

Stone Group Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is committed to maintaining a high level of corporate governance. The board of directors of the Company (the “Board”) believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure that they meet the expectation of the public and the shareholders of the Company (the “Shareholders”), comply with legal and professional standards and reflect the latest local and international development. The Board will continue to commit itself to achieving a high quality of corporate governance.

In November 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) introduced (i) a revised Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), which sets out the “Code on Corporate Governance Practices” (the “Code”) and (ii) a new Appendix 23 of the Listing Rules (“App. 23”), which sets out the disclosure requirements for a “Corporate Governance Report”. The Code and App. 23 are applicable for accounting periods commencing on or after 1 January 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July 2005. The Code replaces the Code of Best Practices and sets out the principles of good corporate governance and two levels of recommendations, namely (a) Code Provisions (“CPs”), which issuers are expected to comply with or to give considered reasons for any deviations; and (b) Recommended Best Practices, which are for guidance only.

In 2005, the Company took measures to enhance its corporate governance practices so as to comply with the requirements of the CPs. These included, inter alia, modification of the Company’s articles of association (the “Articles”) and the terms of reference of its audit committee (the “Audit Committee”) and the establishment of its remuneration committee (the “Remuneration Committee”).

In the opinion of the directors of the Company (“Directors” or individually, “Director”), for the year ended 31 March 2006, the Company has complied with the CPs.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”) as the code for securities transactions by the Directors. The Company has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Model Code for the year ended 31 March 2006 in relation to his/her securities dealings, if any.

To enhance its corporate governance, the Company has also established a written guideline on no less exacting terms than the Model Code for the senior management of the Company (other than the Directors) and the employees of the Group, who may be in possession of unpublished price-sensitive information.

## **CORPORATE GOVERNANCE STRUCTURE**

The Board has put in place a corporate governance structure for the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 3 board committees, namely Audit Committee, investment committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

## BOARD OF DIRECTORS

The Board currently comprises 10 Directors, including 6 executive Directors (including Mr. Duan Yongji who is the chairman of the Board) and 4 independent non-executive Directors (“INEDs”). All INEDs are appointed for a specific term and subject to the retirement and re-appointment provisions of the Articles. Details of all Directors are disclosed in “Directors and Senior Management” section of this annual report. To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships amongst members of the Board.

Pursuant to Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed not less than 3 INEDs, and at least one of whom has the appropriate professional qualifications or accounting or related financial management expertise.

A written confirmation was received from each of the INEDs, namely, Mr. Ng Ming Wah, Charles (“Mr. Ng”), Mr. Andrew Y. Yan (“Mr. Yan”), Mr. Liu Ji and Mr. Liu Jipeng (see Note), confirming their independence pursuant to Rule 3.13 of the Listing Rules.

For the year ended 31 March 2006, other than resolutions passed by means of resolutions in writing of all Directors, 5 full Board meetings were held. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance records of individual Directors at the full Board meetings and the attendance records of individual members at the meetings of the Audit and the Remuneration Committees held for the year ended 31 March 2006 respectively:

Designation and Name	Number of meetings attended/ Number of meetings held for the year ended 31 March 2006		
	Full Board	Audit Committee	Remuneration Committee
<b>Executive Director and Chairman</b>			
DUAN Yongji	5/5	N/A*	N/A*
<b>Executive Director and Chief Executive Officer</b>			
SHI Yuzhu	5/5	N/A*	N/A*
<b>Executive Directors</b>			
SHEN Guojun	5/5	N/A*	N/A*
CHEN Xiaotao	3/5	N/A*	N/A*
ZHANG Disheng	1/5	N/A*	0/2
LIU Wei	4/5	N/A*	0/2
<b>Independent Non-executive Directors</b>			
NG Ming Wah, Charles	5/5	3/3	2/2
Andrew Y. YAN	2/5	3/3	2/2
YUAN Zhenyu (see Note)	0/5	0/3	0/2
LIU Ji	1/5	2/3	0/2

\* “N/A”: Not applicable

To enhance better communication with the Directors as to the business transacted at the full Board meetings, the final version of the minutes of each full Board meeting was provided to the Directors.

In addition, the Company has maintained a set of procedures for its Directors to seek independent professional advice, in the process of discharging their duties to the Company when necessary, at the Company's expenses and also arranged liability insurance coverage for the Directors and its officers.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles of the chairman of the Board and the Chief Executive Officer of the Company ("CEO") are segregated. Mr. Duan Yongji is the chairman of the Board. The primary role of the chairman of the Board is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr. Shi Yuzhu is the CEO. The CEO is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing and have been approved by the Board.

### **NOMINATION OF DIRECTORS**

Although the Board has not established a nomination committee, the Board meets on a regular basis to:

- a. review the composition and membership of the Board, inter alia, the length of services and the breadth of expertise of the Board as a whole;
- b. identify and nominate to the Board suitable candidate(s) who possess(es) the expertise which is relevant and beneficial to the Group's business; and
- c. assess the independence of the Company's INEDs.

### **INTERNAL CONTROLS**

The Board acknowledges its responsibilities for maintaining an adequate system of internal control and prompt and transparent reporting of the Group's activities to the Shareholders and to the public. A review of the effectiveness of the system of internal control of the Group has been conducted.

The Group's internal audit department is responsible for performing risk-driven audits to monitor and evaluate the Group's financial, operational and compliance controls and risk management on a regular or as-needed basis with the aim of ensuring that the effectiveness of the internal control system of the Group is improving continuously.

### **AUDITORS' REMUNERATION**

For the year ended 31 March 2006, Messrs. KPMG, the external auditors of the Company, received approximately HK\$2,450,000 (for the fifteen months ended 31 March 2005: HK\$3,000,000) for audit services, and approximately HK\$1,320,000 (for the fifteen months ended 31 March 2005: HK\$1,550,000) for non-audit services, including fees for review of the Group's interim financial report.

## BOARD COMMITTEES

### A. Audit Committee

The Audit Committee currently comprises Mr. Ng, Mr. Yan, Mr. Liu Ji and Mr. Liu Jipeng (*see Note*), who are all INEDs. Mr. Ng is the chairman of the Audit Committee. In line with its terms of reference approved by the Board, the Audit Committee is principally responsible for, inter alia, providing independent review of the effectiveness of the financial reporting procedures and the internal control system of the Group; reviewing the appointment of independent auditors and the efficiency and quality of their work.

The major tasks accomplished by the Audit Committee for the year ended 31 March 2006 are as follows:

- a. reviewed and submitted the consolidated financial statements of the Group for the period ended 31 March 2005 and the auditors' report thereon to the Board;
- b. reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 September 2005 based on the review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants, as well as obtaining reports from the management of the Group;
- c. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;
- d. reviewed the accounting principles and practices adopted by the Group;
- e. assisted the Board in conducting independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control system; and
- f. furnished its opinion to the management of the Group concerning related risks in respect of significant matters of the Group.

### B. Remuneration Committee

In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is, inter alia, to review and discuss the policy and package for the remuneration of the Directors and senior management, and to establish and maintain a set of transparent procedures for determining the remuneration of such persons.

The Remuneration Committee currently comprises Mr. Yan, Mr. Ng, Mr. Liu Ji, Mr. Zhang Disheng and Ms. Liu Wei. Mr. Yan is the chairman of the Remuneration Committee.

During the year ended 31 March 2006, the Remuneration Committee reviewed and discussed the level and package of the remuneration of executive Directors and members of senior management as well as the proposal on the level of remuneration. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 March 2006, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

The statement of the auditors of the Company, Messrs. KPMG, about their reporting responsibilities on the financial statements of the Group is set out in the "Report of the Auditors" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## **CORPORATE COMMUNICATION**

The Company encourages two way communications with both its institutional and private investors. Extensive information about the Group's activities is provided in the Company's annual reports and interim reports, which have been sent to its Shareholders. Press conferences are held on results announcement to explain the Group's activities, performance and future plans and to enable better understanding of the Group by the public. Besides, the Company arranged from time to time 'meet the press' luncheons and maintained its corporate website to disseminate the information relating to the Group and its business to the public in order to foster effective communication.

*Note: Mr. Yuan Zengyu was appointed as an INED with effect from 27 May 2004 and ceased to act as an INED with effect from 20 May 2005 while Mr. Liu Jipeng was appointed as an INED with effect from 18 April 2006.*