



STONE GROUP HOLDINGS LIMITED



SECOND INTERIM REPORT 2004/05

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 twelve months ended 31 December 2004 with comparative figures for the corresponding period in 2003 as follows:

		Unaudited Twelve months ended 31 December 2004 HK\$'000	Audited 2003 HK\$'000
Turnover	3	1,700,671	1,015,277
Cost of sales		(1,248,037)	(886,284)
Gross profit		452,634	128,993
Other revenue		11,472	7,000
Other net income/(loss)		34,364	(2,156)
		498,470	133,837
Distribution costs		(288,981)	(56,839)
Administrative expenses		(98,045)	(67,486)
Other operating expenses		(37,222)	(28,024)
Profit/(loss) from operations	3	74,222	(18,512)
Non-operating income	4	149,188	1,745,555
Finance costs		(12,497)	(4,577)
Share of profits less losses of associates		(12,100)	(15,182)
Profit from ordinary activities before taxation	5	198,813	1,707,284
Income tax	6	(1,216)	(584)
Profit from ordinary activities after taxation		197,597	1,706,700
Minority interests		(66,860)	(905,514)
Profit for the period attributable to shareholders		130,737	801,186
Dividends attributable to the period:	7		
Special dividend proposed after the balance sheet date		-	43,188
Earnings per share			
Basic	8(a)	9.09 cents	66.66 cents
Diluted	8(b)	5.47 cents	59.90 cents

The notes on pages 6 to 20 form part of this interim financial report.

Unaudited consolidated balance sheet at 31 December 2004

		Unaudited At 31 December 2004		Audited At 31 December 2003	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
- Investment properties			83,528		84,411
- Property, plant and equipment			98,196		96,189
			181,724		180,600
Goodwill	9		1,136,614		1,984
Other intangible assets	10		35,080		-
Interest in associates	11		54,804		169,956
Interest in jointly controlled entity	12		186,863		-
Other financial assets	13		156,642		43,042
Deferred tax assets			5,704		5,241
			1,757,431		400,823
Current assets					
Investments			625,133	1,680,690	
Inventories	14		207,018	156,674	
Amount due from a jointly controlled entity	12		23,331	-	
Trade and other receivables	15		474,037	408,896	
Pledged deposits			-	15,530	
Cash and cash equivalents			526,493	523,534	
			1,856,012	2,785,324	
Current liabilities					
Bank loans			10,254	31,093	
Other loan			-	116,475	
Trade and other payables	16		346,548	151,747	
Current taxation			12,528	15,228	
			369,330	314,543	
Net current assets			1,486,682		2,470,781
Total assets less current liabilities			3,244,113		2,871,604

Unaudited consolidated balance sheet at 31 December 2004 (Cont'd)

		Unaudited At 31 December 2004		Audited At 31 December 2003	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Bank loans			-		4,000
Convertible notes	17		832,955		210,000
			<u>832,955</u>		<u>214,000</u>
			-----		-----
Minority interests			413,190		882,984
			<u>413,190</u>		<u>882,984</u>
			-----		-----
NET ASSETS			1,997,968		1,774,620
			<u>1,997,968</u>		<u>1,774,620</u>
			-----		-----
CAPITAL AND RESERVES					
Share capital	18		147,248		121,805
Reserves	19		1,850,720		1,652,815
			<u>1,850,720</u>		<u>1,652,815</u>
			<u>1,997,968</u>		<u>1,774,620</u>
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The notes on pages 6 to 20 form part of this interim financial report.

**Unaudited consolidated statement of changes in equity
for the twelve months ended 31 December 2004**

	<i>Note</i>	Unaudited 2004 HK\$'000	Audited 2003 HK\$'000
Shareholders' equity at 1 January		1,774,620	936,324
Deficit on revaluation of investments in securities	19	(6,528)	(16,340)
Exchange differences on translation of the financial statements of foreign entities	19	2,185	3,890
Net losses not recognised in the income statement		(4,343)	(12,450)
Net profit for the period		130,737	801,186
Dividend approved and paid during the period		(43,188)	-
Realisation of capital reserve on disposal of an associate and subsidiaries		-	(1,017)
Realisation of investment revaluation reserve to income statement	19	6,528	40,420
Movements in share capital and share premium			
– shares issued upon conversion of convertible notes	18	24,443	1,924
– shares issued under share option scheme	18	1,000	25
– share premium received	19	108,171	8,208
Net increase in shareholders' equity arising from capital transactions with shareholders		133,614	10,157
Shareholders' equity at 31 December		1,997,968	1,774,620

The notes on pages 6 to 20 form part of this interim financial report.

Unaudited condensed consolidated cash flow statement
for the twelve months ended 31 December 2004

	Unaudited Twelve months ended 31 December 2004 <i>HK\$'000</i>	Audited 2003 <i>HK\$'000</i>
Net cash used in operating activities	(86,165)	(20,285)
Net cash generated from investing activities	651,513	329,480
Net cash (used in)/generated from financing activities	(563,987)	1,463
Net increase in cash and cash equivalents	1,361	310,658
Effect on foreign exchange rate changes	1,598	(816)
Cash and cash equivalents at 1 January	523,534	213,692
Cash and cash equivalents at 31 December	526,493	523,534
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	80,177	233,023
Cash at bank and in hand	446,316	290,511
	526,493	523,534

The notes on pages 6 to 20 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 21.

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.

Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 and would therefore be effective for the Group's financial statements for the year ending 31 March 2006.

Save as mentioned above, the Group has not early adopted these new HKFRSs in the interim financial report for the twelve months ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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\$47,903,000.

(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 twelve months ended 31 December 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 and provision of related services, and media-related business.

An analysis of the Group's turnover and contribution from operations by business segments for the twelve months ended 31 December 2004 is set out below:

	Group turnover		Contribution to profit/(loss) from operations	
	Twelve months ended 31 December		Twelve months ended 31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
Distribution and sale of healthcare products	602,998	–	82,258	–
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	1,093,730	1,015,277	(25,573)	(1,407)
Media-related business	3,943	–	(4,155)	(307)
	<u>1,700,671</u>	<u>1,015,277</u>	<u>52,530</u>	<u>(1,714)</u>
Unallocated operating income and expenses			<u>21,692</u>	<u>(16,798)</u>
Profit/(loss) from operations			<u>74,222</u>	<u>(18,512)</u>

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

	Twelve months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Net realised/unrealised gain on equity securities	70,843	1,849,377
Write-back of provision/(provision) for impairment loss on non-trading securities	79,075	(40,420)
Gain on disposal of interest in subsidiaries	681	2,853
Gain on disposal/deemed disposal of associates	2,983	-
Revaluation deficit on investment properties	-	(5,785)
Provision for diminution in value of a property held for sale	-	(19,887)
Impairment loss on goodwill (net of negative goodwill derecognised)	(1,984)	(18,041)
Write-off of disposal receivables	-	(8,199)
Provision for loan receivable	-	(11,730)
Provision for other receivables	(943)	-
Provision for winding up of subsidiaries	(2,925)	-
Others	1,458	(2,613)
	149,188	1,745,555

5. Profit from ordinary activities before taxation

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

	Twelve months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Interest on borrowings	9,161	3,603
Other borrowing costs	3,336	974
Amortisation of negative goodwill	-	(121)
Amortisation of positive goodwill	-	2,299
Amortisation of other intangible assets	1,525	-
Depreciation	10,851	6,589
Cost of inventories	1,245,122	886,284
Provision for write down in value of obsolete inventories	1,467	2,607
Provision for bad and doubtful debts	5,275	13,755
(Gain)/loss on disposal of property, plant and equipment	(33,622)	1,119
Management fees	3,299	2,873

6. Income tax

	Twelve months ended	
	31 December	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Current tax		
Provision for Hong Kong Profits Tax	-	-
Income tax outside Hong Kong in the PRC ("PRC income tax")	1,637	1,887
Share of associates' PRC income tax	42	1
	1,679	1,888
Deferred tax		
Origination and reversal of temporary differences	(463)	(1,304)
	1,216	584

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 earned by the companies in the PRC.

7. Dividends

	Twelve months ended	
	31 December	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Special dividend proposed after the balance sheet date of HK\$Nil (2003: HK3 cents) per share	-	43,188
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\$130,737,000 (2003: HK\$801,186,000) and the weighted average number of approximately 1,438,540,000 ordinary shares (2003: 1,201,972,000 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\$137,120,000 (2003: HK\$802,858,000) after adding back the interest expense on convertible notes, and the weighted average number of approximately 2,507,595,000 (2003: 1,340,252,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes and issued convertible notes.

9. Goodwill

	Positive goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	3,518	(1,534)	1,984
Addition arising on acquisition of a subsidiary (<i>Note</i>)	1,136,614	–	1,136,614
Impairment loss	(3,518)	–	(3,518)
Derecognition	–	1,534	1,534
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004	<u>1,136,614</u>	<u>–</u>	<u>1,136,614</u>

Note: In March 2004, the Group acquired the entire issued share capital of Central New International Limited which holds a 75% interest in Shanghai GoldPartner Biotech Co., Ltd at a consideration of HK\$1,172 million, satisfied as to HK\$600 million by cash and as to the remaining of HK\$572 million by the issue of convertible notes of the Company (note 17(b)). This acquisition has given rise to goodwill of approximately HK\$1,137 million.

10. Other intangible assets

	Trademark and patent rights <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 January 2004	–	10,178	10,178
Additions arising on acquisition of a subsidiary	36,605	–	36,605
At 31 December 2004	36,605	10,178	46,783
Accumulated amortisation/ impairment loss:			
At 1 January 2004	–	(10,178)	(10,178)
Amortisation for the period	(1,525)	–	(1,525)
At 31 December 2004	(1,525)	(10,178)	(11,703)
Carrying amount:			
At 31 December 2004	35,080	–	35,080
At 31 December 2003	–	–	–

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

11. Interest in associates

	At 31 December 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Share of net assets of unlisted associates	70,548	144,276
Goodwill	1,759	43,183
	72,307	187,459
Impairment loss	(17,503)	(17,503)
	54,804	169,956

Following additional capital contributions made by the other shareholder of Renesas Stone Semiconductor (Beijing) Company Limited ("RSSC"), one of the associates of the Group, 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 consider that the Group no longer has significant influence over RSSC and the investment in this associate has been reclassified as non-trading securities (*note 13*).

12. Interest in jointly controlled entity

	At	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	15,554	–
Amount due from jointly controlled entity	171,309	–
	186,863	–

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 as at 31 December 2004, but injection by Suntop as at 31 December 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 31 December 2004. In December 2004, a further shareholders’ loan in the amount of US\$3,000,000 was made by the Group to CCMG, this loan is interest bearing at 12% per annum and is repayable on 30 June 2005.

During the period, CCMG established two wholly owned foreign enterprises in the PRC via which investment in China Cable was made. As at 31 December 2004, CCMG owned approximately 13.77% equity interest in China Cable.

13. Other financial assets

	At 31 December 2004 HK\$'000	At 31 December 2003 HK\$'000
Non-trading securities – equity securities		
– Listed in Hong Kong	9,359	11,180
– Unlisted (<i>Note (a)</i>)	147,283	31,862
	156,642	43,042
Loan receivable (<i>Note (b)</i>)	15,300	15,300
Less: Provision	(15,300)	(15,300)
	–	–
	156,642	43,042
Market value of listed securities	9,359	11,180

Notes:

- (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 of China Cable 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 12*).

The balance as at 31 December 2004 mainly represents investments in RSSC (*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.

14. Inventories

Included in inventories are raw materials, work in progress and finished goods carried at net realisable value of HK\$21,420,000 (2003: HK\$21,168,000).

15. Trade and other receivables

	At	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Debtors, prepayments and other receivables	401,371	360,610
Gross amount due from customers for contract work	29,835	10,897
Amounts due from associates	13,657	14,182
Amounts due from related companies	29,174	23,207
	474,037	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	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Current	203,262	45,206
Due over 6 months but within 12 months	3,431	629
Due over 12 months but within 24 months	1,877	819
	208,570	46,654

16. Trade and other payables

	At	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Creditors, accruals and other payables	333,189	141,877
Amounts due to associates	40	518
Amounts due to related companies	13,319	9,352
	346,548	151,747

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

	At	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Due within 6 months or on demand	192,017	53,700
Due after 6 months but within 12 months	1,083	2,697
Due after 12 months but within 24 months	2,306	1,153
Due after 24 months but within 36 months	909	1,173
Due after 36 months	1,173	–
	<u>197,488</u>	<u>58,723</u>

17. Convertible notes

	At	At
	31 December	31 December
	2004	2003
	HK\$'000	HK\$'000
Balance at 31 December	<u>832,955</u>	<u>210,000</u>

- (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 to be made on the date falling twelve months from the date of issue of such convertible notes.

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 day 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.

- (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 by the vendor 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.

- (c) During the period, HK\$129 million convertible notes were converted into 244,433,176 ordinary shares of the Company (*note 18*).

18. 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 (<i>note 17(c)</i>)	244,433	24,443
At 31 December	1,472,479	147,248

STONE GROUP HOLDINGS LIMITED

SECOND INTERIM REPORT 2004/05

At 31 December 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	9,406,000
22 May 2002	22 August 2002 to 21 May 2012	0.792	19,325,000
22 May 2002	22 August 2003 to 21 May 2012	0.792	19,575,000
22 May 2002	22 August 2004 to 21 May 2012	0.792	19,575,000
22 May 2002	22 August 2005 to 21 May 2012	0.792	19,575,000
31 December 2002	31 December 2002 to 30 December 2012	0.476	103,856,000
			191,312,000

19. 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 during the period	-	-	-	-	-	(43,188)	(43,188)
Unrealised loss on revaluation of investments in securities	-	-	-	(6,528)	-	-	(6,528)
Impairment loss realised to consolidated income statement	-	-	-	6,528	-	-	6,528
Share premium on issue of shares							
- under share option scheme	-	3,756	-	-	-	-	3,756
- upon conversion of convertible notes	-	104,415	-	-	-	-	104,415
Exchange differences arising on consolidation	-	-	-	-	2,185	-	2,185
Profit for the period	-	-	-	-	-	130,737	130,737
At 31 December 2004	151	1,138,986	14,257	-	3,750	693,576	1,850,720

20. 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:

	Twelve months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
(a) Transactions with and amounts paid to or received from Stone Group Corporation ("SGC"), a minority shareholder of the Group:		
– Sale of traded products	21,805	20,072
– Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services	3,299	2,873
– Handling fee	62	784
– Interest received	–	51
– Rental paid for staff quarters	996	999
– Rental income on properties	763	1,212
(b) Purchase of traded products and component parts from a minority shareholder of a subsidiary	7,040	32,981
(c) Transactions with associates of the Group:		
– Sale of traded products	315	23
– Purchase of traded products and component parts	4,185	–
(d) The Group placed deposits totalling HK\$4,933,000 as at 31 December 2003 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC. No such deposit was placed at 31 December 2004.		
(e) One of the subsidiaries of SGC ("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 Rmb550,000 (equivalent to approximately HK\$518,000) was shared by the Group in this arrangement for the period ended 31 December 2004 (2003: HK\$375,000).		

- (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.

21. Contingent liabilities

	At 31 December 2004 HK\$'000	At 31 December 2003 HK\$'000
Counter guarantee for bank loans provided to an investee company	8,892	-
Counter guarantee for bank loans provided to an associate	-	36,363
	<u>8,892</u>	<u>36,363</u>

22. Post balance sheet event

On 7 March 2005, the Company entered into a sale and purchase agreement with Yearbase International Limited (The "Vendor") to acquire 40% equity interest in Me To You Holdings Ltd. at a cash consideration of US\$19,200,000 (equivalent to approximately HK\$149,760,000). As at 31 December 2004, the Group has paid US\$1,000,000 to the Vendor as a deposit, which has been included in "Trade and other receivables" in the Group's consolidated balance sheet.

23. Comparative figures

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

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 20.

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 twelve months ended 31 December 2004.

KPMG

Certified Public Accountants

Hong Kong, 21 March 2005

MANAGEMENT DISCUSSION AND REVIEW

The year 2004 is a very special year for the Group. As described in its interim report for the six months ended 30 June 2004, the Group underwent a number of major changes during the year, including the newly acquired business of manufacture, distribution and sale of healthcare products. In addition, the management also changed the Group's financial year end date from 31 December to 31 March. In order to comply with the Listing Rules, the Group prepared this second interim report of its results for the twelve months ended 31 December 2004 (including the results of the healthcare products business of the newly acquired subsidiary for the ten months beginning from March and ended December 2004), six months after its interim report ended 30 June 2004. The Group will despatch the annual report of 2004/05 before 31 July 2005. Due to the change of financial year end date, the forthcoming annual report will contain the Group's results for the fifteen months ended 31 March 2005.

For the twelve months ended 31 December 2004, the Group's unaudited turnover increased by 67.5% compared with the same period last year, to HK\$1,701 million. During the period, the Group also turned around from the operating loss of last year to operating profit this year. Since the shares in SINA Corporation held by the Group were marked to the then market price at the end of 2003, most of the unrealized gain has been recorded in the 2003 financial statements. Therefore, the realized gain from disposal of shares in SINA during the period was very limited. The remaining SINA shares were marked to market at the end of the period, causing slight unrealized loss. For the twelve months ended 31 December 2004, the profit attributable to shareholders was HK\$131 million, representing a significant decrease of 83.7% from HK\$801 million in 2003.

Business Review

Upon the completion of the acquisition of Shanghai GoldPartner Biotech Co., Ltd., the principal businesses of the Group include the manufacture, distribution and sale of electronic and electrical products (hereinafter referred to as "Electronic Products Business") and the manufacture, distribution and sale of healthcare products (hereinafter referred to as "Healthcare Products Business"). The Electronic Products Business is further sub-divided into different types of products. The

turnover of various principal businesses and products during the period under review are set out in details below:

	Twelve months ended		
	31 December		
	2004	2003	% Increase/
	HK\$'000	<i>HK\$'000</i>	(decrease)
Electronic Products Business			
Manufacture			
Printers	151,879	163,529	(7.1)%
Gold tax and tax control products	35,279	55,245	(36.1)%
Others	71,901	54,544	31.8%
Distribution			
Industrial controllers	583,241	517,302	12.7%
UPS equipment	70,595	72,468	(2.6)%
Digital graphic products	67,579	73,069	(7.5)%
Semi-conductors	14,060	37,854	(62.9)%
Computer parts and others	68,412	26,374	159.4%
Others	30,784	14,892	106.7%
Media-related Business	3,943	N/A	N/A
Healthcare Products Business			
Naobaijin	289,935	N/A	N/A
GoldPartner	313,063	N/A	N/A
	<u>1,700,671</u>	<u>1,015,277</u>	

Electronic Products Business

The turnover of Electronic Products Business during the period under review accounted for 64.3% of the Group's turnover in the first year after the acquisition of Healthcare Products Business. Sales of industrial controllers was still the highest revenue generating section in this business sector, representing 34.3% of the total turnover. During the period, the Group maintained the policy of encouraging sales by reducing price. As a result, the sales of industrial controllers reached HK\$583 million, representing an increase of 12.7% when compared with the same period last year. As a result of adverse impact brought by fluctuations in exchange rate, the gross margin decreased by 2.5 percentage points from the same period last year. Industrial controllers sold by the Group include Fuji-branded transducers, products from Allen Bradley PLC, Siemens PLC, Omron and RKC, etc.

The self-produced Stone printer, which recorded the second largest turnover in the Electronic Products Business, accounted for 8.9% of the total turnover. Although the intellectual property issue concerning the printer was successfully resolved during the period, its impact and the overall negative growth of the dot matrix printer market caused the sales of printers to drop by 7.1% as compared with the same period last year, amounting to only HK\$152 million. Besides, the gross margin also decreased by 5 percentage points as compared with the same period last year. Regarding the intellectual property issue, it was concluded that the patent right belonged to both parties and this has stabilized the future sales of printer. At the same time, the management has kept on developing other products. It has been planned that new products will be launched in 2005 and will become a new source of income of the Group.

The Group's uninterrupted power supply system products remained a high revenue generating business sector during the period, representing 4.2% of the total turnover. 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 for the twelve months ended 31 December 2004 reached HK\$70.6 million, representing a decrease of 2.6% compared with the same period last year. Its gross margin also increased by 0.2 percentage point compared with the same period last year.

For digital graphic products, the distribution right renewal negotiation with Roland DG Corporation continued during the period. Because of the uncertainties, the turnover for the twelve months ended 31 December 2004 was only HK\$67.58 million, representing a decrease of 7.5% compared with the corresponding period last year, while the gross margin also dropped by 1.2 percentage points. As the distribution right of Roland could not be secured, the management is seeking other world renowned manufacturers of digital graphic products, in order to create new opportunities for the Group by capitalizing on its experience and expertise in the distribution of digital graphic products.

In conclusion, in 2004, several products distributed by the Group were affected by distribution right issues. This was the result of frequent mergers and acquisitions of famous international brands, some of which were distributed by the Group in recent years. These mergers and acquisitions necessitated revision of existing distribution rights or even new agreements.

At the beginning of the period, the State adjusted its tax control policies. As a result, most companies ceased to be ordinary taxpayers, and the sales of the Group's gold tax products was significantly affected. The turnover for the twelve months ended 31 December 2004 decreased by 36.1% from the same period last year, to only HK\$35.28 million. Nevertheless, since the turnover was mainly generated from provision of training programmes and after-sale services, the gross margin increased by 5.9 percentage points when compared with that of the same period last year.

The Electronic Products Business also includes sales of semi-conductors and computer accessories, and manufacture of electrical lighting equipment, electrical peripheral, healthcare equipment, control systems for automated doors and other electrical products. Turnover of these products for the twelve months ended 31 December 2004 was about 10.9% of the total turnover, amounting to HK\$185 million.

In view of the unsatisfactory performance of some of the Electronic Products Business, the management has been seeking alternatives in the past few years. It has also been looking for new businesses with higher added value and investment return to enrich the Group's Electronic Products Business. Eventually the media-related business was chosen. During the period under review, the media-related

business of the Group included holding shares of SINA Corporation (“Sina”), holding equity interests in China Cable Information Network Co., Ltd. (hereafter “China Cable”) and the operation and development of internet cafe chain. The Group began its investment in Sina when Sina was still a small-sized corporation. The return from this investment grew quickly and it was listed on NASDAQ in the United States in 2001. The Group began to sell part of its Sina shares on the market last year in anticipation of tremendous returns. During the year, the Group continued to reduce its holding of Sina shares. The shareholding decreased from approximately 13.3% at the beginning of the period to approximately 4.96% towards the end of the period. Sales of the shares realized about HK\$103 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 unrealized loss of HK\$31.87 million for the period. On the other hand, during the period under review, the Group continued to increase its equity stake in China Cable, through a jointly controlled entity, investment in China Cable increased from equity interest of 5.54% at the beginning of the period to 13.77% at the period end. 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 early March and the second cafe, which was directly owned by the Group, also commenced operation in Bai Yun District in May. Four more cafes have entered into franchise agreements with the Group in the second half of the period to join the Group’s internet cafe chain. Moreover, due to the effective management and tidy environment of our cafes, they are now becoming the model cafes of Guangdong Province.

Healthcare Products Business

The acquisition of Shanghai GoldPartner Biotech Co., Ltd. (hereafter “Shanghai GoldPartner”) was completed on 4 March 2004. The results of Shanghai GoldPartner and related companies for the ten months starting from the completion of acquisition to 31 December 2004, instead of a full year of twelve months, were consolidated in the Group’s financial statements for the period. The sale of Shanghai GoldPartner mainly consists of two healthcare products, namely, Naobaijin and GoldPartner. The two products were distributed to major cities in the PRC through more than 2,900 distributors, and then sold to customers through the distributors’ retail outlets. Naobaijin and GoldPartner were also available in large supermarket chains or superstores in the form of consignment. During the period, the two

products recorded a combined turnover of HK\$603 million, representing 35.5% of the Group's total turnover. Their gross profit contribution amounted to HK\$346 million, representing 76.5% of the total gross profit.

Naobaijin is a consumer healthcare product designed to restore the natural sleep cycle and relieve problems of the digestive system. The target customers include elderlies and middle-age persons who work under heavy pressure. Naobaijin was first launched in 1998. According to the National Bureau of Statistics of China, Naobaijin was the leader in the single market of consumer healthcare food for four consecutive years from 2000 to 2003 and became the second in 2004. During the period, Naobaijin recorded a turnover of HK\$290 million, a gross profit of HK\$126 million and a gross margin of about 43.5%.

GoldPartner is a health supplement that provides important vitamins and minerals lacking in typical Chinese diet. It is targeted at consumers of all ages. At present, there are three varieties of GoldPartner, designed for children, women, and elderlies. GoldPartner was launched in 2002, and enjoyed the second highest market share in 2003 and became the first in 2004, making it a leading vitamin brand in the PRC. During the period, GoldPartner recorded a turnover of HK\$313 million, a gross profit of HK\$220 million and a gross margin of about 70.3%.

Liquidity and Financial Position

As at period end, the current ratio and quick ratio of the Group were 5.03 and 4.46 respectively. Cash and cash equivalents held was HK\$526 million with net asset increased from HK\$1,775 million at the beginning of the period to HK\$1,998 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, the Group issued a total of principal of HK\$571,955,403 convertible notes on 4 March 2004 as part of the consideration for the completion of the acquisition. The conversion price of the convertible notes is HK\$0.76 per share, zero coupon and with a maturity date of five years from the date of issue. Besides, according to the Placing Agreement entered between the Group 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 per share, 3% interest per annum and with a maturity date of five years from the date of issue. Such that, the total amount of HK\$400 million of convertible notes were fully issued. During the period under review, HK\$123 million convertible notes were converted into 236,538,440 ordinary shares of the Company at the conversion price of HK\$0.52 per share. In addition, HK\$6 million convertible notes were converted into 7,894,736 ordinary shares of the Company at the conversion price of HK\$0.76 per share.

Due to the issue of the above-mentioned convertible notes, the total borrowings increased to HK\$843 million as at 31 December 2004, increased by 133.2% as compared with the total as at the beginning of the period. The net debt gearing ratio increased to 15.9%.

As at 31 December 2004, the available banking facilities of the Group amounted to HK\$90.88 million. They consist of letter of credit facilities, overdraft and other standby credit. The Group had utilized approximately HK\$10.25 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 31 December 2004, a property with carrying value of HK\$12.58 million was pledged with a bank as collateral against banking facilities and a term loan granted to a subsidiary of the Group.

Contingent Liabilities

As at 31 December 2004, the Group had provided a counter guarantee of approximately HK\$8.89 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 31 December 2004, the Group employed a total of 7,930 (2003: 845) employees, of which 7,902 (2003: 816) were employed in the PRC and 28 (2003: 29) were employed in Hong Kong. Out of the 7,902 employees in the PRC, 5,479 (2003: 9) 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

The Group has finally returned to operating profit, thanks to its hard efforts. This has affirmed the Group's decision to acquire Shanghai GoldPartner, which contributed a great deal to the Group's overall profitability. Therefore, the management is very confident about the prospects of healthcare products, and has been seeking new opportunities within and outside the Group. During the period, Shanghai GoldPartner successfully developed a new product named Huang Jin Xue Kang (黄金血康). The test-sale of the product is being performed in eight cities in the PRC. On the other hand, the Group reached an agreement with an independent third party in early August last year concerning the acquisition of equity interests in Shanghai Heng Shou Tang Pharmaceutical Company Limited. However, owing to problems found by due diligence, the management had to abandon the proposed acquisition. This shows that while the management is keen on expanding the Healthcare Products Business, it remains prudent in the evaluation of investment opportunities. The management does not rule out the possibility of making further investment in Healthcare Products Business if good investment opportunities arise in future. As for the Electronic Products Business, since part of it has been suffering from losses for many years, the management has determined to reform this business sector by restructuring, closing, or reducing shareholding in loss-making, dormant and poorly-managed departments, in order to lay solid foundation for the Group's sustained profit growth. On the other hand, to further develop the Electronic Products Business, the management will continue to seek new investment opportunities to enhance the profitability of this sector. In this regard, one of the most successful examples is the Group's investment in Sina. At

the beginning of 2003, the Group held 9,476,524 shares in Sina. The shareholding was 2,502,274 shares at the end of the period. The investment brought tremendous investment gain to the Group. Another example is investment in cable TV in the PRC. The investment is still undergoing an integration period, and is believed to contribute to the Group's profits in the near future. The internet cafe chain in Guangdong Province is still in the early stage of development. The Group believes that it will soon be able to operate self-sufficiently and bring profit to the Group.

In early March 2005, the Group announced its acquisition of 40% equity interest in Me To You Holdings Ltd., a company headquartered in Beijing, at a consideration of US\$19,200,000. The company is mainly engaged in wireless telecommunications value-added services business in the PRC, providing location-based and leisure-oriented wireless information services to the general public of the PRC, and delivering mobile data solutions to commercial enterprises through its nation-wide data and voice network platforms. The management believes that the wireless telecommunications value-added services market in the PRC has substantial growth potential. The company, with its well-established presence in the PRC market, is in good position to exploit such potential of the market, and bring new business opportunities and add value to the Group.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 December 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:

Name	Nature of interest	Long positions in the shares					Approximate shareholding percentage
		Interest in shares	Interest in underlying shares pursuant to share options	Interest in underlying shares pursuant to the convertible notes	Aggregate interest	Interest in underlying shares pursuant to the convertible notes	
Duan Yongji	Personal (Note 1)	5,040,000	3,900,000	182,692,305	191,632,305	13.01	
Shen Guojun	Personal (Note 1)	-	4,000,000	-	4,000,000	0.27	
Chen Xiaotao	Personal (Note 1)	-	8,000,000	-	8,000,000	0.54	
Zhang Disheng	Personal (Note 1)	-	10,400,000	-	10,400,000	0.71	
Shi Yuzhu	Corporate (Note 2)	-	-	744,678,162	744,678,162	50.57	

Note:

- 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 directors of Stone Group Corporation. So long as the said Directors remain as directors of Stone Group Corporation, each of them together with the other employees and directors collectively own interests in the assets of Stone Group Corporation but none of them has any specific interests in Stone Group Corporation.

2. The interest of Ready Finance Limited is held by it as beneficial owner. Ready Finance Limited is wholly owned by Shi Yuzhu who is deemed under the SFO to be interested in the shares held by Ready Finance Limited.

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:

Name	Number of options				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
	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period						
Duan Yongji (Note a)	3,900,000	-	-	3,900,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	-	0.26
Shen Guojun (Note a)	4,000,000	-	-	4,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	-	0.27
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	-	0.20
Chen Xiaotao (Note b)	8,000,000	-	-	8,000,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	-	0.54
Zhang Disheng (Note c)	10,400,000	-	-	10,400,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	-	0.71
Contracted employees (Note d)	63,106,000	-	7,950,000	55,156,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	-	3.75
Contracted employees (Note a)	3,000,000	-	-	3,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	-	0.20
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	7.05

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 31 December 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:

Name	Nature of interest	Long positions in the shares			Aggregate Interest	Approximate shareholding percentage
		Interest in shares	Interest in the convertible notes	Interest in underlying shares pursuant to		
Beijing Stone Investment Company Limited	Corporate (Note 1)	407,110,053	–	–	407,110,053	27.65
Beijing Stone Investment Company Limited	Corporate (Note 2)	407,110,053	–	–	407,110,053	27.65
Employees' Shareholding Society						
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Corporate (Note 2)	407,110,053	–	–	407,110,053	27.65
Shenyang Huguang Group Co. Ltd.	Corporate (Note 2)	407,110,053	–	–	407,110,053	27.65
Stone Group Corporation	Corporate (Note 2)	499,484,466	–	–	499,484,466	33.92
深圳發展銀行 深圳人民橋支行	Corporate (Note 3)	230,000,000	–	–	230,000,000	15.62
Ready Finance Limited	Corporate (Note 4)	–	744,678,162	–	744,678,162	50.57
Duan Yongji	Personal (Note 5)	5,040,000	182,692,305	–	187,732,345	12.75

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 Huguang 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.
5. The interest of Duan Yongji is held by him as beneficial owner. Please also refer to note 1 of page 31.

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 31 December 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 fifteen months from 1 January 2004 to 31 March 2005. The Company will announce and publish its final results for the fifteen 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 redeemed any of the Company's listed securities during the twelve months ended 31 December 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 twelve months ended 31 December 2004. The second interim financial report for the twelve months ended 31 December 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 HKICPA, by KPMG, whose review report is included in page 21.

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 twelve months ended 31 December 2004.

On behalf of the Board

DUAN Yongji

Chairman

Hong Kong, 21 March 2005