05/06

INTERIM REPORT 2005/06

STONE GROUP HOLDINGS LIMITED

RESULTS

The Board of Directors of Stone Group Holdings Limited ("the Company") announces the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2005 with figures for the comparable period in 2004 as follows:

Consolidated income statement
for the six months ended 30 September 2005 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September 2005 $'000	30 June 2004 $'000
Turnover	3	**895,796**	695,103
Cost of sales and services		**(621,902)**	(537,901)
Gross profit		**273,894**	157,202
Other revenue		**6,337**	6,753
Other net (loss)/income		**(72)**	34,130
		280,159	198,085
Distribution costs		**(222,874)**	(101,919)
Administrative expenses		**(46,827)**	(49,790)
Other operating expenses		**(16,943)**	(16,942)
(Loss)/profit from operations	3	**(6,485)**	29,434
Non-operating (expenses)/income	5	**(78,078)**	160,749
Finance costs	6(a)	**(18,065)**	(6,227)
Share of loss of a jointly controlled entity		**(5,101)**	–
Share of profits less losses of associates		**6,343**	(10,029)
(Loss)/profit before taxation	6	**(101,386)**	173,927
Income tax	7	**(1,959)**	(4,348)
(Loss)/profit after taxation		**(103,345)**	169,579
Attributable to:			
– Equity holders of the parent		**(68,825)**	117,005
– Minority interests		**(34,520)**	52,574
(Loss)/profit after taxation		**(103,345)**	169,579
(Loss)/earnings per share			
Basic	9(a)	**(4.57) cents**	8.25 cents
Diluted	9(b)	**(1.98) cents**	5.31 cents

The notes on pages 7 to 24 form part of this interim financial report.

Consolidated balance sheet
at 30 September 2005 – unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 September 2005 $'000	At 30 September 2005 $'000	At 31 March 2005 $'000	At 31 March 2005 $'000
Non-current assets					
Fixed assets					
– Investment properties			**84,009**		84,009
– Property, plant and equipment			**104,746**		105,169
			188,755		189,178
Goodwill			**1,136,614**		1,136,614
Other intangible assets			**34,355**		34,623
Interest in associates	10		**385,048**		53,465
Interest in a jointly controlled entity	11		**–**		185,296
Other financial assets	12		**44,264**		157,165
Deferred tax assets			**3,934**		5,023
			1,792,970		1,761,364
Current assets					
Trading securities		**534,908**		646,473	
Inventories	13	**189,182**		162,859	
Amount due from a jointly controlled entity		**–**		24,129	
Trade and other receivables	14	**735,888**		483,460	
Pledged deposits		**34,638**		33,815	
Cash and cash equivalents		**364,851**		504,510	
		1,859,467		1,855,246	
Current liabilities					
Bank loans		**38,447**		35,103	
Other loan	15	**116,370**		–	
Trade and other payables	16	**358,524**		284,988	
Current taxation		**15,889**		12,137	
		529,230		332,228	
Net current assets			**1,330,237**		1,523,018
Total assets less current liabilities			**3,123,207**		3,284,382

Consolidated balance sheet
at 30 September 2005 – unaudited *(Cont'd)*
(Expressed in Hong Kong dollars)

	Note	At 30 September 2005 $'000	At 30 September 2005 $'000	At 31 March 2005 $'000	At 31 March 2005 $'000
Non-current liabilities					
Convertible notes	17		**734,206**		832,955
Deferred tax liabilities			**540**		507
			734,746		833,462
NET ASSETS			**2,388,461**		2,450,920
CAPITAL AND RESERVES					
Share capital	18		**151,094**		147,248
Reserves	19		**1,912,835**		1,880,545
Total equity attributable to equity holders of the parent			**2,063,929**		2,027,793
Minority interests			**324,532**		423,127
TOTAL EQUITY			**2,388,461**		2,450,920

The notes on pages 7 to 24 form part of this interim financial report.

Consolidated statement of changes in equity for the six months ended 30 September 2005 – unaudited

(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Other reserve $'000	Capital reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Minority interests $'000	Total $'000
At 1 April 2005										
– as previously reported	147,248	1,138,980	151	–	14,105	–	4,044	723,265	423,127	2,450,920
– opening balance adjustment in respect of convertible notes *(note 2(b))*	–	–	–	112,668	–	–	–	(22,483)	–	90,185
– amount after opening balance adjustment	147,248	1,138,980	151	112,668	14,105	–	4,044	700,782	423,127	2,541,105
Dividend approved and paid during the period *(note 8)*	–	–	–	–	–	–	–	(19,642)	–	(19,642)
Minority interest's share of dividend	–	–	–	–	–	–	–	–	(61,820)	(61,820)
Unrealised loss on revaluation of available-for-sale securities	–	–	–	–	–	(7,266)	–	–	–	(7,266)
Impairment loss realised	–	–	–	–	–	7,266	–	–	–	7,266
Shares issued upon conversion of convertible notes	3,846	16,388	–	(890)	–	–	–	–	–	19,344
Share of minority interest on disposal of a subsidiary	–	–	–	–	–	–	–	–	(2,430)	(2,430)
Exchange differences arising on consolidation	–	–	–	–	–	–	15,074	–	175	15,249
Loss for the period	–	–	–	–	–	–	–	(68,825)	(34,520)	(103,345)
At 30 September 2005	151,094	1,155,368	151	111,778	14,105	–	19,118	612,315	324,532	2,388,461

Consolidated statement of changes in equity for the six months ended 30 September 2005 – unaudited *(Cont'd)*

(Expressed in Hong Kong dollars)

	Share capital *$'000*	Share premium *$'000*	Capital redemption reserve *$'000*	Capital reserve *$'000*	Investment revaluation reserve *$'000*	Exchange fluctuation reserve *$'000*	Retained profits *$'000*	Minority interests *$'000*	Total *$'000*
At 1 January 2004	121,805	1,030,815	151	14,257	–	1,565	606,027	882,984	2,657,604
Dividend approved and paid during the period *(note 8)*	–	–	–	–	–	–	(43,188)	–	(43,188)
Minority interest's share of dividend	–	–	–	–	–	–	–	(257,040)	(257,040)
Shares issued under share option scheme	1,000	3,756	–	–	–	–	–	–	4,756
Shares issued upon conversion of convertible notes	21,153	88,723	–	–	–	–	–	–	109,876
Unrealised loss on revaluation of available-for-sale securities	–	–	–	–	(1,985)	–	–	–	(1,985)
Impairment loss realised	–	–	–	–	2,415	–	–	–	2,415
Share of minority interest in winding up of a subsidiary	–	–	–	–	–	–	–	(2,016)	(2,016)
Share of minority interest in acquisition of subsidiaries	–	–	–	–	–	–	–	19,883	19,883
Exchange differences arising on consolidation	–	–	–	–	–	2,109	–	315	2,424
Profit for the period	–	–	–	–	–	–	117,005	52,574	169,579
At 30 June 2004	143,958	1,123,294	151	14,257	430	3,674	679,844	696,700	2,662,308

The notes on pages 7 to 24 form part of this interim financial report.

Condensed consolidated cash flow statement for the six months ended 30 September 2005 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 September 2005 $'000	Six months ended 30 June 2004 $'000
Net cash used in operating activities	**(108,670)**	(73,007)
Net cash (used in)/from investing activities	**(64,587)**	141,825
Net cash from/(used in) financing activities	**26,761**	(91,783)
Net decrease in cash and cash equivalents	**(146,496)**	(22,965)
Effect on foreign exchange rate changes	**6,837**	1,538
Cash and cash equivalents at 1 April/1 January	**504,510**	523,534
Cash and cash equivalents at 30 September/30 June	**364,851**	502,107
Analysis of the balances of cash and cash equivalents		
Deposits with banks and other financial institutions	**149,688**	274,064
Cash at bank and in hand	**215,163**	228,043
	364,851	502,107

The notes on pages 7 to 24 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 13 December 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes 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 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The 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 HKICPA. KPMG's independent review report to the Board of Directors is included on page 25.

On 9 July 2004, the directors of the Company resolved to change its accounting year end date from 31 December to 31 March in order to align with the business cycle of the healthcare product retailing business. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity now cover a period of six months from 1 April to 30 September 2005. Accordingly, the comparative figures (which cover a period of six months from 1 January to 30 June 2004) for the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity and related notes are not comparable with those of the current period.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

1. Basis of preparation *(Cont'd)*

The financial information relating to the financial period ended 31 March 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial period but is derived from those financial statements. Statutory financial statements for the period ended 31 March 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 July 2005.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 March 2006, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 March 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 April 2005 which have been reflected in this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

2. Changes in accounting policies *(Cont'd)*

(a) *Summary of the effect of changes in the accounting policies*

(i) Effect on opening balance of total equity at 1 April 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances at 1 April 2005. This is the effect of the opening balance adjustments made as at 1 April 2005.

	Note	Retained profits $'000	Capital and other reserves $'000	Total $'000	Minority interests $'000	Total equity $'000
Effect of new policy (increase/(decrease))						
Opening balance adjustments:						
HKAS 39						
Convertible notes		(22,483)	112,668	90,185	–	90,185
Total effect at 1 April 2005	*2(b)*	(22,483)	112,668	90,185	–	90,185

(ii) Effect on profit after taxation for the six months ended 30 September 2005 (estimated)

In respect of the six month period ended 30 September 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

As retrospective adjustments have not been made for the changes in the policy as explained in note 2(b), the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

2. Changes in accounting policies *(Cont'd)*

(a) *Summary of the effect of changes in the accounting policies (Cont'd)*

(ii) Effect on profit after taxation for the six months ended 30 September 2005 (estimated) *(Cont'd)*

		Six months ended 30 September 2005			Six months ended 30 June 2004		
	Note	**Equity holders of the parent $'000**	**Minority interests $'000**	**Total $'000**	Equity holders of the parent $'000	Minority interests $'000	Total $'000
Effect of new policy (increase/(decrease) in profit)							
HKAS 39 Convertible notes		**(10,799)**	**-**	**(10,799)**	-	-	-
Total effect for the period	2(b)	**(10,799)**	**-**	**(10,799)**	-	-	-
Effect on loss per share:							
– basic		**$0.007**			-		
– diluted		**$0.004**			-		

(b) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

Changes in accounting policy relating to financial instruments are as follows:

Changes in measurement of financial instruments

In prior years, convertible notes issued were stated at their principal value.

With effect from 1 April 2005, and in accordance with HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the other reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

2. Changes in accounting policies *(Cont'd)*

(b) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (Cont'd)*

This change was adopted by way of an adjustment to the opening balance of the other reserve as at 1 April 2005 of $112,668,000 and retained profits of $22,483,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, loss for the six months ended 30 September 2005 has increased by $10,799,000.

(c) *Presentational changes*

The application of the new HKFRSs has also resulted in changes in the presentation of the financial statements retrospectively with comparatives restated to conform to the current period's presentation, in particular of below:

(i) In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 April 2005, in order to comply with HKAS 1 "Presentation of financial statements" and HKAS 27 "Consolidated and separate financial statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

(ii) In prior years, share of associates' tax was presented as a component of taxation in the income statement. Upon adoption of the HKAS 1, share of associates' tax is presented net of the share of associates' profits.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

3. Segment information

The Group is principally engaged in the activities of manufacturing, distribution and sale of healthcare products, 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 six months ended 30 September 2005 is set out below:

	Turnover Six months ended		Contribution to (loss)/profit from operations Six months ended	
	30 September 2005 *$'000*	30 June 2004 *$'000*	**30 September 2005 *$'000***	30 June 2004 *$'000*
Principal activities				
Manufacturing, distribution and sale of healthcare products	**384,944**	181,710	**11,106**	21,607
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	**507,640**	512,691	**(8,718)**	(14,082)
Media-related business	**3,212**	702	**(2,817)**	(2,204)
	895,796	695,103	**(429)**	5,321
Unallocated operating income and expenses			**(6,056)**	24,113
(Loss)/profit from operations			**(6,485)**	29,434

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. Seasonality of operations

The Group's healthcare products division, a separate business segment (see note 3), is subject to seasonal fluctuations as a result of the increased retail demand for its products during the Chinese New Year holiday period. As a result, the first half-year typically results in lower revenues and segment results for this segment.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

5. Non-operating (expenses)/income

	Six months ended 30 September 2005 $'000	30 June 2004 $'000
Net realised/unrealised (loss)/ gain on trading securities	**(72,004)**	77,557
Gain on disposal of available-for-sale securities	**17,267**	–
(Loss)/gain on disposal of interest in subsidiaries	**(2,059)**	681
(Loss)/gain on disposal/deemed disposal of associates	**(2,714)**	914
(Provision)/write-back of provision for impairment loss on available-for-sale securities	**(7,266)**	83,188
Impairment loss on goodwill	**–**	(1,591)
Provision for other receivables	**(12,679)**	–
Others	**1,377**	–
	(78,078)	160,749

6. (Loss)/profit before taxation

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

	Six months ended 30 September 2005 $'000	30 June 2004 $'000
(a) Finance costs:		
Interest on borrowings	**16,992**	3,851
Other borrowing costs	**1,073**	2,376
Total borrowing costs	**18,065**	6,227
(b) Other items:		
Amortisation of other intangible assets	**933**	610
Depreciation	**5,661**	5,156
Cost of inventories	**620,266**	537,223
Provision for write-down in value of obsolete inventories	**135**	5,205
Provision for bad and doubtful debts	**6,549**	6,020
Gain on disposal of property, plant and equipment	**(814)**	(33,268)
Management fees	**1,681**	1,650

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

7. Income tax

	Six months ended 30 September 2005 $'000	30 June 2004 $'000
Current tax		
Provision for Hong Kong Profits Tax	**–**	–
Income tax outside Hong Kong in the PRC ("PRC income tax")	**837**	5,089
	837	5,089
Deferred tax		
Origination and reversal of temporary differences	**1,122**	(741)
	1,959	4,348

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.

Share of associates' PRC income tax for the six months ended 30 September 2005 amounted to tax credit of $19,000 (30 June 2004: tax expense of $23,000) was included in share of profits less losses of associates in the consolidated income statement.

8. Dividends

	Six months ended 30 September 2005 $'000	30 June 2004 $'000
Final dividend in respect of the financial year ended 31 March 2005, approved and paid during the following interim period, of 1.3 cents per share (special dividend in respect of year ended 31 December 2003: 3 cents per share)	**19,642**	43,188

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

9. (Loss)/earnings per share

(a) *Basic (loss)/earnings per share*

The calculation of basic (loss)/earnings per share is based on the loss for the period attributable to equity holders of the parent of $68,825,000 (30 June 2004: profit of $117,005,000) and the weighted average number of approximately 1,505,686,000 ordinary shares (30 June 2004: 1,418,564,000 shares) in issue during the period.

(b) *Diluted (loss)/earnings per share*

The calculation of diluted (loss)/earnings per share is based on the adjusted loss for the period attributable to equity holders of the parent of $54,268,000 (30 June 2004: adjusted profit of $119,286,000) after adding back the interest expense on convertible notes, and the weighted average number of approximately 2,740,071,000 (30 June 2004: 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.

10. Interest in associates

	At 30 September 2005 ***$'000***	At 31 March 2005 *$'000*
Share of net assets of unlisted associates	**287,473**	69,209
Goodwill	**115,078**	1,759
	402,551	70,968
Impairment loss	**(17,503)**	(17,503)
	385,048	53,465

In April 2005, the Group acquired a 40% equity interest in Me To You Holdings Limited ("MTY") at a consideration of US$19.2 million (equivalent to approximately $149,760,000) by cash. This acquisition has given rise to goodwill of approximately $113 million.

MTY is mainly engaged in the wireless telecommunication value-added services ("VAS") 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. As the wireless telecommunication VAS market in the PRC has substantial growth potential, goodwill arising from the acquisition primarily represents the future economic benefits that MTY expects to generate from its established position in the wireless telecommunication VAS market in the PRC and the synergy effect that can be achieved from the business cooperation between MTY and the Group's existing media-related operations.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

11. Interest in a jointly controlled entity

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Share of net assets	–	14,134
Amount due from a jointly controlled entity	–	171,162
	–	185,296

During the period, the Group accepted the offer from China Cable Media Group Limited ("CCMG") for the issuance and allotment of 8,839,812 new ordinary shares of CCMG at a subscription price of US$2.509 per ordinary share, credited as fully paid, in satisfaction of the shareholders' loan of approximately US$22 million owed by CCMG to the Group. Suntop Investments Limited ("Suntop"), the other shareholder of CCMG, also accepted the offer from CCMG for the issuance and allotment of 2,169,143 new ordinary shares and 844,975 new preference shares in satisfaction of the shareholders' loan owed by CCMG to Suntop. In addition, a new investor subscribed for 11,848,624 new preference shares of CCMG. Upon completion of the conversion and subscription, the Group's interest in CCMG decreased from 50% at 31 March 2005 to approximately 39.1% at 30 September 2005, and CCMG ceased to be a jointly controlled entity of the Group as the Group no longer shares joint control over CCMG. Nevertheless, the Group can exert significant influence over CCMG through sufficient board representation. Accordingly, the Group's interest in CCMG has been reclassified as interests in associates.

12. Other financial assets

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Available-for-sale securities – equity securities		
Listed in Hong Kong	**1,971**	9,193
Unlisted	**42,293**	147,972
	44,264	157,165
Loan receivable *(note (a))*	**15,300**	15,300
Less: Provision	**(15,300)**	(15,300)
	–	–
	44,264	157,165
Market value of listed securities	**1,971**	9,193

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

12. Other financial assets *(Cont'd)*

Note:

(a) 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 $26,003,000 (31 March 2005: $25,060,000).

14. Trade and other receivables

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Debtors, prepayments and other receivables	**662,364**	427,648
Gross amount due from customers for contract work	**14,127**	17,753
Amounts due from associates	**37,283**	11,232
Amounts due from related companies	**22,114**	26,827
	735,888	483,460

A credit period of 60 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 Group's debtors, prepayments and other receivables at 31 March 2005 were bills receivable of $12,801,000 pledged to a bank for banking facilities granted by the bank to a subsidiary. At 30 September 2005, there are no pledged bills receivable.

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

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Current	**310,916**	190,916
Due over 6 months but within 12 months	**16,585**	3,913
Due over 12 months but within 24 months	**97**	315
	327,598	195,144

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

15. Other loan

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Secured and repayable on demand	**116,370**	–

The other loan is secured by 2,500,000 shares of SINA Corporation held by the Group with carrying value of US$68.8 million (equivalent to approximately $533 million) as at 30 September 2005. The other loan bears interest at a rate of LIBOR plus 0.5% per annum and is repayable on demand.

16. Trade and other payables

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Creditors, accruals and other payables	**346,158**	271,669
Amounts due to associates	**321**	419
Amounts due to related companies	**12,045**	12,900
	358,524	284,988

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

	At 30 September 2005 *$'000*	At 31 March 2005 *$'000*
Due within 6 months or on demand	**179,636**	112,770
Due after 6 months but within 12 months	**4,242**	620
Due after 12 months but within 24 months	**1,822**	218
Due after 24 months but within 36 months	**424**	252
	186,124	113,860

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

17. Convertible notes

(a) On 6 June 2003, the Company and a placing agent entered into an agreement whereby (i) the placing agent agreed to procure subscribers to subscribe as principals for the convertible notes (the "Original Notes") of a principal amount of at least $50 million, and (ii) the Company granted to the placing agent the option (the "Option") to require the Company to issue additional convertible notes up to an additional principal amount of $350 million for subscription by the subscribers upon the terms and conditions of the placing agreement. The Option is exercisable by the placing agent on or before 13 January 2005. In 2003, Original Notes of $220 million were issued. 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. During the year ended 31 December 2003, $10 million Original Notes were converted into 19,230,769 ordinary shares of the Company.

During the period ended 31 March 2005, additional Original Notes of $180 million were issued pursuant to the placing agreement.

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 Notes 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 $0.52 per share, subject to adjustments. The maturity date of each Original Notes is the date falling sixty months from (and inclusive of) the date of issue of such convertible notes.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

17. Convertible notes *(Cont'd)*

(b) On 4 March 2004, convertible notes of approximately $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 5 years after the issue date.

The Company has the right to redeem the Notes at 100% of the principal amount in amounts of $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 amounts of $190 million, $190 million and $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 $0.76 per share, subject to adjustments.

(c) During the period, $20 million of the Original Notes were converted into 38,461,538 ordinary shares of the Company *(note 18)*.

18. Share capital

	2005	
	Number of shares ***'000***	**Amount** ***$'000***
Authorised:		
Ordinary shares of $0.1 each	**5,000,000**	**500,000**
Issued and fully paid:		
At 1 April	**1,472,479**	**147,248**
Shares issued upon conversion of convertible notes *(note 17(c))*	**38,461**	**3,846**
At 30 September	**1,510,940**	**151,094**

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

18. Share capital *(Cont'd)*

At 30 September 2005, the outstanding options were as follows:

Date granted	Exercisable period	Exercise price $	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	17,525,000
22 May 2002	22 August 2003 to 21 May 2012	0.792	17,525,000
22 May 2002	22 August 2004 to 21 May 2012	0.792	17,525,000
22 May 2002	22 August 2005 to 21 May 2012	0.792	17,525,000
31 December 2002	31 December 2002 to 30 December 2012	0.476	103,856,000
			191,312,000

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

19. Reserves

	Capital redemption reserve $'000	Share premium $'000	Other reserve $'000	Investment revaluation reserve $'000	Capital reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000
At 1 April 2005								
– as previously reported	151	1,138,980	–	–	14,105	4,044	723,265	1,880,545
– opening balance adjustment in respect of convertible notes	–	–	112,668	–	–	–	(22,483)	90,185
– amount after opening balance adjustment	151	1,138,980	112,668	–	14,105	4,044	700,782	1,970,730
Dividend approved and paid during the period	–	–	–	–	–	–	(19,642)	(19,642)
Shares issued upon conversion of convertible notes	–	16,388	(890)	–	–	–	–	15,498
Unrealised loss on revaluation of available-for-sale securities	–	–	–	(7,266)	–	–	–	(7,266)
Impairment loss realised	–	–	–	7,266	–	–	–	7,266
Exchange differences arising on consolidation	–	–	–	–	–	15,074	–	15,074
Loss for the period	–	–	–	–	–	–	(68,825)	(68,825)
At 30 September 2005	151	1,155,368	111,778	–	14,105	19,118	612,315	1,912,835

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

20. Capital commitments outstanding not provided for in the interim financial report

	At 30 September 2005	At 31 March 2005
	$'000	*$'000*
Contracted for	**–**	837

21. Contingent liabilities

	At 30 September 2005	At 31 March 2005
	$'000	*$'000*
Letter of credit issued but not yet utilised	**–**	1,315
Counter guarantee for bank loans given to an investee company	**–**	7,621
	–	8,936

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(Cont'd)*

(Expressed in Hong Kong dollars)

22. 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 September 2005 $'000	30 June 2004 $'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	**1,923**	12,213
– Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services	**1,681**	1,650
– Handling fee	**–**	62
– Rental paid for staff quarters	**477**	498
– Rental income on properties	**389**	–
(b) Purchase of traded products and component parts from a minority shareholder of a subsidiary	**–**	7,040
(c) Transactions with associates of the Group:		
– Sale of traded products	**–**	315
– Purchase of traded products and component parts	**641**	3,160

(d) 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 RMB275,000 (equivalent to approximately $264,000) was shared by the Group in this arrangement for the period ended 30 September 2005 (30 June 2004: $259,000).

23. Post balance sheet event

On 26 October 2005, the Company acquired 48,000,000 H shares of China Construction Bank Corporation ("China Construction Bank") through the global offering of the H shares conducted by China Construction Bank at an offer price of $2.35 per share at an aggregate consideration of $113,942,400.

24. Comparative figures

Certain comparative figures have been reclassified to conform with 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 24.

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 Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. 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 liability 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 Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2005.

KPMG
Certified Public Accountants

Hong Kong, 13 December 2005

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2005, the Group's unaudited turnover increased by 28.9% to HK$896 million compared to the six months ended 30 June 2004 (hereinafter the "comparable period last year"). Gross profit also increased by 74.2% to HK$274 million compared with the comparable period last year. However, loss from operations of HK$6.49 million was incurred for the period under review. Meanwhile, the decrease in the market value of the Group's shares in SINA at the end of the period compared with the opening value lead to an unrealised loss when restating at market value. In addition, after detailed assessment of other receivables by the management, provision was made for bad and doubtful debts. As such, the first half of the year recorded a loss attributable to shareholders of HK$68.83 million.

Business Review

For the period under review, despite the impact from the unstable market and decline in sales in the PRC, operations of the manufacture and distribution of healthcare products business (hereinafter the "healthcare products business") remained relatively stable with an increase in turnover but have some impact on profit level, while the manufacture and distribution of electronic products business (hereinafter the "electronic products business") was still undergoing corporate restructuring, with an aim to keep the better performing business divisions and companies. On the other hand, the Group also continued to proactively develop its media-related business at the same time, so as to accelerate the transformation from traditional electronic products business to high value-added advanced technology business.

The business restructuring of the electronic products business mainly involved the transfer of its shareholdings in certain associates, divestments of its shareholdings in subsidiaries other than those in Beijing and the closing down of the ineffective and less important branches, in order to realise reasonable structure, stable effectiveness and consistent actions. We successively closed down three technology services centres in Shanghai, Wuhan and Shenyang; three operation and sales centres in Wuhan, Shenyang and Guangzhou and divested from three subsidiaries in Shenyang, Jinan and Wuxi and Shanghai Stone-MTI, and transferred all of its shares in GOT and Renesas Stone. The restructuring generated a profit of HK$12.49 million and realization of an amount of HK$133 million. After the implementation of the most extensive and the most challenging restructuring of the Company since its listing, the Group emphasised on strengthening its management and operations in respect of its electronic business while maintaining the growth in turnover and market share. Currently, the electronic products business and healthcare products business still remained as the Group's two major businesses. Detailed turnover analysis by principal activities and different products segments for the period under review is as follows:

	For the six months ended		
	30 September	30 June	
	2005	2004	%
	HK$'000	*HK$'000*	+/(-)
1. Manufacture and distribution of electronic products business			
a. Self-produced products			
Printers	**87,045**	78,863	10.4
Gold tax and tax control products	**12,051**	19,038	(36.7)
Others	**19,292**	33,410	(42.3)
b. Distribution			
Industrial controllers	**329,236**	267,754	23.0
Power supply products	**29,813**	39,507	(24.5)
Digital graphic products	**6,175**	34,280	(82.0)
Semi-conductors	**1,543**	12,196	(87.3)
Computer parts and accessories and others	**7,779**	17,135	(54.6)
Others	**14,706**	10,508	40.0
2. Media-related Business	**3,212**	702	357.5
3. Healthcare products distribution business			
GoldPartner	**169,142**	100,481	68.3
Naobaijin	**215,802**	81,229	165.7
	895,796	695,103	

Electronic Products Business

For the period under review, electronic products business accounted for 56.7% of the Group's turnover, in which industrial controllers were still the largest revenue generator in this business sector, representing 36.8% of the total turnover. During the period, the company's ERP system united management, sales, marketing and customers services. The company also set up a call centre system, which processes over 2,000 telephone orders and inquiries from customers daily. Therefore, turnover for the period increased 23.0% reaching HK$329 million compared to the comparable period last year, however, due to sustained intense competition, gross profit margin decreased 0.9 percentage points compared to the comparable period last year.

The industrial controllers company is aimed at establishing fast ordering procedures and to provide timely services and business control to its customers. The company is actively conducting research on the feasibility to set up an e-commerce platform. Besides goods ordering and general inquiries, customers can trace the status of ordered goods themselves through the e-commerce platform.

Other distributed electronic products include uninterrupted power supply products equipment, represented 3.3% of the Group's total turnover. During the period, due to the change of distribution policies by our supplier, Powerware, to the effect that UPS below 40KV are distributed by another company, turnover of the products decreased by 24.5%, amounting to only HK$29.81 million compared to the comparable period last year. However, gross profit margin increased by 0.8 percentage points compared to the comparable period last year as a result of such changes. During the period under review, the graphic products segment only sold out certain product leftovers and component parts, and as a result recorded a turnover of only HK$6.18 million, representing a decrease of 82.0% compared to the comparable period last year. Nevertheless, due to the higher gross profit from the sales of component parts, gross profit margin increased by 10.9 percentage points for the period. After restructuring, other than the above-mentioned distributed products, remained the distribution of electronic products including semi-conductors and computer accessories. For the six months ended 30 September, 2005, sales of such products together with other products before restructuring accounted for 2.7% of the total turnover reaching HK$24.03 million, representing a decrease of 39.7% compared to the comparable period last year.

The self-produced Stone-OKI printer business accounted for 9.7% of the total turnover. During the period, the Company achieved better results under the relatively normal operating environment and recorded a turnover of HK$87.05 million, representing an increase of 10.4% compared to the comparable period last year. Increase in turnover was due to the fact that, sales, other than to distributors as in comparable period last year, were also made to customer directly during the period. Gross profit margin also increased 2.2% compared to the comparable period last year because of the bargaining of bigger discount so that cost of sales dropped accordingly. Self produced products include gold tax products and tax control machines. Since the amendments on tax control policies by the State in early 2004, the market shrank as most enterprises ceased to be considered as general taxpayers. The sales of gold tax products mainly stem from new customers and the provision of training and services to existing customers, and the tax control machines have not yet commenced operations, therefore, turnover for the six months ended 30 September 2005 decreased 36.7% to only HK$12.05 million compared to the comparable period last year, while the gross profit margin increased 2.5 percentage points compared to the comparable period last year. Although the tax control machines have not yet to commence operation, the Group has fully equipped itself, and has been approved by the Ministry of Information Industry at the beginning of the period as one of the tax control machine manufacturers in the PRC. Recently, the Group has passed the compliance test regarding back-end procedures of the State Administration of Taxation in a one-off manner and obtained the compliance certificate, demonstrating the formal linkage between the operating platform of Stone's tax control machines and the back-end system of the State Administration of Taxation has been established. Once the tax control policies are implemented and leveraging on the mandatory requirements by the government, it is expected that the Group can achieve fruitful results.

Media-related business is a non-traditional electronic business with higher added value which the Group has been actively developing. The business includes holding shares in Sina, a listed company on Nasdaq of the USA, holding equity interests in a PRC company China Cable Network Co., Ltd. (hereinafter "CCN"), setting up Guangdong Sunnet Cafe Development Co., Ltd. (hereinafter "Sunnet Cafe") in Guangzhou for the operation and development of an internet cafe chain, as well as investing in Beijing Metoyou Information Technology Co., Ltd. (hereinafter "Metoyou"), a company engaged in telecommunications and positioning information value-added services.

During the period under review, the Group has neither sold nor increased its holding of Sina shares. However, due to the exercise of Sina's options, the Group's holding of Sina shares was diluted from approximately 4.96% at the beginning of the period to approximately 4.71% at the end of the period. In addition, as the market value of Sina shares was lower at the end of the period than at the beginning of the period, dropped from US$31.06 per share to US$27.5 per share, therefore, based on market value, the holding of Sina shares incurred an unrealised loss of approximately HK$72.37 million to the Group.

On the other hand, the Group successfully introduced financial investors in mid July to invest in CCN through the increase of interests in CCN from 17.38% at the beginning of the period to 33.99% at the end of the period by an associated company, and the Group became CCN's single largest shareholder. At the end of the period, CCN has over 1,700,000 customers, covering Wenzhou, Shaoxing, Zhoushan, Wuhu, Bengbu, Nantong, Xuzhou, Qidong, Yangzhou, etc.

The Group's internet cafe business has also been rapidly expanding during the period. The number of "Sunnet internet cafes" owned by Sunnet Cafe has increased from 6 at the beginning of the period to 12 at the end of the period. The cafes are mainly located in Haizhu, Yuexiu, Tianhe and Baiyun districts in Guangzhou Municipal. During the period under review, most of the branches recorded profits. However, with the higher initial investment, and occupying the largest floor area with over 400 computer settings, Yu Jing cafe, the flagship cafe in Haizhu incurred mild loss due to relatively low occupancy rate.

Acquired by the Group in early April 2005 at a consideration of US$19.20 million, Metoyou, with its headquarters located in Beijing, is a company principally engaged in telecommunications and positioning information value-added services. The Group owns 40% shareholdings of Metoyou. During the period, Metoyou's income is mainly attributable to its mobile internet business, such as "95190" and "E食住行", while the main source of income for positioning services and automobile communications businesses is the sale of software. Metoyou has generated profit to the Group of approximately HK$12 million within only six months, and it is believed that Metoyou will contribute satisfactory revenue to the Group for the whole year.

Healthcare Products Business

Stepping into the second year after being incorporated into the Group, the overall operation of Shanghai GoldPartner Biotech Co., Ltd. (hereinafter "Shanghai GoldPartner") is relatively normal. However, since the acquisition of the Shanghai GoldPartner was not completed until 4 March 2004, the comparable period last year only included four months of results of Shanghai GoldPartner, therefore, sales of the period is much higher compared to the comparable period last year. Compared to the comparable period from April to September last year, turnover increased by 6.0%. During the period, GoldPartner and Naobaijin recorded an aggregate turnover of HK$385 million, accounting for 43.0% of the total turnover of the Group. The companies contributed an aggregate gross profit of approximately HK$224 million, representing 82.0% of total gross profit. As a "regulatory year" of the healthcare product industry in the PRC, the government promulgated various regulations ranging from the registration, approval to the packaging and advertising of healthcare products in order to maintain standardised legal management. However, the adaptation period between promulgation and implementation of the new regulations brought certain degree of instability to the market and accordingly, the healthcare products business experienced mild contractions in terms of sales in the first half of the year. The Company maintained business growth and achieved favourable growth in sales through its extensive sales network and good reputation, but profit level was being affected to a certain extent. Given the government's new regulations on the content of TV commercials, Shanghai GoldPartner had to decrease national advertisements, but to increase regional TV commercials. During the period, due to an increase of sales expenses, the operating profits of healthcare products business recorded only HK$11.11 million, less than that of the comparable period last year.

During the period, GoldPartner contributed to the Group a turnover of HK$169 million, gross profit of HK$122 million with gross profit margin of approximately 72.3%, while Naobaijin contributed a turnover of HK$216 million, gross profit of HK$102 million with gross profit margin of approximately 47.4%.

Liquidity and Financial Position

As at period end, the current ratio and quick ratio of the Group were 3.51 and 3.16 respectively. Cash and cash equivalents held was HK$365 million, while total equity attributable to equity holders of the parent increased from HK$2,028 million at the beginning of the period to HK$2,064 million as at the period end, reflecting a very healthy financial position of the Group.

As at the beginning of the period, the Group had outstanding convertible notes with a total principal amount of HK$833 million, of which convertible notes to a principal amount of HK$267 million have a conversion price of HK$0.52 and interest bearing at 3% per annum, while the remaining convertible notes have a conversion price of HK$0.76 and are zero coupon. During the period, convertible notes with a principal amount of HK$20 million were converted at a conversion price of HK$0.52 per share into 38,461,538 ordinary shares of the Company. According to the new Hong Kong Financial Reporting Standards, convertible notes are required to be divided into their liability and equity components, and after re-measurement of the Group's convertible notes with an original principal amount of HK$813 million as at the period end under the new standard, only HK$734 million were accounted as long-term liability. Nevertheless, since the Group raised an additional HK$116 million of other loans during the period, the Group's total interest-bearing bank borrowings and other loans increased to HK$889 million as at the end of the period, increased by 2.4% as compared to the beginning of the period, while the ratio of net borrowings to net assets attributable to equity holders of the parent increased to 25.4%.

As at 30 September 2005, the available credit facilities of the Group amounted to HK$188 million, which comprised letter of credit facilities, overdraft and other standby credit. The Group had utilised approximately HK$155 million of its credit facilities. The Group believes that internal fund and the existing credit facilities are adequate to meet its capital investments and operational requirements in the second half of the year.

Charges on Assets

As at 30 September 2005, fixed deposits of HK$34.64 million and a property with carrying value of HK$22.32 million were pledged with banks as collateral against banking facilities and a term loan granted to subsidiaries of the Group. In addition, part of the shares in Sina held by the Group had been pledged to a securities company against a margin loan of US$15 million granted to the Group.

Contingent Liabilities

As at 30 September 2005, the Group did not have any contingent liabilities.

Hedging

As the Group makes its purchases substantially from overseas, it is the Group's policy to enter into foreign exchange forward contracts to hedge against foreign exchange fluctuation exposure as and when necessary.

Human Resources

As at 30 September 2005, the Group employed a total of 8,839 (31 March 2005: 8,392) employees, of which 8,811 (31 March 2005: 8,364) were employed in the PRC and 28 (31 March 2005: 28) were employed in Hong Kong. Out of the 8,811 employees in the PRC, 6,523 (31 March 2005: 6,152) were temporary employees.

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

Comparison with last year

Save as disclosed in this interim financial report, there has been no further material change to the information contained in the Company's annual report for the fifteen months ended 31 March 2005 which necessitates additional disclosure to that made herein.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 30 September 2005 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 and underlying shares of the Company:

Name of director	Nature of interests	Interest in shares	Interest in underlying shares pursuant to share options	Interest in underlying shares pursuant to convertible notes	Aggregate interest	Approximate shareholding percentage
DUAN Yongji	Personal *(Note 1)*	45,075,538	3,900,000	182,692,305	231,667,843	15.33
SHEN Guojun	Personal *(Note 1)*	–	4,000,000	–	4,000,000	0.26
CHEN Xiaotao	Personal *(Note 1)*	–	8,000,000	–	8,000,000	0.53
ZHANG Disheng	Personal *(Note 1)*	–	10,400,000	–	10,400,000	0.69
SHI Yuzhu	Corporate *(Note 2)*	–	–	744,678,162	744,678,162	49.29

Notes:

(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 Beijing Stone Investment Company Limited Employees' Shareholding Society. In addition, Stone Group Corporation holds 92,374,413 shares indirectly and 1,062,000 shares directly 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 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 Mr. SHI Yuzhu who is deemed under the SFO to be interested in the shares held by Ready Finance Limited.

Save as disclosed herein and in the "Share Option Scheme", none of the directors and chief executives 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									
	Outstanding at 1.4.2005	Exercised during the Period	Lapsed during the Period	Outstanding at 30.9.2005	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	–	0.26
SHEN Guojun *(Note a)*	4,000,000	–	–	4,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.26
CHEN Xiaotao *(Note b)*	8,000,000	–	–	8,000,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	0.53
ZHANG Disheng *(Note c)*	10,400,000	–	–	10,400,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	0.69
Contracted employees *(Note d)*	55,156,000	–	–	55,156,000	22-05-2002	22-05-2002 to 21-05-2012	0.792	0.78	–	3.65
Contracted employees *(Note a)*	6,000,000	–	–	6,000,000	22-05-2002	22-08-2002 to 21-05-2012	0.792	0.78	–	0.40
Contracted employees *(Note e)*	103,856,000	–	–	103,856,000	31-12-2002	31-12-2002 to 30-12-2012	0.476	0.47	–	6.87

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 subject to the 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 46,800,000 options are subject to the Vesting Period set out in Note (a).

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

SHARE OPTION SCHEME *(Cont'd)*

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

During the Period, no option was granted, exercised, lapsed or cancelled pursuant to the share option scheme.

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 executives 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 September 2005, 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 and underlying shares of the Company:

Name	Nature of interest	Interest in shares	Interest in underlying shares pursuant to share options	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	26.94
Beijing Stone Investment Company Limited Employees' Shareholding Society	Corporate *(Note 2)*	407,110,053	–	–	407,110,053	26.94
Stone Jiu Guang New Technology Development (Holdings) Co. Ltd.	Corporate *(Note 2)*	407,110,053	–	–	407,110,053	26.94
Shenyang Heguang Group Co. Ltd.	Corporate *(Note 2)*	407,110,053	–	–	407,110,053	26.94
Stone Group Corporation	Corporate *(Note 2)*	500,546,466	–	–	500,546,466	33.13
深圳發展銀行深圳人民橋支行	Corporate *(Note 3)*	230,000,000	–	–	230,000,000	15.22
Ready Finance Limited	Corporate *(Note 4)*	–	–	744,678,162	744,678,162	49.29
DUAN Yongji	Personal *(Note 5)*	45,075,538	3,900,000	182,692,305	231,667,843	15.33

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY *(Cont'd)*

Notes:

1. The shareholding of 407,110,053 shares comprised 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 indirectly and 1,062,000 shares directly.

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

4. The interest of Ready Finance Limited was held by it as beneficial owner. Please also refer to note 2 on page 32.

5. The interest of DUAN Yongji is held by him as beneficial owner. Please also refer to note 1 on page 32.

Saved 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 September 2005.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

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 review of the interim report for the six months ended 30 September 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has met with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 September 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2005.

On behalf of the Board
DUAN Yongji
Chairman

Hong Kong, 13 December 2005