Heguang Group Co. Ltd. which is accordingly also deemed to be interested in the said 407,110,053 shares. In addition, Stone Group Corporation also beneficially held 92,374,413 shares.

3. The interest of 深圳發展銀行深圳人民橋支行 is held by it as person having a security interest in shares.

4. The convertible notes are held by Ready Finance Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company and recorded in the register of substantial shareholders maintained under section 336 of the SFO as at 30 June 2004

CHANGE OF FINANCIAL YEAR END DATE

As announced on 9 July 2004, the Directors resolved to change the financial year end date of the Company from 31 December to 31 March. Accordingly, the next published audited financial statements shall cover a period of 15 months from 1 January 2004 to 31 March 2005 and the Company will announce and publish its second interim results for the 12 months ending 31 December 2004 on or before 31 March 2005; and final results for the 15 months ending 31 March 2005 on or before 31 July 2005.

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

Neither the Company nor any of its subsidiaries purchased, sold and redeemded any of the Company's listed securities during the six months ended 30 June 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the 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 30 June 2004. The interim financial report for the period ended 30 June 2004 is unaudited, but has been reviewed, in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKSA, by KPMG, whose review report is included in page 20.

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 30 June 2004.

By order of the Board
Duan Yongji
Chairman

Hong Kong, 20 September 2004